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## INTRODUCTION

Developments in the Armenian economy over recent years are mainly caused by the Government economic functions. The Government is committed to continue the realization of economic measures through state interference aimed at the mitigation of the “gaps” in the market, as well as at the redistribution of income and resources and stabilization of the country economy during the coming years. The guaranty for the efficiency and integrity of the Government's such an extended ~~sional~~ social-economic policy is the clarification of prioritized problems and solving them based on the medium-term (as well as long-term) strategic planning. In particular, one of the prioritized tasks on the agenda for the Armenian authorities is the reduction of poverty in the country. The Poverty Reduction Strategic Program has been developed with the participation of representatives of different levels of authorities and of a number of non-governmental organizations and independent experts, and was approved by the Government in 2003. Integration of medium-term public expenditure planning into the budgeting process, the practice of which has been regularly applied since 2003, has an important role in the comprehensive solution of the problem.

In this regard, it should be mentioned that it is four years that the procedure of elaboration of the RA medium-term public expenditure framework is legally recognized as a component of the general budgeting process and is being implemented in accordance with the procedure defined by the law.

Emphasizing of the stage of medium-term public expenditure framework elaboration procedure within the general budgeting process is conditioned by the political importance of this document. It is worth mentioning also that a comprehensive and coordinated medium-term public expenditure framework is the strategic basis for conducting negotiations to involve international financial assistance.

### *Objective and Tasks*

Throughout the practice of budgeting process in the Republic of Armenia drafting of the state budget has been implemented on an annual basis. In terms of public expenditure management, budgets developed and executed on an annual basis have certain limitations. In particular, annual projects are based on short-run macroeconomic forecasts; there is no clear-cut linkage between the implemented policies and the annual budgetary expenditure due to the timing inconsistency. That is why the supervision, as a rule, is focused not on the anticipated outcomes (and the quality of provided services), but on the amount of expenditure. For a higher-quality definition and realization of public expenditure policy, there is a necessity for considering the programmed needs of public expenditure over the medium-term (and over the long-term, if possible), which, in turn, assumes the predictability of expected developments in the macroeconomic environment and the scope of available budgetary resources.

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

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

(i) Overall fiscal discipline – The budget resource package should be clearly identified and comprehensively formulated; it should be formed prior to the allocation of expenditure to certain directions, and substantiated by medium-term macroeconomic forecasts. Allocation of expenditure should be accurately implemented within the framework of the above-mentioned budget resources, and their further execution should be carried out within

the limits of budgetary allocations envisaged for the programs selected in accordance with the defined expenditure priorities.

(ii) Efficiency of allocation – Public expenditure should be consistent with the 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 programs to higher efficiency ones.

(iii) Technical (productive) efficiency – Sectoral ministries (departments) should assure the maximum attainable level of efficiency, which should be comparable with the according indexes of the private sector.

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

(i) Improve the macroeconomic balance, through formation of a realistic and comprehensive package of resources (revenues);

(ii) Contribute to efficient inter-sectoral and intra-sectoral redistribution of budget allocations from state financial resources, by priority directions;

(iii) Maximally reduce uncertainties between policies and their financing to contribute to the improvement of the quality of project development;

(iv) Establish robust budget ceilings by sectors, while creating the conditions and incentives for the targeted and efficient use of available resources by sectoral ministries (departments);

(v) Improve the system for assessment of budgetary programs, and enhance the level of transparency of public financial management.

### ***Medium-Term Public Expenditure Planning Attitudes***

The planning of the medium-term public expenditure is an on-going process and, in essence, represents a complete logical chain of “policy formulation – planning – budgeting”. It enables to mitigate the possible inconsistency between available resources and expenditure needs, as well as to make changes in public expenditures equivalent to the state policy changes in different sectors. In this respect, it is justified, that the MTEF is developed (and/or reviewed) before the drafting of the annual budget, thus providing guidance for working out the annual budget.

Planning of the medium-term public expenditure implies:

(i) Comprehensive and realistic assessment of the budget resources (receipts) consistent with a sustainable economic environment;

(ii) Bottom-up estimation of expenditure needed for implementation of policies;

(iii) Reconciliation of available resources and expenditure needs through relevant mechanisms.

### ***Organizational Bases for Elaboration of the MTEF 2007-2009***

The Law "On the Budgetary System of the Republic of Armenia", the Decree of the Prime Minister No 907-N “On Starting the Budgeting Process of the Republic of Armenia for the Year 2007”, dated November 22, 2005, and the methodological instructions prepared by the Ministry of Finance and Economy based on the provisions of the said decree have regulated the process of developing the RA MTEF 2007-2009.

In essence, such an approach to the issue reflects the fact that the RA Government, considering the medium-term public expenditure framework as a component of the budgeting process, emphasizes its political importance as well.

One of the crucial prerequisites for the development of the framework is formation of a relevant institutional structure, gradual improvement of which will contribute to the future projects quality.

During the current year, just as over the last three years, the below-mentioned two units, established by the Decree of the RA Prime Minister, have managed, controlled and coordinated the process of developing the RA medium-term public expenditure framework:

(i) The Standing Higher Council of the RA medium-term public expenditure frameworks (with the Prime Minister as the chairman of the council), providing with strategic decision-making and supervision of the framework development process; and

(ii) The Standing Coordinating Group- coordinating the works for the elaboration of the RA medium-term public expenditure frameworks (with the First Deputy Minister of Finance and Economy of RA as the head of group), providing with coordination of the works for the development of the medium-term public expenditure framework.

This kind of approach implies strengthening the role of sectoral ministries (departments) in the sense of their involvement and participation in the budgeting process, which in turn will contribute to the improvement of budget planning and to well-grounded strategic decision-making at the sectoral level, also ensuring the maximum possible consistency between the benchmarked policies and the available financial resources. In this context, coordination of the actions of the RA Ministry of Finance and Economy and sectoral ministries (departments) is emphasized, on which not only the quality of drafting the RA medium-term public expenditure frameworks and State Budgets greatly depends, but their execution as well.

At the same time, at the suggestion of the RA Prime Minister and on the presentation of the political parties incorporated into the ruling political coalition, a number of deputies representing those parties at the RA National Assembly are involved in the works of the RA Standing Higher Council of medium-term public expenditure frameworks. This kind of approach ensures participation of political forces in the budgeting process initially in the phase of the MTEF development, thus enabling initial reconciliation of the attitudes and opinions of the Government and the political forces with regard to choosing among certain strategies and expenditure priorities to be stipulated by medium-term expenditure frameworks.

### ***Reforms Aimed at Improvement of Medium-Term Expenditure Planning***

For the implementation of the planned objectives, the RA Government has been also implementing reforms aimed at the introduction of program budgeting in the country. The primary purpose of program budgeting reforms is the raise of economic and financial efficiency of public expenditure through assisting the Government in allocation of resources to the priority expenditure projects. Within the framework of program budgeting, this task is implemented through provision of more accurate information to the Government on public expenditure allocations and public activities. In particular, the Government and the society are provided with information on the services or direct outcomes rendered in return to state financing. Therefore, program budgeting appears to be an instrument for interconnecting different sections of social-economic policy, such as the poverty reduction strategy with the medium-term public expenditure frameworks and with State Budgets. This would help to assess whether the expenditure decisions are well targeted, and thus to direct the entire expenditure policy to the implementation of the Government's general objectives.



Presently, pilot works for program budgeting reforms are being conducted in four ministries of the social sector. These ministries engaged in pilot works test the methodology and the approaches of program budgeting reforms in order to confirm their applicability in Armenia.

**PART A.**  
**FISCAL POLICY**

## **CHAPTER 1.**

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

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

The key strategic priorities of the RA Government are identified in the Poverty Reduction Strategic Program (PRSP) and in the Government's Action Plan approved by the RA National Assembly on June 12, 2003. In conformity with these documents, during the forthcoming years the Government will place more emphasis on the following priorities of State Budget expenditures (within the context of this framework, priority sectors are defined as those where considerable portions of additional budgetary funds are being allocated, or for financial support of which loan resources are being involved):

(i) Ensuring financial support for reforms in certain spheres of the social sector (particularly, in education, health, social security and social insurance), and in public administration, to improve the effectiveness, directedness and targeting of public bodies actions and at making the services they provide to the public more accessible for the population;

(ii) Ensuring appropriate financial support for the ordinary operation of institutions in the field of defense and national security, with the aim to maintain the territorial integrity of the republic, stability in the region, and the balance of forces in the Karabagh conflict;

(iii) Implementation of programs aimed at rehabilitation and development of infrastructures in certain sectors of economy (particularly, in agriculture, water, road, and energy sectors).

At the same time, it should be mentioned that not only in the short run, but also in the medium and long terms there will still be a need for supplementing the budgetary funds from other sources, basically through official external transfers and borrowings, in order to finance the programs to be implemented in accordance with the priorities stated above. This fact, along with the need to maintain a reasonable level of public debt, will significantly restrict the Government's expenditure opportunities.

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

The medium-term expenditure framework is one of the key tools for addressing the Government's objectives. This document presenting the fiscal policy, in conjunction with sectoral medium-term expenditure frameworks, constitutes the RA Government's medium-term public expenditure framework.

In the part of this document, where the fiscal policy is expounded, the overall long-term fiscal principles, medium-term and short-term fiscal indicators, and the strategic expenditure priorities are provided. These are the basic economic and fiscal criteria for drafting the RA State Budget 2007.

#### **FISCAL PRINCIPLES AND INDICATORS**

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

Taking into account the need for a sustainable fiscal policy, during the preparation of the MTEF 2007-2009 the RA Government was guided by the fiscal principles, as defined by the Poverty Reduction Strategic Program approved by the Government's Decree No 994-N dated August 8, 2003. Since scarcity of budget revenues on the one hand, and expenditure drivers on the other hand appear to limit the opportunities for materializing those principles

in the short run, the Government intends to apply these principles in the long run. They will serve as a basis for evaluating the consistency between the current policies and the Government's long-term objectives.

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

In order to determine the volume of total expenditure for the next three years, the Government has matched its expenditure priorities with the long-term fiscal principles.

The growth trend of State Budget expenditure ratio in GDP will last; in 2008 and 2009 the average growth rate of this index will be 0.3 percent annually. Based on the forecast real volume of State Budget revenues and on the availability of sources to finance the fiscal deficit of 3.0 percent of GDP, the Government plans to maintain expenditures annual average rate in 2007-2009 at 19.5 percent of GDP.

Accordingly, positive trends will be also observed in the sphere of public debt. In the context of completed restructuring of non-privileged 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 will undergo positive changes.

## CHAPTER 2. MACRO-ECONOMIC FRAMEWORK OF MTEF 2007-2009

Over the last ten years, sustainable economic growth has been observed in Armenia, at an annual average rate of 8.7 percent. As of the end of 2005, the GDP, as forecasted, surpassed its level in 1990 by 20.8 percent.

Based on recent economic developments, it can be assumed that the stable macroeconomic environment and the ongoing structural reforms implemented by the Government, accompanied with external financial assistance, might ensure high rates of economic growth over the planned period (5.8 percent on average per annum).

The base scenario of macroeconomic forecasts has been developed on the basis of the SAC-V, PRGF, and PRSP programs, implemented by the Government in cooperation 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 and consistent implementation of the policies and actions stipulated by these programs.

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

**Table 2.1 Main Macro-Economic Indicators**

Indicator	2002	2003	2004	2005	2006	2007	2008	2009
	<i>Actual</i>				<i>Planned</i>	<i>Forecast</i>		
Economic growth (percent)	13.2	14.0	10.5	14.0	6.7	6.0	6.0	5.5
Inflation, average annual (percent)	1.1	4.7	7.0	0.6	1.4	3.0	3.0	3.0
GDP deflator (percent)	0.7	4.6	6.3	3.2	3.0	3.0	3.0	3.0
Budget deficit/GDP (percent)	-2.6	-1.3	-1.7	-1.9	-2.9	-2.8	-2.8	-1.4
Current account (excluding official transfers)/GDP (percent)	-8.5	-8.9	-6.2	-5.5	-5.2	-5.0	-4.9	-4.8

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

(i) Actual GDP will increase steadily; GDP is forecast to increase by 6.7 percent in 2006. In 2007-2009 the actual GDP growth will constitute 6.0, 6.0, and 5.5 percent, respectively.

(ii) Consumer prices will be stable, at an average annual increase of 3 percent.

Total State Budget revenues/GDP rate in 2009 will increase compared to the according actual rate in 2005 by 0.8 percent, up to 17.5 percent. However, major changes will take place in the structure of budgetary revenues due to the overtaking growth of tax revenues (the ratio of taxes to GDP will increase by 2.0 percent from the 2005 level to 16.3 percent in 2009). In 2007-2009 the State Budget deficit will not exceed the 3 percent level. The volume of exports of goods and services in 2007-2009 (denominated in US dollars) will grow at a higher rate than that of imports (on average annually 9 percent and 7 percent, respectively). This will be one of the main factors contributing to the improvement of the current account position.

### REAL SECTOR

#### *Gross Domestic Product by Sectors of Economy*

An average economic growth of 12.8 percent has been observed over the last three years. At such a high rate of economic growth, structural changes have taken place in the GDP

composition. Almost all sectors of the economy have made a contribution to the growth of the economy. Over recent years, incomparably high growth rates have been recorded in the construction sector. The share of construction in GDP has increased from 6.5 percent in 1995 up to 21.7 percent in 2005.

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

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

Indicators	2003	2004	2005	2006	2007	2008	2009
	<i>Actual</i>			<i>Planned</i>	<i>Forecast</i>		
Industry	19.3	19.2	18.8	18.5	18.7	18.8	18.6
Agriculture	21.5	22.5	18.7	18.4	18.0	17.5	17.1
Construction	15.7	15.6	21.7	22.1	22.4	22.7	22.9
Transport and communications	5.9	6.0	5.6	5.6	5.5	5.5	5.4
Trade and public catering	10.9	11.2	10.5	10.5	10.5	10.5	10.4
Other sectors	17.6	17.1	16.2	15.9	15.8	15.4	15.6
Net indirect taxes	9.1	8.4	8.5	9.0	9.1	9.6	10.0
Total GDP computed at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Value added in the industrial sector over 2005 has increased by 7.4 percent. Structural analysis show that energy, gas and water production and distribution sector has grown noticeably, a slight decrease was observed in mining industry, especially in metal ore production, which will have a temporary nature, and the production volumes will gradually recover in 2006. A growth was observed also in manufacturing industry, though a noticeable decrease was observed in jewelry production - one of the sub-branches with large weight in industry.

The industrial sector is forecast to grow at an annual average rate of 5.7 percent over 2007-2009. Higher rates of growth are anticipated in the export-oriented branches.

Value added in agriculture over 2005 has increased by 11.2 percent and constituted 2.5 percent of the GDP growth. The increase of the gross agricultural product reflects the growth in the gross production of main plants (+14.9 percent) and gross animal products (+6.4 percent). Over the recent years, the agricultural sector has been characterized by the steadily growing production of animal foodstuff, which has a major share in the domestic consumption of animal products. Over 2007-2009, the agricultural sector is forecast to grow at the rate of 4.0 percent in 2007, and of 3.0 percent in 2008 and in 2009.

In 2006, an economic growth of 6.7 percent is forecast at the deflator equaling to 3.0 percent. Over 2007-2009, GDP will grow at an annual average rate of 5.8 percent. The growth will be driven by the increase of both internal and external demand.

The real growth of the key sectors of economy for the planned period is presented in Table 2.3.

**Table 2.3 Real Growth of Key Sectors of Economy (Percent)**

Indicators	2003	2004	2005	2006	2007	2008	2009
	<i>Actual</i>			<i>Planned</i>	<i>Forecast</i>		
Real growth of GDP in percentage, including	14.0	10.5	14.0	6.7	6.0	6.0	5.5
Industry	15.6	2.2	7.4	4.5	6.5	6.0	4.5
Agriculture	4.2	14.2	11.2	5.0	4.0	3.0	3.0
Construction	45.5	15.3	35.1	8.5	7.5	8.0	6.5
GDP deflator index, percent	4.6	6.3	3.2	3.0	3.0	3.0	3.0

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

In 2005, the consumption component of expenditure in GDP was less than the total GDP, comprising 86.8 percent of it. It is worth mentioning that for the first time it happened in 2002. For 2009, it is anticipated that GDP will be some 13.8 percent greater than consumption. However, absorption (consumption plus investments) will remain higher than GDP, which implies that net exports will remain negative. The negative value of net exports is forecast to demonstrate a decreasing trend, to around 9.1 percent of GDP by 2009. Over 2007-2009, the share of investments in GDP will average to 22.8 percent, to be financed from both domestic and external sources.

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

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

Indicators	2003	2004	2005	2006	2007	2008	2009
	<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	93.5	92.6	86.8	89.0	88.1	87.2	86.2
Investments	24.3	24.9	29.7	22.6	22.7	22.8	22.9
Net export	-17.9	-14.7	-13.0	-11.6	-10.8	-10.0	-9.1
Statistical deviation	0.1	-2.8	-3.5	0.0	0.0	0.0	0.0

### ***Consumer Prices***

Over the last four years, the consumer price index was believed to be foreseeable and manageable, having not exceeded the 3 percent level. An exception was observed in 2003, when the consumer price index as of the year-end amounted to 8.6 percent, and the annual average index amounted to 4.7 percent, conditioned by certain external factors.

As of December 2005, the increase in inflation as compared with December 2004 amounted to -0.2 percent, against the forecast of 3 percent; and the annual average inflation totaled to 0.6 percent, against the forecast of 2.2 percent. Thus, inflation did not exceed its planned level.

Over 2007-2009, the monetary policy of the Republic of Armenia will be targeted at maintaining inflation at under 3 percent per annum.

## **EXTERNAL SECTOR**

Over the last few years, economic programs for the external sector have emphasized the medium-term improvement of the current account of the balance of payments, in view of the potential for expanding exports through establishment of a favorable investment environment and implementation of structural reforms. Despite the present difficulties, this challenge is being met in Armenia. In 2003, the country became a member of the World Trade Organization; this event was perhaps the most important factor contributing to the growth of exports, enabled through the harmonization of the trade policy with international rules. Although Armenia's membership in the WTO will not have a major impact on exports in the short run, it will become 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 the one hand, such a shift has been reflecting the reduction of imports (imported goods are replaced by domestically produced ones); on the other hand, it has been conditioned by the expansion of export operations. In the medium run, the relative benefits will be surfacing in the largely export-oriented branches of the economy. New mechanisms for supporting these branches will be developed and introduced, and the present ones will be improved.

***Export***

In 2003-2005, the average annual volume of exports was US\$ 805 million, which was more than twice as large as compared with the 2002 level, mainly due to the increase in the value of the item "Precious and Semi-Precious Stones, Precious Metals and Items Made of Them". However, it should be noted that, thanks to the growth of various sub-branches of the industry, favorable conditions have been created for export diversification. In 2006 the export is anticipated to grow for 15 percent. It is anticipated that over 2007-2009 the average annual value of exports of goods will be around US\$ 1380 million (FOB), representing an average annual growth of 10.3 percent (denominated in US dollars). The respective indicator for goods and services will be 9.3 percent; that is, the export of goods will grow faster than that of services.

***Import***

The average annual value of imports was around US\$ 1298 million (FOB) over 2003-2005, which was 47 percent higher than the 2002 indicator. In the medium run, the increase in imports will be conditioned by both the increase in gross disposable incomes, and by the need of importing raw materials for arranging the domestic production and introducing technologies financed through direct foreign investments. On the other hand, the recent years' tendency of replacing imported goods with domestically manufactured ones will weaken, due to the limitation of replacement opportunities. As a result, over 2007-2009 the average annual growth in the import of goods will be around 7.3 percent (denominated in US dollars), and that of goods and services will be around 6.8 percent. In 2006 the growth of import for 13.4 percent is anticipated, under the condition of high gross managed income.

***Factor Revenues and Transfers***

There has been a tendency for growth in the total value of factor revenues and private transfers since 1999, averaging to an annual US\$ 309 million for the last three years. Over 2006-2009, these items will be significantly influenced by the servicing of the external debt of the Republic of Armenia, the reinvested earnings on direct investments and the trends in the expected economic growth in the key partner-countries of the Republic of Armenia. Thus, the growth rate of the net factor revenues and transfers will tend to decrease in the medium run.

At the initial phase of structural reforms, official foreign transfers played a crucial role in financing the gross demand. Over the period of 1995-2005, the share of official transfers in GDP reduced from 12 percent (1995) to 1.4 (2005). In the medium run, current official transfers will average to around 1 percent of GDP.

***Current Account***

Over 1995-1998, the deficit in the current account (excluding official transfers) had increased from US\$ 368 million in 1995 to US\$ 515.7 million in 1998. During that period, the ratio of current account deficit to GDP averaged to 27 percent. In 1999, the deficit of the current account (excluding official transfers) amounted to US\$ 400.7 million or 21.7 percent of GDP, primarily due to the foreign trade flows (particularly, the abrupt decrease in import operations). Over 2000-2005, the deficit of the current account essentially reduced, reaching the level of around US\$ 271 million in 2005. The deficit of the current account in GDP (excluding official transfers) reached the level of 5.5 percent in 2005.

Over 2007-2009, the current account deficit is forecast to be around 4.9 percent of GDP excluding the official transfers, and around 3.9 percent of GDP including the official transfers.



**CHAPTER 3.****2007-2009 STATE BUDGETS REVENUE POLICY AND FORECASTING****MAIN CHARACTERISTICS OF REVENUE POLICY OF STATE BUDGETS 2007-2009**

Predictability of public revenues is of fundamental importance for the development of a medium-term expenditure framework, as it enables to assess realistically medium-term budget expenditure. In this respect, the role of medium-term policy of revenues is emphasized. The necessity to finance the budget expenditures by internal resources, manage the state debt and regulate budget deficit determine the character of medium-term revenue policy – to back up the state expenditures by financial resources. In this respect, the role of the tax policy is more stressed, as the major part of public revenues – around 90 percent – is generated through tax revenues and state duties. For comparison, in 2005 tax revenues and state duties financed 77.0 percent of expenditure, whereas in 1995 this indicator was as low as 44.1 percent.

Revenue policy for 2007-2009 will be implemented based on the long-term fiscal principles identified in the PRSP and the Government's Action Plan, which assume that:

- Improving public revenue collections will be among the priority directions of the fiscal policy for the coming years; the ratio of tax revenues to GDP will annually increase at an average of 0.3-0.4 percent;
- The Government will attain the key objective to improve tax collections mainly through the reduction of the unofficial sector of the economy, while excluding any unlawful administrative pressure on economic entities;
- The efficiency of tax administration will be improved;
- Actions will be taken to pay off overpayments and arrears, as well as measures will be initiated to avoid accumulation of new overpayments and arrears;
- State Budget expenditure will be backed up mainly by domestic resources, and the dependence of public expenditure on external financing will diminish.

The revenue policy (especially, the tax policy) over 2007-2009 will develop in accordance with the above-mentioned principles.

The tax policy to be implemented over 2007-2009 does not stipulate for such changes in the tax rates that would have a significant impact on the performance of the State Budget tax collections. This means that administrative actions by RA tax and customs administrations will contribute to increasing tax collections over that period. The actions of RA tax and customs administrations ensuring collection of the State Budget tax revenues over 2007-2009 are presented in Annex 1.

**2007-2009 STATE BUDGETS REVENUE FORECASTS**

State Budget revenues over 2007-2009 are forecast to total 447.6 billion drams, 507.6 billion drams, and 563.1 billion drams, respectively. This level of annual revenues will largely be driven by anticipated budget tax revenues, which will constitute on average 93.4 percent of annual revenues over 2007-2009.

**Table 3.1 Planned Budget Revenues over 2007-2009 (billions of Drams)**

Revenue Category	2007	2008	2009
State Budget revenues and official transfers	447.6	507.6	563.1
<i>Percent of GDP<sup>1</sup></i>	<i>16.6%</i>	<i>17.3%</i>	<i>17.6%</i>
Tax revenues and state duties	421.4	471.1	524.7
<i>Percent of GDP</i>	<i>15.6%</i>	<i>16.0%</i>	<i>16.4%</i>
Non-tax revenues	7.1	5.8	5.9
<i>Percent of GDP</i>	<i>0.3%</i>	<i>0.2%</i>	<i>0.2%</i>
Revenues from capital operations	4.10	0.09	0.09
<i>Percent of GDP</i>	<i>0.152%</i>	<i>0.003%</i>	<i>0.003%</i>
Official transfers	15.0	30.5	32.4
<i>Percent of GDP</i>	<i>0.6%</i>	<i>1.0%</i>	<i>1.0%</i>

Budget receipts from tax revenues<sup>2</sup> over 2007-2009 are forecast by the implication of ensuring 0.3-0.4 percent annual growth of the ratio of tax revenues to GDP.

Calculations have incorporated an additional suggestion that the planned level of budgetary receipts from tax revenues in 2006 is realistic, and that the present legislation and expected administrative actions will create sufficient bases for their collection.

In order to assess whether the proposed levels of the 2007-2009 tax revenue collection are realistic, certain characteristic indicators should be considered, as presented below:

**Table 3.2 Certain Indicators of State Budget Tax Revenues for 2005-2009**

Indicators	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Forecast</i>			
Nominal GDP (billion drams)	2,244.0	2,467.0	2,693.5	2,940.7	3,195.5
Tax revenues and state duties (billion drams)	321.5	372.1 <sup>3</sup>	421.4	471.1	524.7
<i>Growth compared with previous year, percent</i>	<i>20.4</i>	<i>15.7</i>	<i>13.3</i>	<i>11.8</i>	<i>11.4</i>
<i>Share in GDP, percent</i>	<i>14.3</i>	<i>15.1</i>	<i>15.6</i>	<i>16.0</i>	<i>16.4</i>
<i>Tax elasticity coefficient</i>	<i>1.1</i>	<i>1.6</i>	<i>1.4</i>	<i>1.3</i>	<i>1.3</i>

From the table above it can be derived that the average annual growth of the tax revenue collection over 2007-2009 is forecast to be 12.1 percent, and the average annual value of the tax elasticity coefficient is to equal 1.3. Such a high indicator for the Tax elasticity coefficient means that, as in the previous years, certain administrative actions should be taken by tax and customs authorities for attaining the planned indicators of tax revenue collection.

The forecast scenario of economic development contains some reserve for attaining the planned level of tax revenue collection over 2007-2009. Comparison of the actual and forecast macroeconomic indicators for the period of 2002-2009 provides grounds for concluding that the forecasts of tax revenues are rather conservative, and that any positive shift of the actual economic developments with regard to the planned ones may contribute to increasing tax revenues.

<sup>1</sup> Here and hereinafter, 2006 macroeconomic indicators (particularly the GDP) and indicators estimated based on them differ from those used during development of RA state budget 2006 draft. The difference resulted from the fact that while preparing this document to project 2006 macroeconomic indicators 2005 preliminary actual data was taken into account and 2005 forecast data was taken into account while preparing the draft of state budget 2006.

<sup>2</sup> Hereinafter, tax revenues include the state duties as well.

<sup>3</sup> 7.8 billion Drams added by Government decree during 2006 to 364.3 billion Drams defined by the RA Law on "RA State Budget 2006" was taken into account.

**Table 3.3 Actual and Forecast Macroeconomic Indicators for 2002-2009**

Indicator	2002	2003	2004	2005	2006	2007	2008	2009
Nominal GDP (billion drams)	1,362.5	1,624.6	1,896.4	2,244.0	2,467.0	2,693.5	2,940.7	3,195.5
<i>Growth compared with previous year, percent</i>	15.9%	19.2%	16.7%	18.3%	9.9%	9.2%	9.2%	8.7%
GDP real growth, percent	13.2%	14.0%	10.5%	14.0%	6.7%	6.0%	6.0%	5.5%
GDP deflator, percent	0.7%	4.6%	6.0%	3.2%	3.0%	3.0%	3.0%	3.0%
Import of goods (million USD)	882.5	1,130.2	1,196.3	1,566.1	1,775.3	1,917.3	2,051.5	2,194.2
<i>Growth compared with previous year, percent</i>	14.1%	28.1%	5.8%	31.9%	12.5%	8.0%	7.0%	6.9%

The absolute value of 2007, 2008 tax revenues forecast reveal certain alterations when compared with the forecasts under the MTEF 2006-2008, conditioned by:

- changing the forecast values of applied macroeconomic indicators; and
- updating the 2005 actual results in the actual collection database, as well as in the structure of macro-indicators.

**Table 3.4 Difference between tax revenue forecasts as to MTEF 2007-2009 and MTEF 2006-2008**

Indicators	2007	2008	2009
1. As to MTEF 2006-2008 (billion Drams)	400.7	448.2	x
Percent of GDP	15.9%	16.3%	x
2. As to MTEF 2007-2009 (billion Drams)	421.4	471.1	524.7
Percent of GDP	15.6%	16.0%	16.4%
3. Difference between forecasts as to MTEF 2007-2009 and MTEF 2006-2008 (billion Drams)	20.7	22.9	x
Percent of GDP	-0.3%	-0.3%	x

Non-tax revenues for 2007-2009 are planned taking into account the submissions made within the framework of the 2007 budgeting process by the public governance bodies responsible for their collection, as well as collection trends for certain revenue categories over the previous years, and certain changes in legislation.

Non-tax revenues are forecast to 7.1 billion drams in 2007, 5.8 billion drams in 2008, and 5.9 billion drams in 2009. When compared with the non-tax revenue receipt forecasts under the MTEF 2006-2008, non-tax revenues planned for 2007, 2008 under MTEF 2007-2009 reveal certain alterations in terms of both absolute value and structure. For example, forecast of annual receipt of 0.9 billion drams was made both for 2007 and 2008 in 2006-2008 MTEF, calculated from allocation of temporarily free budget resources and interests from deposits in banks and other financial institutions (Central Bank of the RA), but no forecast for receipts from above-mentioned revenues is made, as far as there are ongoing negotiations with Central Bank of Armenia on interests paid from daily remaining amount of the Unified Treasury Account. The necessity to review other non-tax revenues in 2007 and 2008 derives from changes in legislation and US\$ 1/Dram annual average exchange rate, on which the calculations are based. Substantial changes in non-tax revenue forecasts are presented in Table 3.5.

**Table 3.5 Differences of Non-Tax Revenue Forecasts by Separate Types of Revenues made for MTEF 2006-2008 and MTEF 2007-2009 (Million Drams)**

Revenue Category	As per MTEF 2006-2008		As per MTEF 2007-2009		Reason of difference
	2007	2008	2007	2008	
a) Interests from allocation of temporarily free budget resources	915.5	915.5	0.0	0.0	negotiations on interests from the daily remaining

Revenue Category	As per MTEF 2006-2008		As per MTEF 2007-2009		Reason of difference
	2007	2008	2007	2008	
and deposits in banks and other financial/credit institutions					amount of the Unified Treasury Account are being hold
b) Payments (interest) from loans lent to non-residents (Georgia)	108.1	106.1	241.2	239.7	Agreement from September, 2006 “On Reformulation of Georgia's Dept to the Republic of Armenia”
c) Receipts from penal sanctions by executive, judicial bodies for offences	1 372.4	1 413.4	1 712.6	1 759.0	Legislative changes
d) Payments for services provided by the State Committee of the Real Estate Cadastre departments	1 488.6	1 577.9	1 662.2	1 745.3	Changes in collecting tendencies
e) Payments for granting permissions to use the radio frequencies	0.0	0.0	740.0	470.0	The RA Law “On Electronic Communications”

In general, the differences of annual non-tax revenues forecasts for 2007 and 2008 made for MTEF 2007-2009 and MTEF 2006-2008 are as follows:

**Table 3.6 Differences of Non-Tax Revenue Forecasts made for MTEF 2007-2009 and MTEF 2006-2008 (Billion Drams)**

Revenue Category	2007	2008	2009
1. Non-tax revenues as to MTEF 2006-2008	6.6	5.6	x
2. Non-tax revenues as to MTEF 2007-2009	7.1	5.8	5.9
3. Difference of non-tax revenue forecasts made for MTEF 2007-2009 and MTEF 2006-2008	0.5	0.2	x

Revenues from capital operations over 2007-2009 are planned to 4,096.3 million drams, 88.3 million drams, and 90.3 million drams, respectively. 4,000 million drams from the amount envisaged for 2007 is expected to generate from the disposal of state-owned land in Yerevan. Respectively 73.6 million drams, 65.6 million drams and 67.6 million drams within the MTEF period of 2007-2009 are envisaged from disposal of state-owned buildings and constructions, of which deferred payments due to purchase and sale contracts of previous years constitute 13.6 million drams, 15.6 million drams, and 17.6 million drams, respectively. Receipts from disposal of other kind of state-owned property for 2007-2009 were envisaged 22.7 million drams annually.

MTEF 2006-2008 forecasts were reviewed mainly on the part of disposal of state-owned land in Yerevan. In the MTEF 2007-2009, forecasts of 4.0 billion drams are envisaged for 2007 and no receipts are envisaged for 2008, while previously receipts of 200 million drams annually were envisaged.

Official transfers over the 2007-2009 period are planned at 15.0 billion drams, 30.5 billion drams, and 32.4 billion drams, respectively, with consideration of the initial agreements with donor organizations.

**Table 3.7 Official Transfers Planned over 2007-2009 (Billion Drams)**

Donor	2007	2008	2009
	<i>Forecast</i>		
1. Total official transfers 2006-2008 forecasts	7.7	1.1	x
2. Total official transfers 2007-2009 forecasts	15.0	30.5	32.4
Including:			
Government of the Netherlands	2.51	x	x
European Union (food provision project)	3.75	x	x
Millennium Challenge Foundation	5.68	27.27	31.59
Transfers from other sources	3.06	3.28	0.86
3. Difference of official transfer forecasts made for MTEF 2006-2008 and MTEF 2007-2009	-7.3	-29.4	x

It is worth mentioning that in connection with the further update of the database used for the calculations, probably, the forecasts for 2007-2009 budgets receipts will be revised (the figures for 2007- when drafting the 2007 State Budget, and the figures for 2008 and 2009 - while developing the MTEF 2008-2010).

For further computations of the adjusted forecasts of budget receipts over 2007-2009, utilization of the following additional data may be of essential significance:

- Changes of macroeconomic indicators applied in computations;
- Additional information to be provided by the bodies responsible for the collection of budget revenues;
- Actual annual values of certain macroeconomic indicators of the national accounts' system for 2004, 2005; and
- Other statistical indicators for 2005.

## CHAPTER 4. BUDGET FRAMEWORK

### STATE BUDGET DEFICIT

In the coming years, expenditure will still exceed revenues of the State Budget, with the budget deficit financed from both internal and external resources. Most part of the State Budget deficit will be financed through borrowings, with the majority of externally borrowed resources being targeted funds to be channeled to financing investment programs in social sectors and social infrastructure development.

The sources for financing state budget deficit in 2005-2009 are presented below (see Table 4.1).

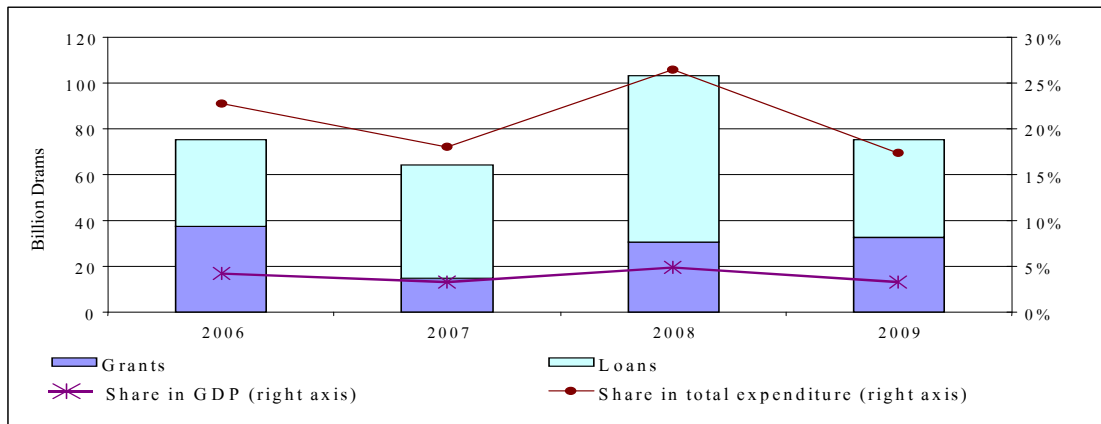
**Table 4.1 Sources for Financing State Budget Deficit, 2005-2009 (Million Drams)**

Indicators	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
			<i>Planned</i>		
Sources of deficit financing, total	42,758.9	69,837.7	76,543.6	81,349.5	44,412.4
Including:					
1. Internal sources	29,499.2	39,185.9	19,759.0	10,185.0	10,187.6
- Public bonds	6,368.1	7,000.0	8,500.0	10,500.0	10,500.0
- Other internal sources	3,131.1	32,185.9	19,759.0	-315.0	-312.4
2. External sources	13,259.7	30,651.8	41,534.6	66,050.5	34,224.8
- Receipt of loans	22,738.6	37,870.7	49,100.0	72,507.5	42,658.2
- Repayment of loans	-7,2227.0	-7,219.0	-7,565.4	-6,457.1	-8,433.5
3. Other sources	-2,251.8	0.0	6,750.0	5,114.0	

The State budget deficit/GDP ratio from 2.8 percent in 2007 will decrease to 1.4 percent of GDP in 2009, conditioned by scarcity of sources for financing the deficit. It is worth mentioning that if additional sources for financing the deficit are found deficit/GDP ratio in 2007-2009 will reach 3.0 percent of GDP.

The share of internal sources within the total volume of sources for financing of the budget deficit over 2007-2009 is forecast to vary within the interval of 36.9 percent to 26.9 percent, against 56.1 percent planned for 2006. Similar to the majority of Eastern European and CIS countries, one of the characteristics of the State Budget of the Republic of Armenia is its certain dependency on external financing sources (foreign loans and official transfers). This dependency will persist over the MTEF period (see: Chart 4.1).

### Chart 4.1 2006-2009 State Budgets Financing from External Sources



### Error!

Financing of the State Budget, in particular deficit financing, is still essentially 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 Conventional, Non-Conventional, Primary, and Current Deficits for 2005-2009 (Percent of GDP; Similar Indicators of Surplus Presented with Minus Sign)**

Indicators	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
			<i>Planned</i>		
Non-conventional deficit – difference of total revenues and expenditure	2.25	2.91	2.84	2.77	1.39
Conventional deficit – difference of total revenues (excluding grants) and expenditure	2.87	4.46	3.40	3.81	2.41
Total deficit – difference of total revenues and current expenditure	-1.14	-1.64	-1.75	-2.14	-2.98
Primary deficit – difference of total revenues (excluding grants) and expenditure (excluding interest payments)	2.34	4.03	2.99	3.42	2.04

As shown in the table, the conventional deficit is larger than the non-conventional one at an annual average of 13.9 percent. At that, the impact of grants on the deficit, on average, amounts to 0.9 percent of the annual GDP.

Calculation of the current deficit, including only current revenues, highlights that own revenues of the State Budget are sufficient for financing the most indispensable current expenditure over 2006-2009, given the forecast of the current surplus for the MTEF period.

Comparison of the conventional and primary deficits shows the impact, which the interest payments for the servicing of public debt have on the deficit. In particular, over the period of 2007-2009 the annual average share of interest payments within the conventional deficit will be 9.6 percent, against the 12.4 percent indicator planned for 2006.

Domestic savings in the Republic of Armenia are forecast to grow over the next few years, which will enable to increase the share of the deficit financed from internal sources, while reducing the interest rates.

As the State Budget deficit is mainly financed by externally borrowed resources its volume and structure are basically related to indicators characterizing state internal and external dept.

**PUBLIC DEBT**

The present structure of the public debt and its expected changes over the MTEF period are shown in the table below.

**Table 4.3 Public Debt, 2005-2009 (US\$ Million)**

Indicator	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
Public debt, total	1216.6	1399.8	1490.4	1641.9	1724.6
<i>Percent of GDP</i>	24.8	24.5	24.9	25.1	24.3
Including:					
- External debt	1099.2	1257.4	1338.5	1466.8	1526.0
<i>Including the debt of the Central Bank</i>	176.4	171.3	160.1	141.4	117.8
- Internal debt	117.3	142.4	151.8	175.2	198.5

**External Public Debt**

The trend of continuous improvement of indicators characterizing the RA external public debt was preserved during 2005 and according to forecast the observed trend will be preserved in future.

**Table 4.4 External Public Debt, 2005-2009 (US\$ Million)**

Indicators	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
Government's external debt and guarantees	922.8	1086.1	1178.4	1325.4	1408.2
Debt servicing*	26.5	27.0	26.9	24.8	30.1
- Interest payments	10.7	9.8	10.0	10.5	11.4
- Principal payments	15.8	17.2	16.8	14.3	18.7
Interest/tax revenues (percent)	1.6	1.1	1.1	1.0	1.0
Interest/State Budget expenditure (percent)	1.2	0.9	0.9	0.8	0.8

\* Servicing (interest and principal payments) excludes the Small and Medium Enterprise Development Loan provided by the KfW and serviced by the Central Bank.

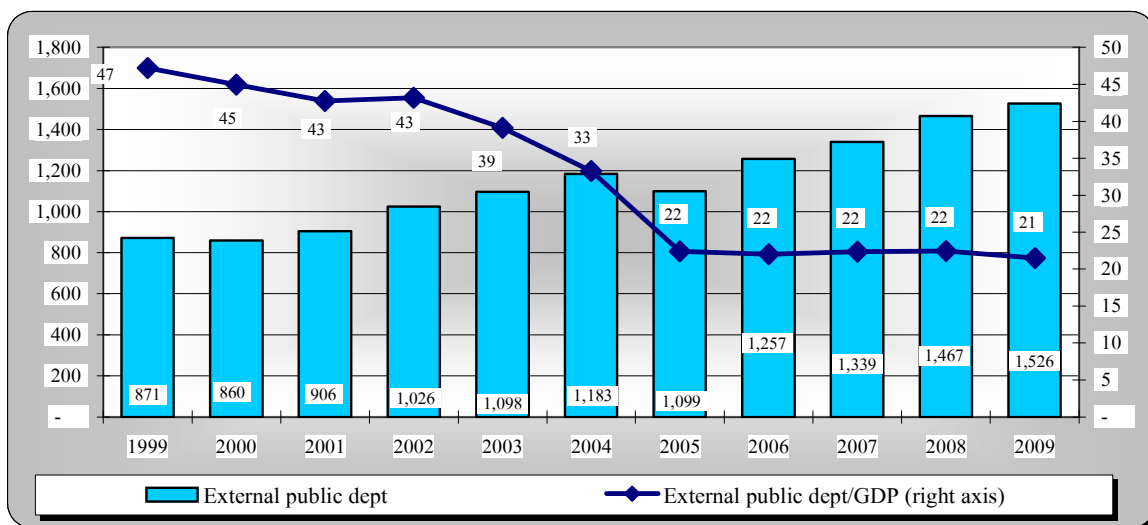
Below the main characteristics of the RA 2005-2009 external debt are presented.

**Table 4.5 Main Characteristics of External Public Debt, 2005-2009 (US\$ Million)**

Indicators	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Planned</i>	<i>Forecast</i>		
External public debt	1,099.2	1,257.4	1,338.5	1,466.8	1,526.0
Percent of GDP	22.4	22.0	22.4	22.4	21.5
Average effective interest rate	1.1	0.9	0.8	0.8	0.8
Share of concessional loans (percent)	98	99.2	99.6	99.7	99.8
Servicing/exports (percent)	4.7	4.0	3.1	2.9	2.8
Interest payments/exports (percent)	0.9	0.7	0.7	0.6	0.6
Servicing/GDP (percent)	1.3	1.1	0.9	0.8	0.8

**Chart 4.2 Dynamics of External Public Debt and External Public Debt/GDP indicator**





It is practical to finance the budget deficit exceptionally from external concessional sources over 2007-2009 (during that period, the share of concessional loans is proposed to increase within the loan portfolio). Later on, in parallel with the diminishing availability of external concessional sources and with the declining interest rates in the domestic market, more emphasis will be put on the internal sources of financing. The increase in the external debt should be accompanied with the relative stability in the indicators assessing the external debt burden or, at least, the increase in the external debt should be matched with the decrease in the internal debt. This means that the interest rates of newly undertaken credit obligations should not exceed the actual average rate of the outstanding debt.

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

Given the relatively stable volume of the resources channeled to the external debt servicing and repayment, the sustainable export growth will result in the substantial improvement of ratios such as external debt interest payments to exports and external debt servicing to exports.

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 provided that no substantial increase in the external interest payments is expected (due to exceptionally involving concessional loans), no additional difficulties in debt management are likely to show up.

### ***Internal Public Debt***

In the medium run, in addition to the strategic objectives (debt maturity prolongation and cost reduction), the following issues are to be stressed in the area of internal public debt management:

- Improvement of the legislative framework, i.e. passing the RA law "On Public Debt" and bringing the legislative framework regulating the public bond market into compliance with the provisions of the law on debt;
- Advance publication of the annual plans for issuing public bond, by maturities and volumes of each issue, in order to ensure market transparency and strengthen investor confidence. The first step in this direction was taken in 2005, when the schedule of the annual issuance of long-term public bonds has been published, and at the beginning of

2006 the program for the issuance of short and medium term public bonds (dates, periods and volumes of issuance) has been presented to all market participants;

- Issuance of saving-type coupon bonds. This would be done for stimulating the population to accumulate savings and to invest them in the public bond market. These bonds will contribute to the development of treasury saving system and increasing the bonds turnover volumes in the system;
- Facilitating the development of the secondary market for improving liquidity of public bonds, also enhancing operational efficiency of dealer quotations;
- Implementing actions, which will allow the government to improve the quality of bonds market investors' composition and to decrease the risks of dependence from limited number of investors.

The draft RA law "On Public Debt" was put into circulation since 2000. The Law "On Legal Acts", adopted in 2002, requires that the provisions containing restrictions with regard to the rights of the public bond market participants are defined by law. As a result the draft was taken out from circulation and was amended with a chapter defining the rights, obligations and restrictions of actions of the public (treasury) bond market participants. Adopting the law by July 1, 2007 is of issues standing on the agenda in this area. It should be mentioned that presently the bonds market is being regulated by the Government's Decree No 1103-N dated June 3, 2004.

It is worth mentioning that in 2005 long term coupon bonds were issued for four times and were put into circulation, which resulted in significant changes of the previously planned maturity and profitability indicators for 2005.

**Table 4.6 Main Characteristics of the RA Internal Public Debt, 2005-2009 (Million Drams)**

Indicators	2005 <i>Actual</i>	2006 <i>Planned</i>	2007	2008	2009
			<i>Forecast</i>		
Internal debt including:	52 828.3	59 828.3	68 328.3	78 828.3	89 328.3
Long term bonds	9 113.7	12 536.3	17 500.0	23 500.0	30 000.0
Medium term bonds	37 427.7	38 300.8	39 662.7	40 257.7	42 204.8
Short term bonds	6 286.9	8 991.2	11 665.6	14 570.6	16 123.5
Average interest rate (percent)	7.31	8.00	9.00	9.00	9.00
Average maturity (days)	1101	1200	1300	1400	1600
Interest payment	5 066.4	6 200.0	6 600.0	6 500.0	6 500.0

In the above presented table, economizing on the servicing expenditure in 2005 is explained by the unprecedented decline in interest rates – down to 4.0 percent for short term bonds, to 5.4 percent for medium term bonds, and to 7.8 percent for long term bonds. Moreover, at the end of the year the average maturity period lasted about 100 days longer than it was planned, as a result of issuing mainly long term bonds, which, in its turn, resulted in extended maturity dispersion along by years, lasting till 2020. Beginning from 2006, the planned indicators for servicing expenses for the coming years are structured based on the logic that the maturity period and dispersion by years will be extended due to increased volume of medium and long term bonds in internal debt, and their actual servicing will be implemented at least twice a year. Moreover, profitability may increase, as far as the Central Bank will proceed to targeted inflation program and will solve its main problem through regulation of interest rates. In this regard public debt average profitability will slightly

increase, which will be reflected in annual servicing expenditures. In the medium run, certain increase in the internal public debt is also forecast directed to the gradual replacement of the externally involved resources with internal ones.

Debt management goals and principles proposed for 2005 will find their logical continuation in projects anticipated in 2006 and 2007-2009. The internal debt management projects for 2007-2009 will prioritize preservation of the present long term trends, continuous increase of the number of non-bank investors, and improving the quality of debt structure. In the medium run, an issuance policy will be conducted enabling to prevent significant fluctuations of the internal debt interest rates, maintaining stability and predictability in the market, reducing the servicing costs along with lengthening bond maturity and expanding deficit financing opportunities. Dealing with these issues will be paralleled with the continuous redemption of bonds, enabling to maintain the high level of liquidity of public bonds, to extract from turnover the debt instruments, which are expensive and have less liquidity from the view of market, and at the same time to arrange the repayment schedule.

In middle term period the redemption of the internal premium bonus bonds issued in 1993-1994 will continue; this process will continue until 2014. Over 2003-2005, the amount of redeemed bonds totaled to 37.8 million drams, of which 24.5 million drams in 2005. The medium-term forecast of the resources for the redemption of these bonds over 2007-2009 is the following:

**Table 4.7 Repayment of Internal Premium Bonus Bonds (Million Drams)**

	2006	2007	2008	2009
<b>Repayment of Internal Premium Bonus Bonds</b>	25.0	17.0	15.0	10.0

#### **FORECASTED CHANGES IN RESOURCE AND EXPENDITURE PACKAGE OF THE STATE BUDGETS FOR 2007-2009**

Analysis of the receipt forecasts of the State Budgets for 2007-2009 shows that, assuming a nominal GDP growth rate of 9.2 percent in 2007, as compared with the 2006 level, receipts of the State Budget in 2007 are planned to increase by around 8.7 percent, or by 41.8 billion drams (mainly due to the increase in tax revenues). At the same time, receipts of the State Budget are expected to increase by 12.4 percent in 2008 as compared with the 2007 level (assuming a nominal GDP growth rate of 9.2 percent), and by 2.9 percent in 2009 as compared with the 2008 level (assuming a nominal GDP growth rate of 8.7 percent).

**Table 4.8 Forecasted Changes in Resource Package of State Budgets for 2007-2009 (Million Drams)**

Indicators	2007	2008	2009
	<i>Planned</i>		
1. Revenues and official transfers	447,647.7	507,562.6	563,133.0
<i>Share in GDP (percent)</i>	16.6	17.3	17.6
2. Receipts from repayment of budgetary loans	825.1	949.0	2,001.9
<i>Share in GDP (percent)</i>	0.03	0.03	0.06
3. Deficit financing sources	76,543.6	81,349.5	44,412.3
<i>Share in GDP (percent)</i>	2.84	2.77	1.39
<b>TOTAL RECEIPTS</b>	<b>525,016.4</b>	<b>589,861.0</b>	<b>609,547.2</b>
<i>Share in GDP (percent)</i>	19.5	20.1	19.1
<b>TOTAL RECEIPTS AS PER MTEF 2006-2008</b>	<b>488,715.5</b>	<b>535,583.2</b>	<b>X</b>
<i>Share in GDP (percent), as per MTEF 2006-2008</i>	<i>19.43</i>	<i>19.51</i>	
<b>INCREASE IN RECEIPTS (compared with previous year level)</b>	<b>41,817.3</b>	<b>64,844.7</b>	<b>19,686.2</b>
<i>Percentage increase in receipts, compared with previous year level</i>	8.7	12.4	3.3

4. Net released resources, by sectors, compared with the previous year level	21,411.4	7,182.3	29,350.9
<b>TOTAL ADDITIONAL RESOURCES</b> (compared with the previous year level)	<b>63,228.7</b>	<b>72,027.0</b>	<b>49,037.1</b>
<i>Share in GDP (percent)</i>	2.35	2.45	1.53
TOTAL ADDITIONAL RESOURCES (compared with previous year level), as per MTEF 2006-2008	56,378.4	65,922.4	X
<i>Share in GDP (percent), as per MTEF 2006-2008</i>	2.24	2.4	
Forecasted distribution of additional budget resources by sectors for 2007-2009	<b>63,228.7</b>	<b>72,027.0</b>	<b>49,037.1</b>
<i>Including</i>			
<b>1. Social-cultural branches and science</b>	12,160.9	8,344.7	16,876.3
<b>2. Defense, national security, public order protection, criminal-executive, and emergency systems</b>	23,276.8	12,846.6	9,453.3
<b>3. Sectors of economy</b>	16,534.0	46,582.4	4,050.8
<b>4. Public administration</b>	3,674.9	-	4,378.8
<b>5. Support to local self-governance bodies (including the financial leveling subsidies and indemnification of loss of community budget revenues in accordance with the laws adopted by the RA National Assembly)</b>	3,316.3	1,895.7	1,076.0
<b>6. Other sectors</b>	4,265.8	2,357.6	12,804.1

As one can see in the table above, the ratio of planned budget receipts to GDP for 2007 and 2008 as to MTEF 2007-2009 is higher than the same ratio as to MTEF 2006-2008 (and if in 2007 the growth is insignificant, in 2008 it constitutes 0.5 percent). At the same time, the amounts of planned additional receipts for 2007 and 2008 as to MTEF 2007-2009 exceed the respective amount as to MTEF 2006-2008 (by 6.9 and 6.1 billion drams, respectively).

As shown in the table, a significant part of additional receipts over 2007-2009, some 104.5 billion drams, or 56.7 percent of the total, will be channeled to financing the social-cultural and science branches and the sectors of economy; 20.3 percent of the total amount of additional receipts will be allocated to the social-cultural branches and science. Over 2007-2009, the Government will keep implementing the policy for increasing the social component of budget expenditure.

Around 35.4 percent of additional resources allocated to the social-cultural branches will be channeled to education, around 16.0 percent to social security and social insurance, and 37.4 percent to health care (mostly, to the primary unit – ambulatory-polyclinic and hospital care).

Around 24.7 percent of the total amount of additional resources will be channeled to the maintenance of defense, national security, public order protection, and state of emergency system, as dictated by the need to allocate appropriate resources for assuring the ongoing activities of these structures.

Over 2007-2009, around 36.4 percent of the total amount of additional resources will be channeled to the sectors of economy. At that, most part of these resources will be allocated to the energy system – 66.8 percent (to be financed under targeted external borrowing programs), the road network – 12.2 percent, the agricultural sector – 19.1 percent, and other sectors of economy – 1.9 percent.

4.4 percent of the total amount of additional resources will be channeled to public administration. These funds will support reforms in the civil service and judicial systems.

Over 2007-2009, around 3.41 percent of the total amount of additional resources will be channeled to the local self-government bodies as budgetary support (including financial leveling subsidies and indemnification of community budget lost profits in accordance with laws passed by the RA National Assembly).

**FORECAST OF STATE BUDGET EXPENDITURES FOR 2007-2009, BY SECTORS**

Forecasts of the State Budget expenditure over 2007-2009, by sectors, are characterized by the indicators presented in the table below<sup>4</sup>.

**Table 4.9 State Budgets Expenditures Over 2005-2009, by Sectors (Million Drams)**

Indicators	2005 <i>Actual</i> <sup>7</sup>	2006 <i>Adopted Budget</i> <sup>8</sup>	2007	2008	2009
			<i>Planned</i>		
TOTAL EXPENDITURE	417,505.8	482,193.9	524,191.2	588,912.0	607,545.4
The same, as per MTEF 2006-2008	394,600.1	439,889.6	488,119.9	534,598.7	X
<i>Including</i>					
<b>1. Social-cultural branches and science</b>	144,475.6	188,651.3	200,770.2	206,824.5	223,700.6
- <i>Share in GDP (percent)</i>	8.9	7.9	7.5	7.0	7.0
- <i>Share in total expenditure (percent)</i>	34.6	39.1	38.3	35.1	36.8
The same, as per MTEF 2006-2008	149,209.7	170,242.9	194,338.0	219,102.7	X
- <i>Share in GDP (percent)</i>	7.1	7.4	7.7	8.0	X
- <i>Share in total expenditure (percent)</i>	37.8	38.7	39.8	41.0	X
<b>2. Defense, national security, public order protection, criminal-executive and emergency systems</b>	94,332.8	105,692.8	128,969.6	141,816.2	151,269.5
- <i>Share in GDP (percent)</i>	5.8	4.4	4.8	4.8	4.7
- <i>Share in total expenditure (percent)</i>	22.6	21.9	24.6	24.1	24.9
The same, as per MTEF 2006-2008	86,444.6	102,973.2	112,634.7	120,690.6	X
- <i>Share in GDP (percent)</i>	4.1	4.5	4.5	4.4	X
- <i>Share in total expenditure (percent)</i>	21.9	23.4	23.1	22.6	X
<b>3. Sectors of economy</b>	65,880.0	96,492.1	91,558.3	135,891.5	109,555.1
- <i>Share in GDP (percent)</i>	4.1	4.0	3.4	4.6	3.4
- <i>Share in total expenditure (percent)</i>	15.8	20.0	17.5	23.1	18.0
The same, as per MTEF 2006-2008	76,237.1	67,765.5	69,399.7	55,793.3	X
- <i>Share in GDP (percent)</i>	3.6	2.9	2.8	2.0	X
- <i>Share in total expenditure (percent)</i>	19.3	15.4	14.2	10.4	X
<b>4. Public administration</b>	37,862.19	41,005.3	44,680.2	41,741.1	46,119.9
- <i>Share in GDP (percent)</i>	2.3	1.7	1.7	1.4	1.4
- <i>Share in total expenditure (percent)</i>	9.1	8.5	8.5	7.1	7.6
The same, as per MTEF 2006-2008	33,043.5	35,410.3	42,476.5	43,306.6	X
- <i>Share in GDP (percent)</i>	1.6	1.5	1.7	1.6	X
- <i>Share in total expenditure (percent)</i>	8.4	8.0	8.7	8.1	X
<b>5. Support to local self-governance bodies</b>	13,752.00	14,668.0	17,984.3	19,880.0	20,956.0
- <i>Share in GDP (percent)</i>	0.8	0.6	0.7	0.7	0.7
- <i>Share in total expenditure (percent)</i>	3.3	3.0	3.4	3.4	3.4
The same, as per MTEF 2006-2008	13,752.0	14,668.0	16,792.0	16,916.0	X
- <i>Share in GDP (percent)</i>	0.7	0.6	0.7	0.6	X
- <i>Share in total expenditure (percent)</i>	3.5	3.3	3.4	3.2	X
<b>6. Other sectors</b>	61,203.28	35,684.35	40,228.67	42,758.76	55,944.32
- <i>Share in GDP (percent)</i>	2.7	1.5	1.5	1.5	1.8

<sup>4</sup> Hereinafter in this chapter, the groups "Social-Cultural Branches", "Sectors of Economy", and "Other Sectors" are presented excluding the administrative maintenance expenses of the republican and territorial public governance bodies, those are consolidated under the group "Public Administration".

Indicators	2005 Actual <sup>7</sup>	2006 Adopted Budget <sup>8</sup>	2007	2008	2009
			Planned		
- Share in total expenditure (percent)	14.7	7.4	7.7	7.3	9.2
The same, as per MTEF 2006-2008	35,913.17	48,829.7	52,479.0	78,789.46	X
- Share in GDP (percent)	1.7	2.1	2.1	2.9	X
- Share in total expenditure (percent)	9.1	11.1	10.8	14.7	X

<sup>7</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the next two rows present the MTEF 2006-2008 forecasts for 2005.

<sup>8</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the next two rows present the MTEF 2006-2008 forecasts for 2006.

Again, in the group "Social-cultural branches and science" special emphasis will be placed over the MTEF 2007-2009 period on the implementation of strategic programs for the development of education, health care and social security.

**Table 4.10 Budget Expenditures in Social-Cultural Branches and Science Sector for 2005-2009, by Branches (Million Drams)**

Indicators	2005 Actual <sup>9</sup>	2006 Adopted Budget <sup>10</sup>	2007	2008	2009
			Planned		
SOCIAL-CULTURAL BRANCHES AND SCIENCES, total	144,475.6	188,651.3	200,770.2	206,824.5	223,700.6
The same, as per MTEF 2006-2008	149,209.7	170,242.9	194,338.0	219,102.7	X
<i>Including</i>					
<b>1. Education</b>	56,453.16	77,081.2	80,648.0	85,188.0	90,316.6
- Share in GDP (percent)	2.5	3.2	3.0	2.9	2.8
- Share in total expenditure (percent)	13.5	16.0	15.4	14.5	14.9
The same, as per MTEF 2006-2008	57,460.8	65,706.6	74,990.5	90,094.7	X
- Share in GDP (percent)	2.7	2.9	3.0	3.3	X
- Share in total expenditure (percent)	14.6	14.9	15.4	16.9	X
<b>2. Social insurance and social security</b>	43,313.4	54,700.7	56,655.4	57,481.3	60,667.4
- Share in GDP (percent)	1.9	2.3	2.1	2.0	1.9
- Share in total expenditure (percent)	10.4	11.3	10.8	9.8	10.0
The same, as per MTEF 2006-2008	45,882.3	52,355.2	55,467.6	56,642.4	X
- Share in GDP (percent)	2.2	2.3	2.2	2.1	X
- Share in total expenditure (percent)	11.6	11.9	11.4	10.6	X
<b>3. Health care</b>	30,596.0	38,625.3	44,201.5	46,456.7	52,622.9
- Share in GDP (percent)	1.4	1.6	1.6	1.6	1.6
- Share in total expenditure (percent)	7.3	8.0	8.4	7.9	8.7
The same, as per MTEF 2006-2008	31,651.3	36,627.5	47,546.4	55,433.1	X
- Share in GDP (percent)	1.5	1.6	1.9	2.0	X
- Share in total expenditure (percent)	8.0	8.3	9.7	10.4	X
<b>4. Culture, information, sports and religion</b>	9,988.2	13,051.1	14,114.1	11,823.6	13,542.9
- Share in GDP (percent)	0.4	0.5	0.5	0.4	0.4
- Share in total expenditure (percent)	2.4	2.7	2.7	2.0	2.2
The same, as per MTEF 2006-2008	10,112.7	11,324.7	11,596.7	11,739.1	X

- Share in GDP (percent)	0.5	0.5	0.5	0.4	X
- Share in total expenditure (percent)	2.6	2.6	2.4	2.2	X
<b>5. Science</b>	4,124.9	5,193.1	5,151.1	5,874.9	6,550.8
- Share in GDP (percent)	0.2	0.2	0.2	0.2	0.2
- Share in total expenditure (percent)	1.0	1.1	1.0	1.0	1.1
The same, as per MTEF 2006-2008	4,102.6	4,228.9	4,736.8	5,193.4	X
- Share in GDP (percent)	0.2	0.2	0.2	0.2	X
- Share in total expenditure (percent)	1.0	1.0	1.0	1.0	X

<sup>9</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the next two rows present the MTEF 2006-2008 forecasts for 2005.

<sup>10</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the next two rows present the MTEF 2006-2008 forecasts for 2006.

Reforms in the general education system will be a priority of the state policy in education (most of the sectoral expenditure will be channeled to this area) in the coming years. Budgetary allocations in health care over 2007-2009 will be directed to the programs aimed at strengthening and developing primary medical care.

In the social insurance and social security area, the emphasis in the coming years will be placed on improving the family allowances system, on the implementation of social security programs, as well as on raising pensions.

Expenditure over 2007-2009 in the sectors of the economy will be targeted to the programs for the development of productive infrastructures.

**Table 4.11 Budget Expenditures in Sectors of Economy for 2005-2009, by Branches (Million Drams)**

Indicators	2005 Actual <sup>11</sup>	2006 Adopted Budget <sup>12</sup>	2007	2008	2009
			Planned		
SECTORS OF ECONOMY, total	65,880.0	96,492.1	91,558.3	135,891.5	109,555.1
The same, as per MTEF 2006-2008	76,237.1	67,765.5	69,399.7	55,793.3	X
<i>Including</i>					
<b>1. Fuel and energy system</b>	3,157.6	4,215.0	17,768.7	49,073.1	30,111.5
- Share in GDP (percent)	0.1	0.2	0.7	1.7	0.9
- Share in total expenditure (percent)	0.8	0.9	3.4	8.3	5.0
The same, as per MTEF 2006-2008	10,736.7	6,371.3	15,067.2	2,596.4	X
- Share in GDP (percent)	0.5	0.3	0.6	0.1	X
- Share in total expenditure (percent)	2.7	1.4	3.1	0.5	X
<b>2. Agriculture, forest and water economy, fishery</b>	12,851.3	19,152.9	20,870.0	31,987.2	30,509.1
- Share in GDP (percent)	0.6	0.8	0.8	1.1	1.0
- Share in total expenditure (percent)	3.1	4.0	4.0	5.4	5.0
The same, as per MTEF 2006-2008	15,438.8	16,699.6	16,081.2	10,484.0	X
- Share in GDP (percent)	0.7	0.7	0.6	0.4	X
- Share in total expenditure (percent)	3.9	3.8	3.3	2.0	X
<b>3. Transportation, roads and communications</b>	20,808.9	41,153.9	22,562.9	26,723.8	30,774.6
- Share in GDP (percent)	0.9	1.7	0.8	0.9	1.0
- Share in total expenditure (percent)	5.0	8.5	4.3	4.5	5.1
The same, as per MTEF 2006-2008	20,925.8	16,808.5	13,073.0	14,142.6	X
- Share in GDP (percent)	1.0	0.7	0.5	0.5	X

- Share in total expenditure (percent)	5.3	3.8	2.7	2.6	X
<b>4. Housing and communal services</b>	22,702.7	24,561.2	21,782.7	19,955.6	11,216.3
- Share in GDP (percent)	1.0	1.0	0.8	0.7	0.4
- Share in total expenditure (percent)	5.4	5.1	4.2	3.4	1.8
The same, as per MTEF 2006-2008	23,334.8	21,813.6	18,355.9	19,069.3	X
- Share in GDP (percent)	1.1	0.9	0.7	0.7	X
- Share in total expenditure (percent)	5.9	5.0	3.8	3.6	X
<b>5. Other sectors of economy</b>	6,359.4	7,409.2	8,573.9	8,151.9	6,943.6
- Share in GDP (percent)	0.3	0.3	0.3	0.3	0.2
- Share in total expenditure (percent)	1.5	1.5	1.6	1.4	1.1
The same, as per MTEF 2006-2008	5,801.0	6,072.5	6,822.4	9,501.0	X
- Share in GDP (percent)	0.3	0.3	0.3	0.3	X
- Share in total expenditure (percent)	1.5	1.4	1.4	1.8	X

<sup>11</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the two rows next to them present the MTEF 2006-2008 forecasts for 2005.

<sup>12</sup> In this column, the rows containing "The same, as per MTEF 2006-2006" and the two rows next to them present the MTEF 2006-2008 forecasts for 2006.

The Government will emphasize expenditure targeted to development of agriculture, energy, transportation, roads, water economy, and housing and communal services, to be financed mostly through external financing.

The increase in maintenance expenses in defense, national security, public order protection, criminal-executive, and emergency systems is conditioned by the need to assure a high level of preparedness of these structures through creating sufficient conditions for their ordinary operation.

Expenditure in public administration, as compared with the 2006 indicators, will grow at an absolutely stable rate over 2007-2009, connected with the necessity to provide financial support to the reforms being implemented in the system of public administration.

Combating corruption and assuring everyone's equality before the law are of priority issues in all structures of the public administration system. The reforms in public administration are to be implemented in three directions: institutional and functional reformations of the public administration system, reforms in the spheres of civil service and financial management.

For financing of the mentioned program, additional financial investments will be needed in the field of public administration, particularly for the training of public employees, their remuneration, and creation of social security guarantees for them, as well as meeting other regular needs for the functioning of public administration bodies. Therefore, allocations to this sector, as compared with the 2006 level, will increase by 5.1 billion drams, or for 1.2 times, by the end of 2007-2009. In particular, they will increase for 1.1 times in 2007, and the average annual increase over 2007-2009 will comprise 12.5 percent.

The increase in expenditure for the state support of local self-governance sector over 2007-2009, as compared with the 2006 level, reflects the need to provide sufficient resources to local self-governance bodies for them to address the basic problems within the scope of their obligatory competences legislatively assigned to them.

The majority of expenditure allocated to the "Other sectors" over 2007-2009 will be channeled to public debt servicing and external economic assistance.



**Table 4.12 Budget Expenditure in Other Sectors for 2005-2009, by Branches (Million Drams)**

Functional Classification Group	2005 Actual <sup>13</sup>	2006 Adopted Budget <sup>14</sup>	2007	2008	2009
TOTAL	61,203.28	35,684.35	40,228.67	42,758.76	55,944.32
The same, as per MTEF 2006-2008	35,913.17	48,829.7	52,479.0	78,789.46	X
<i>Including</i>					
<b>1. Servicing of public debt (interest payments)</b>	9,933.18	10,315.4	11,114.9	11,218.7	11,616.5
- Share in GDP (percent)	0.4	0.4	0.4	0.4	0.4
- Share in total expenditure (percent)	2.4	2.1	2.1	1.9	1.9
The same, as per MTEF 2006-2008	12,130.7	12,158.5	11,977.2	11,940.4	X
- Share in GDP (percent)	0.6	0.5	0.5	0.4	X
- Share in total expenditure (percent)	3.1	2.8	2.5	2.2	X
<b>2. Budgetary lending to Nagorno-Karabagh</b>	13,636.6	16,086.7	18,087.3	20,474.6	20,984.3
- Share in GDP (percent)	0.6	0.7	0.7	0.7	0.7
- Share in total expenditure (percent)	3.3	3.3	3.5	3.5	3.5
The same, as per MTEF 2006-2008	13,636.6	15,064.7	16,706.5	17,987.3	X
- Share in GDP (percent)	0.6	0.7	0.7	0.7	X
- Share in total expenditure (percent)	3.5	3.4	3.4	3.4	X
<b>3. Other</b>	37,633.5	9,282.3	11,026.5	11,065.4	23,343.5
- Share in GDP (percent)	1.7	0.4	0.4	0.4	0.7
- Share in total expenditure (percent)	9.0	1.9	2.1	1.9	3.8
The same, as per MTEF 2006-2008	10,145.9	12,200.5	11,615.7	11,612.3	X
- Share in GDP (percent)	0.5	0.5	0.5	0.4	X
- Share in total expenditure (percent)	2.6	2.8	2.4	2.2	X

<sup>13</sup> In this column, the rows containing "The same, as per MTEF 2006-2008" and the two rows next to them present the MTEF 2006-2008 forecasts for 2005.

<sup>14</sup> In this column, the rows containing "The same, as per MTEF 2006-2006" and the two rows next to them present the MTEF 2006-2008 forecasts for 2006.

**Box 1. State Support to the Local Self-Governance System**

Since the elections to the local self-governance bodies in 1996, the outcomes of the activities of those bodies have proved that, in spite of a number of serious problems, the system has been practically put into effect and is able to fulfill the functions prescribed by law. In particular, this is proved by the overview of the summarized indicators of community budget execution over the previous 6 years, which demonstrates, on the one hand, the progressive improvement of communities' financial potential, and on the other hand, the yearly expansion of state support.

	2000	2001	2002	2003	2004	2005
	<i>Percentage change, as compared with the previous year</i>					
Own revenues of community budgets (excluding official transfers to community budgets from the State Budget)	0.2%	-3.8%	8.3%	37.5%	11.9%	9.1%
Official transfers to community budgets from the State Budget	136.9%	31.0%	76.6%	-22.3%	32.1%	39.9%
Expenditure of community budgets	9.9%	23.7%	21.7%	16.0%	22.9%	26.8%

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 contribute financially to the harmonious development of communities. This assistance will mostly be provided through financial leveling subsidies, as well as through community infrastructure rehabilitation and development programs implemented by the Armenian Social Investment Fund with the World Bank assistance.

The Government will keep providing budgetary support to indemnify the decrease in community budget revenues according to the RA legislation. At the same time, it is worth mentioning that actions will be taken for enhancing flexibility of the state financial support to community budgets.

For 2007-2009, the total amount of the State Budget expenditure will, as in the past, be substantially dependent on external flows.

**Table 4.13 Expenditure Financed from External Sources (Loans and Official Transfers) for 2005-2009**

Indicator	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Adopted Budget</i>	<i>Planned</i>		
Expenditure financed from external sources (billion drams)	34.3	75.1	64.1	103.1	75.1
- Share in GDP (percent)	1.5	3.1	2.4	3.5	2.4
- Share in total State Budget expenditure (percent)	8.2	15.6	12.2	17.5	12.4
The same, as per MTEF 2006-2008 (million drams)	56,3	51,3	56.0	52.7	X
- Share in GDP (percent)	2.7	2.2	2.2	1.9	X
- Share in total expenditure (percent)	14.3	11.2	11.5	9.9	X

This is reflected in the large share of the 2007-2009 forecast expenditure to be financed by external loans and official transfers, comprising 14.0 percent of the (annual average) budgetary expenditure, and 2.7 percent of GDP.

#### **FORECAST OF STATE BUDGETS EXPENDITURES FOR 2007-2009, BY MAIN ARTICLES OF ECONOMIC CLASSIFICATION**

Over the MTEF 2007-2009 period, the share of State Budget expenditure in GDP will be within the 19.5 and 18.9 percent range. The same trend will be observed both in current and in capital expenditures; their share in GDP will range from 14.2 to 13.6 percent and from 4.5 to 5.2 percent, respectively. Similar trend will be observed in the ratio of capital expenditure (excluding net borrowing) to current expenditure - within the 0.32 to 0.37 range.

**Table 4.14 Current and Capital Expenditure - Trends of Changes and of Ratio, 2005-2009**

Functional Classification Group	2005	2006	2007	2008	2009
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## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

	<i>Actual</i> <sup>15</sup>	<i>Adopted Budget</i> <sup>16</sup>	<i>Planned</i>		
TOTAL EXPENDITURE (million drams)	<b>417,505.9</b>	<b>482,193.9</b>	<b>524,191.3</b>	<b>588,912.0</b>	<b>607,545.4</b>
<i>Including</i>					
- Current expenditure (million drams)	<b>329,134.9</b>	<b>332,157.7</b>	<b>381,540.8</b>	<b>413,902.6</b>	<b>435,862.6</b>
<i>Share in GDP (percent)</i>	14.7	13.8	14.2	14.1	13.6
- Capital expenditure (million drams)	<b>75,262.1</b>	<b>132,990.3</b>	<b>122,070.4</b>	<b>152,256.1</b>	<b>150,613.0</b>
<i>Share in GDP (percent)</i>	<b>3.4</b>	<b>5.5</b>	<b>4.5</b>	<b>5.2</b>	<b>4.7</b>
<i>Ratio of capital and current expenditure</i>	0.23	0.40	0.32	0.37	0.35
- Borrowing minus repayment (million drams)	<b>13,108.9</b>	<b>17,045.90</b>	<b>20,580.14</b>	<b>22,753.38</b>	<b>21,069.83</b>
<i>Share in GDP (percent)</i>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
TOTAL EXPENDITURE (million drams), as per MTEF 2006-2008	394,600.1	439,889.6	<u>488,119.9</u>	534,598.7	X
<i>Including</i>					
- Current expenditure (million drams)	<b>295,157.7</b>	326,258.4	359,014.6	381,841.7	X
<i>Share in GDP (percent)</i>	<i>14.0</i>	<i>14.2</i>	<i>14.3</i>	<i>13.9</i>	<i>X</i>
- Capital expenditure (million drams)	89,372.8	97,265.0	111,396.1	134,811.5	X
<i>Share in GDP (percent)</i>	<i>4.2</i>	<i>4.2</i>	<i>4.4</i>	<i>4.9</i>	<i>X</i>
<i>Ratio of capital and current expenditure</i>	<i>0.303</i>	<i>0.298</i>	<i>0.310</i>	<i>0.353</i>	<i>X</i>
- Borrowing minus repayment (million drams)	10,069.6	16,366.2	17,709.17	17,945.5	X
<i>Share in GDP (percent)</i>	<i>0.5</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>X</i>

<sup>15</sup> In this column, the rows containing “The same, as per MTEF 2005-2007” and the two rows next to them present the MTEF 2005-2007 forecasts for 2005.

<sup>16</sup> In this column, the rows containing “The same, as per MTEF 2005-2007” and the two rows next to them present the MTEF 2005-2007 forecasts for 2006.

Current expenditure will comprise around 71.6 percent of the total average annual expenditure over 2007-2009 (the planned level for 2006 is 68.9 percent). The average annual growth rate of the nominal current expenditure will exceed the growth rate of capital and borrowing-minus-repayment expenditure by 28.9 percent over the 2007-2009 period.

Most part of current expenditure over 2007-2009 period will be channeled to the procurement of goods and services for public needs, payment of benefits and indemnifications to the population, servicing of the internal and external public debt (interest payments), subsidizing some companies providing water supply, irrigation, and transportation services in certain sectors of economy, maintenance and exploitation of the state roads, providing state support to the local self-governance bodies, and remuneration of the public administration system employees.

Over 2007-2009, 55.8 percent (237.15 billion drams) of the total 424.9 billion drams of capital expenditure will be financed from internal sources. As in the past, priority directions of capital expenditure will be the energy, road, transportation, water economy, agriculture, housing construction, school construction, and health care sectors. Special emphasis will be laid on the stock participation in international financial structures (European Bank for Reconstruction and Development, International Agency for Multilateral Investments, Black Sea Bank of Trade and Development, International Bank for Reconstruction and Development, Asian Development Bank), as stipulated by Armenia’s commitments undertaken for membership in these structures. Capital expenditures are envisaged in definite sectors of economy (particularly, in the spheres of agriculture and transportation) at the expense of financial resources provided to Republic of Armenia by the US Government within the framework of the Millennium Challenges Foundation project.

Over the MTEF period, the average annual share of net lending within the total planned budget expenditure will amount to 3.7 percent, mainly in the form of external economic assistance.

### **FISCAL RISKS OF MTEF 2007-2009**

With regard to the realistic execution of the MTEF 2007-2009, it is important to evaluate the possible deviations from the fiscal framework planned scenario, which might have either positive or negative impact on the project implementation. Nevertheless, more attention should be attached to the evaluation of the deviations possibly resulting in negative outcomes and requiring respective revisions (reductions) in expenditure programs. In this respect, disclosure and assessment of the risk factors could introduce substantial clarity in the scope of possible adjustments in the framework. The need for such an analysis is specially emphasized for 2007, within the framework of the RA 2007 annual state budget drafting process, through making systematized review of the forecasts, which will lay down in the basis of the 2007 annual state budget, as necessary.

#### ***Sources of Risks***

Generally, the following risks with the potential to create negative deviations from the planned resource package are identified:

- (i) Risks concerned with internal resources;
- (ii) Risks concerned with external assistance.

With regard to internal resources, the 2007-2009 State Budget resource package is forecast to be replenished mainly through the collection of tax revenues. Its performance will be mostly conditioned, on the one hand, by the impact of internal political developments and external factors on the economic environment in the country, and on the other hand, by the efficiency of the Government's administrative actions in tax collection.

The impact of internal political developments and external factors: This risk is likely to emerge in case of heightened internal political tension or of an abrupt deterioration of the country's economic situation due to external influences (negative developments in external economic markets, as well as on the Armenian frontiers); thus, it does not appear to be assessable.

Implementation of administrative actions: The Government's commitment for taking specific steps aimed at the reduction of the unregistered and untaxed sector of economy will have a substantial impact on the process of ensuring equal rights for the economic entities and more equitable distribution of the tax burden among them, thus contributing to the improved tax performance and collection of additional budget receipts. In this case, the basic way to reduce the unofficial sector and collecting additional budget receipts is the satisfactory implementation of the actions to be taken by tax and customs bodies, which can be considered as relevant, if judging by the previous years' trends.

With regard to external assistance, the 2007-2009 budgetary resource package is forecast to be replenished through both official transfers and loans.

Official transfers and loans: In this case, possible deviations from planned scenario will be caused mainly by the difference between planned and actual foreign currency exchange rates, and in some cases will depend on the implementation rate of financial resources provision conditions.

***Possible Outcomes and Adjustment Trends***

A lower than the planned level of internal resources would imply a revision of expenditure towards reduction. Taking into account that tax revenues are not attached to any expenditure category or program, revision of the expenditure plan would be implemented on the basis of the priority principle; that is, the expenditure categories or the programs with a lower level of priority would be reduced first.

In the case of under-receipt of external assistance, approaches for revising the expenditure plan would be different, depending on the nature of external assistance. In this respect, the structure of the expected external assistance by designation is to be paid attention to. According to the forecasts, program (targeted) official transfers and loans will comprise a major share in the structure of external assistance for the planned period (89.4 percent in 2007, and around 99.2 percent annually on average in 2008 and 2009).

**Table 4.15 External Assistance, by Designation (Billion Drams)**

Indicators	2007	2008	2009
General purpose budgetary assistance	6.8	0.7	0.7
Official transfers	6.8	0.7	0.7
Loans	0	0	0
Program (targeted) assistance	57.3	102.4	74.4
Official transfers	8.2	29.9	31.7
Loans	49.1	72.5	42.7
Total external assistance	64.1	103.1	75.1

In case of under-receipt of general-purpose budgetary assistance, the expenditure plan will be revised on the basis of the priority principle, whereas under-receipt of program (targeted) official transfers and loans will result in financial reduction of the programs immediately linked to those sources of financing (in particular, in the structure of program loans, the targeted programs financed by the World Bank in social and production infrastructures comprise the majority).

***Compensation Opportunities***

Favorable macroeconomic developments may have a positive impact on the fiscal framework for the MTEF 2007-2009, thus partially offsetting the estimated possible “losses” in terms of external assistance and tax administration. Macroeconomic scenario forecasts for the MTEF 2007-2009 were made in the first months of 2006. If during the year the macroeconomic environment is improved in comparison with the forecasts, this will favorably influence the collection of additional tax revenues.

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

## CHAPTER 5. EXPENDITURE PRIORITIES OF STATE BUDGETS 2007-2009

The document expounding the strategy for expenditure policy generally describes policy priorities of State Budget expenditure by sectors over 2007-2009. These priorities emerge from the context of the Government's general strategic priorities and should serve as a basis for drafting the State Budget 2007.

As already mentioned, for the coming years the Government determines the following priorities of State Budget expenditure:

- (i) Ensuring financial support of reforms in certain branches of the social sector (particularly, in education, health, social security and social insurance) and in public administration to improve the efficiency, directedness and targeting of public bodies activities, enhancing accessibility of services they provide to the population;
- (ii) Ensuring financial support for the ordinary operation of defence and national security institutions, in order to maintain the territorial integrity of the republic, regional stability, and the balance of forces in the Karabagh conflict;
- (iii) Implementing programs to rehabilitate and develop infrastructures in certain sectors of economy (particularly, in agriculture, water, road, and energy sectors).

**Table 5.1 Proposed Changes over 2007-2009 in Resource and Expenditure Package of State Budget, as Compared with the Previous Year (Million Drams)**

Indicators	2007	2008	2009
Proposed distribution of additional budget resources over 2007-2009, by sectors	63,228.7	72,027.0	49,037.1
<i>Including</i>			
1. Social-cultural branches and science	12,160.9	8,344.7	16,876.3
2. Defense, national security, public order protection, criminal-executive, and emergency systems	23,276.8	12,846.6	9,453.28
3. Sectors of economy	16,534.0	46,582.4	4,050.8
4. Public administration	3,674.9	-	4,378.82
5. Support to local self-governance bodies (including financial leveling subsidies and indemnification of loss of community budget revenues in accordance with laws adopted by the RA National Assembly)	3,316.3	1,895.7	1,076.0

As shown in the table, a significant part of additional receipts over 2007-2009, some 104.5 billion drams, or 56.7 percent of the total, will be channeled to financing the social-cultural branches and science, as well as to the sectors of economy. 20.3 percent of the total amount of additional receipts will be allocated to the social-cultural branches and science. This shows that over 2007-2009 the Government is intending to essentially enhance the social directedness of budget expenditures.

Around 35.4 percent of additional resources allocated to the social-cultural branches and science will be channeled to education, around 16.0 percent to social security and social insurance, and 37.4 percent to health care (mostly, to the primary unit – ambulatory-polyclinic and hospital care).

Around 24.7 percent of the total amount of additional resources will be channeled to the maintenance of defense, national security, public order protection, and state of emergency system, as dictated by the need to allocate appropriate resources for assuring the ongoing activities of these structures.

Over 2007-2009, around 36.4 percent of the total amount of additional resources will be channeled to the sectors of economy. At that, most part of these resources will be allocated to the energy system – 66.8 percent (to be financed under targeted external borrowing programs), the road network – 12.2 percent, the agricultural sector – 19.1 percent, and other sectors of economy – 1.9 percent.

Some 4.4 percent of the total amount of additional resources will be channeled to public administration. These funds will support reforms in the civil service and judicial systems.

Over 2007-2009, around 3.4 percent of the total amount of additional resources will be channeled to the local self-governance area as budgetary support, mainly to provide the community budgets with financial leveling subsidies and indemnify the decreased income of community budgets in accordance with the RA laws. Below is the general presentation of the proposed public spending over 2007-2009, by functional classification groups of budgetary spending.

**Table 5.2. State Budgets Expenditures for 2007-2009, by Functional Classification Groups (Million Drams)**

Functional Classification Group		2005	2006	2007	2008	2009
		<i>Actual</i>	<i>Adopted Budget</i>	<i>Planned</i>		
<b>Total expenditure</b>		417,505.86	482,193.9	524,191.3	588,912.1	607,545.4
<i>Including</i>						
01	General public services	44,211.91	48,851.4	53,787.1	56,044.3	54,466.8
02	Defense	64,414.0	74,125.56	94,795.0	103,562.5	111,590.0
03	Public order protection, national security, and judicial activities	35,000.9	36,607.3	39,557.7	44,179.0	47,241.4
04	Education and science	60,827.46	82,283.2	86,232.9	91,511.8	97,369.7
05	Health care	31,079.72	39,435.2	45,048.6	47,320.5	53,609.3
06	Social security and social insurance	44,145.9	55,869.87	57,984.8	58,851.6	62,203.8
07	Culture, information, sports, and religion	10,407.6	13,597.67	14,683.1	12,406.9	14,184.1
08	Housing and communal services	22,702.7	24,561.35	21,782.7	19,955.6	11,216.3
09	Fuel and energy system	3,623.5	4,778.2	18,342.9	49,654.1	30,716.9
10	Agriculture, forest and water economy	13,180.2	19,727.2	21,497.6	32,633.3	31,227.0
11	Industry, minerals (except fuel), construction, and environmental protection	4,778.3	5,790.97	6,378.1	4,807.4	2,566.0
12	Transport, roads and communications	21,050.2	41,541.3	22,961.1	27,132.3	31,229.0
13	Other economic services	2,950.0	3,682.57	4,530.8	5,734.8	7,033.5
14	Non-classified expenditure	59,133.3	31,342.0	36,608.9	35,118.1	52,891.5

As shown in the table, over the MTEF period – as in the previous years – the largest portions of total expenditure, will be allocated to the groups "Defense", "Education and Science", and "Social Security and Social Insurance" at 18.0 percent, 16.0 percent and 10.4 percent, respectively.

Public expenditure policy in the above-mentioned and other functional classification groups of budgetary expenditure over 2007-2009 is presented in the following chapters.



## **CHAPTER 6.**

### **PUBLIC ADMINISTRATION SYSTEM**

The 2007-2009 medium-term framework for public administration has been developed on the basis of relevant provisions on public governance bodies defined by the Poverty Reduction Strategic Program approved by the Government's Decree No 994-N on August 8, 2003 and the RA MTEF 2006-2008 approved by the Government's Decree No 777-N on June 1, 2005.

#### **6.1 SITUATIONAL OVERVIEW**

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

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

#### ***Structural and Functional Reforms in the Public Administration System***

Definite improvement was recorded during implementation of reforms in public administration system for the recent years, which was especially visible in the areas of administrative reconstruction and introducing of civil service.

Reforms in the field of public administration system and the process of reorganization of certain public governance bodies began since 2002 and continues till now based on the RA Law "On Public Administrative Institutions" and the RA Law "On Public Non-Commercial Organizations" and other legislative acts. Currently, policy development, monitoring and coordination functions in respective areas belong to ministries, while the authority to provide services and make revisions was passed to their agencies and departments, which resulted in liquidation of a substantial number of duplicated functions.

Reforms in judicial system are emphasized within the scope of public administration system reforms. The processes of strengthening of the judicial system and improvement of judicial record keeping, enhancement of professional knowledge of judges and participants of justice administration process, and improvement of legislation will continue over the medium term period. A number of provisions regarding the Court of Cassation, Council of Justice and Constitutional Court are already reedited in the newly adopted RA Constitution, which determine the scope of competences of these bodies. Implementation of reforms in the system of civil service also took place.

#### ***Introduction of Civil Service***

The process of introduction of the civil service system was implemented based on the Law "On Civil Service" and a number of related sub-legislative acts. As a result of reforms, civil servants are differentiated from persons, who hold political, conceptual and civil positions, and from those, who provide technical services. Equal terms have been determined for engagement into and dismissal from civil service, opportunities for professional career, stability and publicity of civil service have been assured. More accurate definitions have been developed for job descriptions of each group of positions in civil service, for the limits of civil officials' responsibilities, and for the remuneration of civil servants during this period. In this area the process of reforms and system enhancement still continues. It is

worth mentioning the attraction of highly skilled professionals in civil service system and development of system and abilities ensuring the utilization of continuous procedures of professional career. Reforms in civil service remuneration system are anticipated to attract highly skilled professionals to agencies with civil service system. In this regard it is necessary to introduce the system of assessment of the civil servant's work. It is planned to replace the current civil servants remuneration system with a new promotion system in the near future, and to encourage civil servants based on assessment of executed work.

**Improvement of the financial administration system** has been aimed at enhancing budget administration efficiency and, in the medium run, 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 on the Government's medium-term strategy, containing the interpretation of the main directions of macroeconomic, monetary, fiscal, and public investment policies. Therefore, ensuring the utmost incorporation of the Government's policies and activities in the medium-term expenditure framework would make their implementation more realistic. On the other hand, for assuring the ongoing and uninterrupted nature of this process, the MTEF has been integrated into the budgeting process, which has also been fixed legally in the Law "On the Budgetary System of the Republic of Armenia".

(ii) Enhancing the transparency of the whole budgeting process: this objective will be attained through enhancing the accessibility of the MTEF-s approved by the Government in the coming years, thus creating prerequisites for the 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 cash and non-cash public financial flows, including extra-budgetary resources and operations related with external financing. In this respect, the Government endeavors to possibly downsize the extra-budgetary turnover based on the available information, taking into consideration peculiarities of targeted usage of the received financial resources.

(iv) Strengthening supervision during budget execution: the responsibility of the ministries and departments should be increased in this area, in terms of their appropriate execution of and timely reporting on the allocated budgets. In this respect, the role and weight of the Control Chamber of the National Assembly will be enhanced, which is also an important element of the anti-corruption policy. One of the components of the Public Sector Modernization Project is strengthening the Control Chamber, to the end of improving the efficiency of supervisory activities.

(v) Improving budget predictability: importance is attached not only to the budget linkages with the medium-term expenditure framework, but also to assuring complete actual execution of all target indicators of the budget, as well as to the preparation of the legislative and methodological base for switching to program budgeting; presently, works are implemented to this effect.

(vi) The budget should be clear and accessible, available for all users, which will enable wide sections of the society to monitor its execution. This objective will be attained by improving the ways of presenting the draft State Budget and the programs to the National Assembly and to wide sections of the society, in accordance with the developments of the process for switching to program budgeting; in this regard, targeted works have been implemented by the Government.

## **6.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### **6.2.1 Objectives**

The main objective of expenditure in the public administration system is creating prerequisites for the provision of more accessible, qualified and equitable services to the society by public servants. Among these prerequisites are ensuring financial and legal protection of public servants, as well as introducing procedures for their regular mandatory training and attestation, and providing technical re-equipment of public administration bodies.

### **6.2.2 Priorities**

Increasing wages of public servants is the basic way for successful implementation of reforms in the public administration and judicial systems, and is one of the main directions for fighting corruption in these sectors.

Equipping administrative bodies, so that all staff has access to up-to-date technical and communication facilities, is seen among the keys for enhancing the efficiency of the public administration system.

### **6.2.3 Expenditure drivers**

The following drivers will influence on the structure and volume of expenditure in the public administration system over 2007-2009:

- (i) Increasing the official wage rates of persons holding political, conceptual and civil positions, as well as officials of judicial system, official base wage rate of civil servants (as compared with the 30.0 thousand drams in 2006, 35.5 thousand drams for 2007, 35.5 thousand drams for 2008, and 40.0 thousand drams for 2009), official base wage rate of court decision enforcement officers (as compared with the 35.0 thousand drams determined for 2006, 42.0 thousand drams for 2007, 42,0 thousand drams for 2008, and 47.0 thousand drams for 2009), and increasing the wages of persons hired for civil works and those providing technical services (for 20 percent in 2007 and another 20 percent in 2009);
- (ii) Ensuring realization of the requirements of the Law "On Remuneration of Civil Servants"; the Law "On the Status of a Judge"; the Law "On the Prosecutor's Office"; the Law "On the Tax Service"; the Law "On the Customs Service"; and the Law "On the Service of Court Decision Enforcement";
- (iii) Providing necessary resources for the procurement of goods, services and works to enable the ordinary operation of public governance bodies, as well as for their technical re-equipment;
- (iv) Provision of maintenance expenses in connectiuon with establishment of a new embassy within the system of the RA Ministry of Foreign Affairs;
- (v) Increasing of the reimbursement rate for business trip expenditures and communication expenses of public governance bodies in accordance with the RA Government decree № 2335-N "On Defining the Minimal and Maximal Rates of Reimbursement to be Paid to Employees for Business Trip Expenditures and the Procedure of Payment", dated December 29, 2005 and the Order of the RA Minister of Transportation and Communication № 404-N "On Confirming the Tariffs", dated December 7, 2005, as well as increasing of the expenditures on postal services based on payment orders made by the RA Courts according to the provisions of the RA law "On Making Amendments and Additions to the RA Civil Procedural Code";

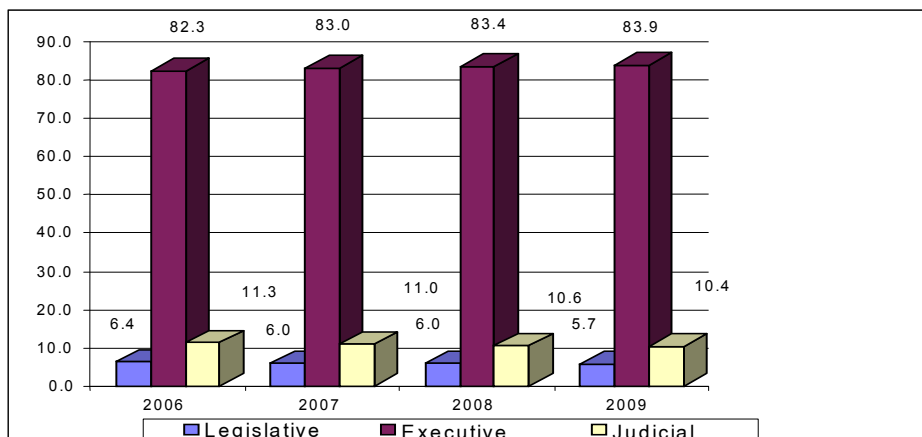
(vi) Provision of additional resources as a result of increase in public utilities (gas and water) tariffs;

### 6.3 EXISTING EXPENDITURE COMMITMENTS

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

The allocation of expenditures in public administration bodies in 2007-2009 by legislative, judicial, and executive authorities is presented in the chart below.

**Chart 6.3.1 Allocation of Expenditure in Public Administration Bodies in 2007-2009, by Governance Bodies (Percent of Total)**



Expenditure, as compared with the respective previous year, will increase by 3.3 billion drams in 2007, 0.9 billion drams in 2008, and 3.9 billion drams in 2009.

The growth in the (nominal) expenditure will be accompanied with the alteration of its share in GDP. Thus, as compared with the planned level for 2006 (1.47 percent of GDP), the State Budget expenditure in public administration over the MTEF 2007-2009 period will comprise 1.44 percent, 1.35 percent, and 1.36 percent, respectively.

The share of this expenditure within the total public expenditure will also change. In comparison with the budgeted level for 2006 (7.3 percent), the share of public administration expenditure within total public expenditure is forecast to be 7.4 percent in 2007, 6.7 percent in 2008, and 7.2 percent in 2009.

In terms of economic classification, current expenditure will comprise the largest portion of public administration expenditure, amounting to 99.1 percent of the total expenditure in that sector over 2007-2009. Wages and mandatory social payments represent the largest portion of current expenditure (67.4 percent).

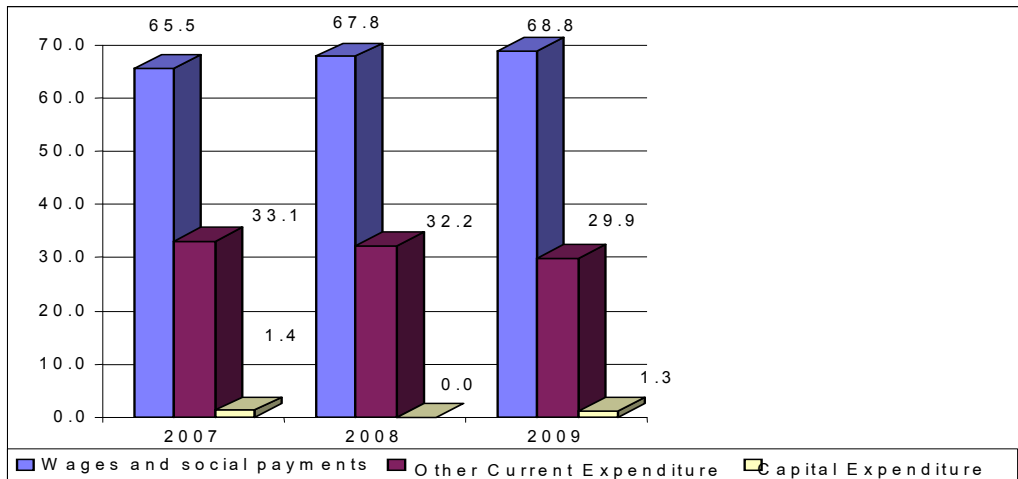
The wage fund (with mandatory social payments) in 2007 will increase by 3.3 billion drams, as compared with its 2006 level. This is conditioned by the increase of the official wage rates for persons holding political, conceptual and civil positions, as well as of officials of judicial system since July 1, 2007, increase of the official base wage rate of civil servants determined to be 35.5 thousand drams for 2007 (the State Budget 2006 base wage rate is 30.0 thousand drams), and the regular increase of wages of civil servants pursuant to the requirements of the Law "On Remuneration of Civil Servants"; the regular increase of wages for tax and customs servants- pursuant to the Law "On the Tax Service" and the Law "On the Customs Service"; the regular increase of wages for court decision enforcement officers- pursuant to the Law "On the Service of Court Decision Enforcement", as well as

increase of their official base wage rates determined to be 42.0 thousand drams for 2007 (the State Budget 2006 base wage rate is 35.0 thousand drams); the increase of additional payments accounted as to the official wage rates of judges and prosecutors pursuant to the Law "On the Status of a Judge" and the Law "On the Prosecutor's Office"; as well as the increase in the wages of employees hired for civil works and those providing technical services for 20 percent.

The wage fund (with mandatory social payments) in 2008 will increase by 1.5 billion drams, as compared with its 2007 level. This is conditioned by the regular wage increase of civil servants pursuant to the Law "On Remuneration of Civil Servants" (base wage rate will be 35.5 thousand drams – equal to 2007 rate); the regular wage increase of tax and customs servants pursuant to the Law "On the Tax Service" and the Law "On the Customs Service"; the regular wage increase of court decision enforcement officers (base wage rate will be 42.0 thousand drams – equal to 2007 rate) pursuant to the Law "On the Service of Court Decision Enforcement"; the increase in the additional payments accounted as to the official wage rate of judges and prosecutors pursuant to the Law "On the Status of a Judge" and the Law "On the Prosecutor's Office"; as well as by calculating the base wage rates, which were stated for the persons holding political, conceptual and civil positions, as well as officials of the judicial system since July 1 of the previous year, on an annual basis.

The wage fund (with mandatory social payments) in 2009 will increase by 3.1 billion drams, as compared with its 2008 level. This is conditioned by the increase in the official base wage rate of civil servants determined to be 40.0 thousand drams for 2009 (for the State Budget 2008, the base wage rate is envisaged at 35.5 thousand drams) and the regular wage increase of civil servants pursuant to the Law "On Remuneration of Civil Servants"; the regular wage increase of tax and customs servants pursuant to the Law "On the Tax Service" and the Law "On the Customs Service"; the regular wage increase of court decision enforcement officers pursuant to the Law "On the Service of Court Decision Enforcement" and the increase in the official base wage rate determined to be 47.0 thousand drams for 2009 (for the State Budget 2008, the base wage rate is 42.0 thousand drams); the increase in the additional payments accounted as to the official wage rate of judges and prosecutors pursuant to the Law "On the Status of a Judge" and the Law "On the Prosecutor's Office"; as well as the increase in the wages of persons hired for civil works and those providing technical services for 20 percent.

**Chart 6.3.2 Distribution of Maintenance Expenses for Public Administration Bodies in 2007-2009, by Consolidated Groups of Economic Classification Articles (Percent)**



**Error!**

356.7 million drams are envisaged for holding the RA National Assembly Deputies elections in 2007.

371.9 million drams are envisaged for holding the RA Presidential elections and 329.5 million drams- for local self-governance bodies elections in 2008.

## CHAPTER 7. EDUCATION AND SCIENCE

### 7.1 EDUCATION

This section has been developed on the basis of the respective provisions of the Poverty Reduction Strategic Program, the MTEF 2006-2008 forecasts for 2007 and 2008, the Republic of Armenia laws and Government's decrees relevant to the educational sector, and the expenditure peculiarities deriving thereof.

#### 7.1.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS

The maintenance and development of the educational system, along with ensuring its competitiveness in the international arena, still are being considered issues of public and national importance in Armenia. Ensuring the proper quality of education and enhancing its accessibility is a key driver for attaining medium and long-term economic growth, as well as for mitigating poverty and inequality, which is also stated by the Poverty Reduction Strategic Program.

Further development of the educational system has been recognized by the Government as a priority for the country's economic advancement.

Over the recent years, certain positive trends have been observed with regard to the public spending in education. Thus, budgetary allocation for the educational sector (including additional education allocations), as a percentage share of GDP, increased from 2.33 percent in 2004 to 2.53 percent in 2005 and 3.23 percent in 2006 (see Table 7.1).

**Table 7.1 Public Expenditure over 2003-2006 in General and Vocational Education Programs as Percent of GDP**

Indicator	2003	2004	2005	2006
<b>Total education</b>	<b>1.96</b>	<b>2.33</b>	<b>2.53</b>	<b>3.23</b>
Including				
General education programs	1.54	1.95	2.13	2.75
Vocational education programs	0.37	0.33	0.31	0.36

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

#### **General Education**

In 2006, 1,417 general education schools are operating throughout the country. The number of students of general education schools is 475,499, as compared with 488,786 students observed in 2005. The number of classes in 2006 is 21,542, as compared with 22,043 in 2005. This number includes the increase of 634 classes due to creation of 1<sup>st</sup> classes for 2 age groups (for 6 and 6.5-7 years old) within the scope of switching to 12-year study scheme since 2006/2007 academic year.

Actions taken by the Government over the last years (decentralization of the general education administration, increased self-governance of educational institutions, switching to the system of financing based on the number of students, enhanced efficiency of the workforce usage) are aimed at reforming the administration and the contents of the system, enhancing the efficiency and the quality of general education. Efficiency of budgetary allocations utilization has been improved due to the optimization of schools and increased weekly workload of teachers.

Over 2005-2006 a number of actions were taken for reforming the system, particularly:

- In accordance with the Government's Decree No 444, dated April 25, 2002, and in order to ensure efficient and purposeful utilization of budgetary resources, the process of switching to the new form of financing of general education schools and their administration through school boards was completed in 2005. The new method of calculating school financing, by a formula based on the number of students, will not apply to the general education schools included in the list approved by the Government's Decree No 773, dated August 25, 2001; financing of these schools will be provided irrespective of the number of students and will be determined by the number of integrated classes.

- While considering improvement of teachers' wages as a priority in the education sector, the Government conducts a consistent policy of increasing wages, seeing it as the basic way for enhancing the quality of education. Particularly, the average monthly wages of teachers were increased by 65.3 percent in 2005 and by 16.1 percent in 2006, up to around 58.3 thousand drams, which is equal to the per capita GDP in the country.

- Wages of the school principals and their deputies were increased by 65.3 percent in 2005 and by 16.1 percent in 2006, up to 60.1 thousand drams. At the same time, wages of the teaching/educational and service personnel of general education institutions were also increased, up to 21.2 thousand drams in 2006.

- In order to improve school heating, additional allocations were envisaged for fuel and heating purposes over 2005-2006 due to exploitation of new boiler-houses and increase in fuel price (in 2006 calculations 1 litre fuel price was 320 drams, as compared to 200 drams in 2005).

- Over 2005-2006 resources were allocated for the pedagogic personnel completion in public general education institutions in remote, next-to-frontier, mountainous, and high-mountainous regions, for ensuring the maintenance of computer equipment and provision with internet connection at schools.

- Pupils of elementary schools were provided with free textbooks and pupils of inner Diaspora schools were provided with textbooks as before.

- Substantial and structural reforms in education sector resulted in need to continuously retrain the pedagogic personnel and improve their professional qualities. In this regard annual retraining of 20 percent of the pedagogic personnel is anticipated, while ensuring 5-year retraining cycle. The Ministry of Education and Science organizes trainings for Armenian Diaspora teachers as well.

- Substantial allocations were envisaged in 2006 for development and printing of educational programs ensuring the transition to 12-year study scheme, publication of methodological manuals for teachers, and development of programs for special auxiliary schools.

- For the operation of the school heating systems and for the creation of proper building conditions over 2005-2006 sizable budget resources were envisaged for allocation to capital renovation and capital construction of educational institutions. At the same time, under the proceeds of the second Armenian Social Investment Fund Project, the renovation of school premises, construction of school boiler houses, as well as provision of schools with school desks continues in a number of communities.

- The standards used for calculating the nutrition needs of boarding and special schools' students were increased by 20 percent in 2005 and by 30 percent in 2006, constituting 783 drams for overnight students and 472 drams for the visiting ones.



- Allocations to office supplies, other expenses, communication services, public utilities and other services were doubled in 2006.

A number of actions were taken to enhance the indicators of educational efficiency, particularly:

- The level of student/teacher FTE and student/non-teacher ratios in general education schools increased, comprising 13.89 and 21.63 in 2005, as compared with 13.1 and 19.7 in 2004, and in 2006 this indicators will comprise 13.8 and 22.73, respectively.

- The level of the teaching load reached to 22 hours in 2005, as compared with 20 hours in 2004 (for comparison, in the OECD countries the teaching load is 38 hours per week, while in the public sector of Armenia employees work an average of 40 hours per week).

- The students per class density comprised 22.2 in 2004, 22.3 in 2005, and will comprise 22.2 in 2006 due to switching to 12-year study scheme in 2006/2007 (according to the State Criteria for Secondary Education, class density should be 25-30 students (20-25 students in high school)).

One of the present challenges in general education is enhancing its quality and bringing it into compliance with the modern requirements. In order to solve this problem, with financing of Education Quality and Relevance Project renewal of the contents of general education was started since 2004. Particularly, the General Education Procedure was approved, which determines the volume of pupils' knowledge, abilities, and skills and the value system that should be formed in general education schools and is aimed at continuously enhancing of the education quality, bringing the education into compliance with international education standards, ensuring the unified policy in education sector, continuously enhancing the pedagogical methods, developing and improving valuation standards, principles, and mechanisms, etc.

The «Rules for Defining and Approving the State Educational Criteria for General Education» and the «State Criteria for Secondary Education» were approved by the Government. New criteria and educational program procedures for Armenian language, literature, mathematics, and informatics were developed; development of new criteria for educational programs for natural and social sciences is underway.

The approval of the Student Assessment Concept is aimed to the creation of new assessment system. The Concept stipulates for introducing a new assessment system aimed at reforming the process of assessing both current advancement and final outcomes – knowledge, abilities, and skills – of the students in the general education system.

Unified examination tests samples and the new procedures for conducting School graduation and HEI admission examinations were developed and piloted in Shirak region. Development of current and formative evaluation methodology for pupils and current evaluation tests for educational subjects is underway.

167 schools were provided with computer equipment during 2005. Provision of another 375 schools with computer equipment is underway.

Within the frameworks of credit projects 52 school-centers from all regions were selected, and repair works in the classes for teachers' retraining are finished. The school-centers will be provided with necessary computer equipment and supplies during 2006. Retraining of teachers on computer teaching methods and computer literacy began in 2005. About 2500 teachers were retrained during 2005. The process of training of teachers with the purpose of introduction of the new educational procedures and the new evaluation system has already begun.

The second phase of school principals retraining began in 2005 according to the new phase of reforms and with modules including general directions. Around 515 principals were retrained during 2005.

Social support programs for assisting redundant teachers due to the optimization of general education continue. 2751 redundant teachers were registered in Regional Employment Center in 2005, of which 829 teachers received additional payments, 43 teachers received relocation grants, and 490 teachers wished to get involved in professional training projects.

Launching of Education Management Information System (EMIS) and its enhancement continue in the frameworks of credit projects.

The Armenia-Diaspora educational relations have been given a new meaning and put on a new bases over the last three years, to which the second Armenia-Diaspora Conference in 2002 and the first Pan-Armenian Educational Conference in 2004 (to be continued in 2006) contributed sufficiently.

Over 2005-2006, admission of 70 Diaspora Armenian students annually to the tuition-free system of higher education has continued.

When developing and implementing programs of cooperation with Diaspora, special emphasis has been put on the following main challenges:

- Formation of a single national educational framework common for all Armenians from different parts of the world and pursuing the same objectives;
- Enhancing the mechanisms for self-preservation of the Diaspora;
- Intensification of Armenia-Diaspora relations at all educational levels (including organization of All-Armenian activities).

Emphasizing the problems of education, ordinary development and social integration of children with specific educational needs, the Government also creates necessary conditions for them to correct their development anomalies and to ensure their social integration. Government strategy in this area is directed to improving the quality of education and care for children in special institutions on the one hand, and to forming alternative services, on the other, which will allow to reduce the burden of special schools.

In 2005, the Law "On Education of Persons Who Need Special Conditions of Education" was adopted, and the Government approved the "Inclusive Education Concept". The main goal of this concept is to determine the fundamentals for organizing the education of children with specific educational needs in general education schools and for the reforms in special education system.

**Extracurricular education**, as the primary unit for educating the growing generation, is aimed to fulfilling children's preferences and additional education needs.

The number of children enrolled in these programs increases gradually; both public funding and resources from provision of paid services are used to this end.

Currently 53 extracurricular institutions (sport schools, creative, technical/crafts, environmental, artistic centers for children and youth) are functioning in educational system of Armenia, where around 26108 pupils are attending.

Games (sports competitions) regularly organized in different kinds of sports over the recent years enhance pupils' physical abilities, promote their healthy life-style.

**The pre-school education** development is directed to the modernization of the system and establishment of development preconditions, as defined in the "State Program on Education Development". Particularly, improvement of legislation and the management system,

development of professional skills of the personnel, improvement of material, technical and educational basis, enhancement of accessibility and extensiveness of services are considered priorities to that end.

The Law "On Pre-School Education" was adopted within the framework of pre-school education system reforms and development. The aim of the law is to regulate legal, organizational and financial basis for operation and development of pre-school education system. Through application of the law, the authorities of public, territorial and local governance bodies in the field of pre-school education will be clarified.

### ***Vocational Education***

Over the coming years, development of higher vocational education is conditioned by the regulations of the Law "On Higher and Post-Graduate Vocational Education", as well as by integration of the Armenian higher education system into the Bologna Process.

A number of actions has been undertaken to ensure the integration of Armenian higher education to European unified education system. Particularly, the Fund for "National Information Center for Mutual Academic Recognition and Mobility" was established in 2005 to achieve the recognition of Armenia's higher and post-graduate education qualification degrees and diplomas in European and other foreign countries and to ensure Armenia's participation in ENIC/NARIC network.

In accordance with the Law "On Higher and Post-Graduate Vocational Education", since the academic year of 2004/2005 training in the state higher education institutions is implemented through a two-grade system (bachelorship and magistracy).

A number of legislative acts ensuring the application of the Law "On Higher and Post-Graduate Vocational Education" were developed and approved, including:

- "On Approving the Order of Provision of Benefits to Students in the Higher Education Institutions of the Republic of Armenia";
- "On Approving the Order of State Scholarship Provision to Students in the Higher Education Institutions of the Republic of Armenia";
- "On Introduction of Credit System in the Higher Education System of the Republic of Armenia", according to which the credit system will be partially tested in 6 public higher education institutions since the second half of 2005/2006 academic year;
- "On Approving the Order of Councils Formation in Public Higher Education Institution of the Republic of Armenia", according to which the councils are already composed and chairmen elected in public higher education institutions. Currently the election of higher education institutions' presidents is underway.

Works for developing and approving the criteria for professions introduced in HEI-s are completed. The analysis of the list of professions, currently offered at higher vocational education institutions, is being conducted in terms of both consolidating specialities and checking their consistency with the requirements of the labor market. A number of new modern professions have been introduced in the HEI-s throughout the country, thus creating basis for developing the priority directions.

Presently, higher vocational education is implemented in public HEI-s, on paid and free basis, and in private HEI-s, on paid basis. Professionals with higher education are being trained in 19 public HEI-s and in their 10 branches. The HEI-s train specialists in around 220 professions through stationary (full-time) and by correspondence forms of education, on paid and free basis.

Currently, 58.8 thousand students are enrolled in public HEI-s, of which around 38.0 thousands study in the paid system; some 22.8 thousand students are enrolled in 65 private HEI-s. Among private HEI-s, 30 are fully accredited, and another 3 are accredited for certain professions.

Since 2006, post-graduate students' scholarship is defined at 10.0 thousands drams monthly and scholarship of post-graduate students in Armenian-related disciplines is defined at 15.0 thousands drams monthly.

Maintenance and development of the **initial and secondary vocational education** system and its bringing into compliance with the country's social-economic development projects and priorities is implemented based on provisions of the Law "On Initial Vocational (Technical) and Secondary Vocational Education" and the "Strategy for Initial (Technical) and Secondary Vocational Education and Teaching in the Republic of Armenia", approved by the Government, where the strategic tasks of the reforms in the field of initial and secondary vocational education and teaching (VET) are defined, as follows:

- Establishing an open and democratic system;
- Ensuring regularity of education;
- Improving the quality of provided educational services,
- Ensuring skills per individual abilities, in accordance with the existing demands in the economy and the labor market;
- Improving expenditure efficiency;
- Incorporating various ways of VET into a single legislative framework;
- Rationalizing management and administration of vocational education institutions;
- Integrating into the international developments in the field of education.

**Secondary vocational** education is implemented through secondary vocational education institutions – colleges and vocational schools, as well as through a number of HEI-s in the form of separate educational programs. Graduates of secondary vocational education institutions having passed the graduation attestation are awarded with a qualification of a junior specialist.

**Initial vocational** (technical) education in Armenia is implemented through initial vocational education institutions – technical schools, and secondary vocational education institutions – colleges. The aim is to train specialists with initial vocational qualification of a skilled craftsman (skilled workers or foremen) on the basis of general education.

Vocational education is implemented on both paid and free basis. Currently, in 74 public secondary vocational education institutions (colleges) and 27 technical schools 6,536 and 4,014 students, respectively, are taught free of charge.

In 2006, the Government confirmed the lists of professions for initial vocational (technical) and secondary vocational education, which include 102 professions in technical/crafts education with about 350 qualifications, and 352 professions of secondary vocational education, of which around 100 are taught currently.

"The Vocational Education and Teaching Modernization Priorities in the Republic of Armenia and the Action Plan for 2005-2008", "The Vocational Education and Teaching Policy and Strategy Development Instruction", and "The Manual for Management of Vocational Education and Teaching Modernization" were developed within the framework of the EU TACIS Project on "Support to the Development of a Unified System of Vocational Education and Teaching in Armenia", being implemented since 2004. Curricula

of professions and subject programs for secondary vocational education are reviewed and approved per educational institutions.

In the field of vocational education substantial resources are envisaged for raising the salaries, for other increased expenses, and for capital renovation of educational institutions, particularly:

- Over 2005-2006, wages in initial vocational (technical) and secondary vocational education institutions, as well as in those secondary vocational education institutions, which provide education on the basis of basic general education, were increased in accordance with the general principles of wage increase in the general education sector. In the rest of secondary vocational education institutions the monthly average wages of pedagogical personnel and administrative staff were calculated to 30.0 thousands drams in 2006.
- The nutrition norm as per student was increased by 20 percent in 2005 and by 30 percent in 2006, which makes 783 drams for overnight students and 472 drams for the visiting ones.
- Substantial allocations were made for fuel and heating purposes due to exploitation of new boiler-houses and increase in fuel price (in 2006 calculation price for 1 litre of fuel was 320 drams, as compared to 200 drams in 2005).

### **7.1.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

#### ***Objectives***

Actions to be taken in the education sector over 2007-2009 directed to the reform of the system, aim to attain the basic indicators provided by the Poverty Reduction Strategic Program in the sector of education. These actions are seen as a basic way for enhancing the quality of education.

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

Over the MTEF period, the reforms aimed at the improvement of the system performance and administration, the efficient and purposeful utilization of budgetary resources to the development of the knowledge, skills, and abilities of the system employees will be continued at national, regional, community, and school level.

As an initial step for integrating into the international system of education, the study scheme will switch to the 12-year study system, starting from the 2006-2007 academic year.

Within the framework of the credit Project on "Education Quality and Relevance", the following actions will be taken towards separate project components:

- Establishment of the general education procedure, the subject syllabi, and the new assessment system, for enhancing the quality of general education through modernizing general education contents and introducing a new, unified system of quality control and assessment.
- Introduction of information and communication technologies (ICT) in the general education system, for applying ICT in the educational process as a modern teaching and training method, thus contributing to the improvement of student advancement.

Over 2007-2009 school computer centres equipped with modern computer technologies will be established in about 600 schools, and about 150 schools will be connected in a network and to the internet. Computerized curricula in Armenian will be developed and used for

teaching the Natural Sciences, Mathematics and Information Sciences, and Foreign Languages.

- Teachers' professional retraining, to improve their pedagogic knowledge and skills.

Over 2007-2009 about 30,000 teachers of main general education subjects will be retrained on application of new subject programs and the new evaluation system, and about 8000 teachers – on application of information technologies.

- General education system management and efficiency improvement, for:
  - Furthering reforms in the general education sector;
  - Enhancing operational efficiency of the general education system and improving the knowledge, skills, and abilities of general education managers at central, regional, community, and school levels.

About 800 principals will be retrained over 2007-2009.

- The Education Management Information System will be expanded and developed.
- Social support programs for assisting redundant teachers due to the optimization of general education will be continued.

It is envisaged also:

a) Subject and methodological retraining of the pedagogic personnel, by 20 percent annually, which implies:

- Retraining of the one fifth part of teachers in general education schools;
- Increase of the volume of methodological materials provided to teachers;
- Ensuring the feedback from retrained teachers' with schools through the Internet;
- Developing and introducing new teaching methods and technologies;

b) Servicing of education in terms of contents and improving the normative framework, which implies:

- Revising and piloting syllabi, programs, criteria, and manuals;
- Developing curricula and manuals for the Diaspora Armenian schools;
- Preparing, piloting, and introducing education outcome assessment materials;
- Developing normative documents regulating the education sector.

c) Arranging for methodological retraining in regions, localization of training materials, servicing of the Diaspora Armenian schools in terms of contents and methodology.

Efforts will be made to facilitate broad participation of communities and parents in the process of management and development of schools.

Currently, the general education system and its integral part - the special education - are in the phase of reforms. Special institutions reforms are implemented in accordance with the RA Laws "On the Rights of a Child", "On Education", and "On Education of Persons Who Need Special Conditions of Education", taking into consideration the problems of teaching, educating, ordinary development and social integration of children who need specific education conditions.

Reform program is based on 2 basic principles: education accessibility and quality. Special education implies creation of equal conditions for children who need specific education conditions and provision of opportunity to get qualified education according to their needs.

Some special schools (11) will be reorganized into general education schools based on the pupil composition and the school capacity. 3 special schools operating under the supervision of the Ministry of Education and Science will enlarge the scope of their activities and will turn into scientific-methodological centers and education-teaching bases. One of the special general education institutions will be reorganized into an evaluation center of education needs of children who need specific education conditions.

Inclusive education system for children who need specific education conditions will be introduced gradually in general education schools (currently this model is piloted in 6 Yerevan based schools); "Inclusive Model Schools Capacity Raising Project" will be implemented. In future, a network of general education schools implementing inclusive education will be created in Armenia.

The MTEF 2007-2009 calculations of expenditure needs for providing educational institutions with appropriate school buildings and resources for their capital renovation are made based on "The Complex Plan for Capital Renovation and Improvement of General Education Schools in the Republic of Armenia", developed by the RA Ministry of Urban Development and approved by the Government's Decree No 593, dated May 20, 2002.

In terms of school supplies, the issue of providing schools with school desks remains as a priority.

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

Over 2007-2009, arrangements for retraining the teachers from the Armenian Diaspora will be extended. The works of supplying Armenian schools in Diaspora with textbooks will continue; a teaching manual of the Armenian Literature for the Diaspora will be compiled.

***In the sector of extracurricular education***, extracurricular system and sports-military sector reforms will be continued in the medium-term period.

Particularly, it is envisaged to:

- develop various types of extracurricular education institutions, improve education content;
- meet the student demand in terms of their interests, and expand the sector of additional services;
- develop criteria, programs, textbooks manuals for teachers;
- supply the education institutions with priority sports gear, as well as supply the initial military training classrooms and armories;
- increase the "Physical training" hours in general education schools (3 hours weekly, instead of current 2 hours);
- implement various artistic, creative, environmental, tourist, technical programs and actions.

During the coming years state resources will be directed to reinforcement of material-technical basis of institutions in this system, thus creating preconditions for future development.

### ***Vocational Education***

Although the secondary vocational and higher education sectors are seen as second-level priorities within the medium-term expenditure framework, the reforms and developments in these sectors in the conditions of institutional changes in economy, are also evaluated in the medium-term expenditure framework.

The main objectives of the public policy in the vocational education sector include assuring compliance with the market economy, improvement of educational quality in line with the international standards, and enhancement of equality and accessibility of education.

The developments in the higher vocational education area in Armenia over the coming years will be conditioned by the provisions of the Law "On Higher and Post-Graduate Education", as well as by the integration of the Armenian higher education system into the Bologna Process.

Taking into account the need to join the European Higher Education Area, the following strategic objectives of higher education reforms are defined:

- Achieve the recognition of Armenia's higher education qualification degrees and diplomas in the EHEA and their comparability with the relevant European higher education qualifications and diplomas;

- Ensure Armenia's participation in ENIC/NARIC network and implementation of the main provisions of the Lisbon convention;

- Bring the Armenian higher education Diploma Supplements into compliance with the European standards;

- Initiate the process of program renewal in public HEI-s, in order to develop curricula and syllabi in compliance with the European standards;

- Establish a national office (information center) for recognition of foreign higher education qualifications;

- Introduce a unified credit accumulation and transfer system in Armenian HEI-s, compatible with the European Credit Transfer System (ECTS) (according to the Government decree on "Introducing Credit System in Armenian Higher Education System", the introducing process of education organization credit system in Armenian HEI-s will begin in 2006/2007 academic year, and schedule by HEI-s, education programs and professions will be developed for the gradual transition to credit system);

- Formulate the requirements to the higher education qualification degrees in the form of ECTS units, compile the necessary informational package and methodological materials;

- Draft the necessary package of amendments to legislation relating education, in order to create favorable conditions for Armenian students to freely make inter-institutional transitions and for their international mobility;

- Develop actions for broad participation of Armenian students in European programs aimed at student mobility;

- Join European cooperation programs in the sphere of higher education quality valuation and accreditation;

- Bring the present accreditation criteria and mechanisms into compliance with the European standards established under the European accreditation platform;

- Regulate the terms for the admission to master degree programs in public HEI-s and for the conferment of the master degree;

- Develop cooperation with the European Network for Quality Assessment (ENQA); establish basis for membership in the network in the future;

Presently, the principles and mechanisms of higher education financing need reformation. In 2005 the Government approved the order of benefits provision to students in the higher education institutions of the Republic of Armenia and of public scholarship provision to students in the higher education institutions of the Republic of Armenia. By providing



student benefits, the Government completely or partially compensates the tuition fees of persons defined by the law (students), socially vulnerable students, students admitted for targeted study in certain professions, which are of increased importance and priority for the Government, and students with highest marks of admission examinations. Public scholarship will be provided to students based on the study results and social activeness.

The issue of facilitating the entrance of socially vulnerable groups into the higher education system is to be solved through the establishment of structures extending student loans. The idea of student loans and benefits has already been stated in the Law "On Higher and Post-Graduate Education" and in the "Higher Education Strategy". This problem should be solved gradually.

The main objectives in the sphere of initial and secondary vocational education must be the training of junior specialists and technicians/craftsman in accordance with the state educational criteria, for various areas of the social life, directed at meeting the demand in the market, to support the needs of an individual in terms of vocational education, mental and physical development.

Through the establishment of a democratic and efficient system of initial and secondary vocational education, it is expected to:

- Ensure the training of first-class specialists, the efficiency of the system for realization of their abilities and skills, by means of elaborating vocational education criteria, developing and introducing a proper legislative and normative framework;
- Ensure market competitiveness, through introducing new professions, providing the material/technical and training/methodological base for them, retraining and re-qualification of lecturers and administrative staff;
- Ensure the possibility to success during the whole life period for everyone, based on compliance of the students individual abilities with the demands of economy and labor market, through development and introduction of respective legislation.

The expectation is to have:

- An open and democratic system of initial and secondary vocational education;
- A rational system of educational institutions;
- Vocational education and training based on the labor market requirements; high quality of provided educational services;
- Higher efficiency of expenditure, social partnership;
- Transparent organization of the educational process;
- Integration with the international developments in education;
- The possibility of study and regular education during the whole life ensured.

The Government will also emphasize additional education and retraining programs, in order to mitigate the gap between labor force potential (supply) and labor market demand. To solve this problem the Government approved "The Concept and Strategy for Adults' Education" in 2006, according to which the strategy of adults education should aim to ensure and enhance vocational education for citizens regardless of their age, to develop new educational and retraining materials, contribute to introduction of new teaching methods, enhance the efficiency of vocational education and relations with labor market.

**Priorities**

Development of the educational sector is among the basic priorities of economic development identified by the Government; therefore the priority of education will be maintained over the whole period of the MTEF 2007-2009.

**General Education**

As stated in the Poverty Reduction Strategic Program, elementary, basic, and secondary general education is a basic priority in education, in terms of improvement of the quality and efficiency of services provided in this sector.

Priority of general education determined by the previous MTEF-s is preserved in the MTEF 2007-2009.

The main priorities of general education sector are still as follows:

- Content reform of education, improvement of legislation;
- Wage raise;
- Retraining of teaching personnel, methodological services;
- Retraining in regions;
- Development and introduction of materials and normative documents ensuring the transition to 12-year study scheme and from general to vocational education.

In spite of actions by Government aimed at improvement of buildings conditions, regular activities of providing education institutions with buildings, repairing, maintenance and utilization of premises, replenishment of public utilities' and education-material bases, organization of heating through boiler houses are still prioritized.

**Special education system**, which is the integral part of general education, is still prioritized in general education sector. Special education system reforms strategy is based on the following basic theses:

- children who need specific education conditions have equal rights to choose among the general education institutions and learn mandatory public education programs;
- children who need specific education conditions have the right for special pedagogical, healthcare, psychological, social and other services, regardless of chosen education institution type;
- for comprehensive natural/ordinary development of children it is preferable to organize education so that they are not separated from their families and the society.

According to the RA Constitution and legislation, including the Law "On Education" and Law "On Education of Persons Who Need Special Conditions of Education", parents of children who need specific education conditions have the right to choose the type of school—general or special. It is preferable to organize the education of children in general education schools based on children's socialization problems. On the other hand, it is necessary to have stable special education system (which will develop and offer education programs and methods for a concrete child) in general education schools to organize the education of children who need specific education conditions.

With regard to the above-mentioned factors, *general education* is again identified as the key public priority in education over the coming years, consuming the largest share of budgetary allocations to the sector (see: Table 7.2).

The issue of providing Armenian schools in the Diaspora with textbooks requires special attention. It appears to be among the central directions of the Armenia-Diaspora policy. The

Diaspora itself attaches much importance to the issue of providing Armenian schools abroad with textbooks, considering it as a basic means for the survival of educational units, for the formation of national self-consciousness of the growing generation, and for their attitude towards the Armenian nationality.

### ***Vocational Education***

Although most part of expenditure in education within the MTEF period will be channeled to general education, nevertheless, improving the quality of vocational and retraining programs and bringing them into line with the country's socio-economic development objectives will also be of fundamental importance, in the conditions of institutional reformations in the economy. Particularly, reforming problems of secondary education, higher and additional education programs are prioritized in the framework of the MTEF, which will allow retraining, according to labor market needs, envisaging special mechanisms to include and retrain the unemployed.

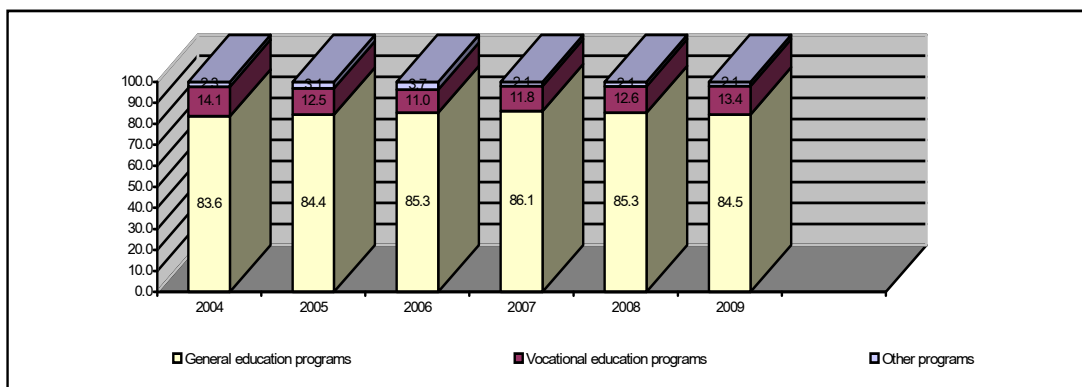
In view of the exceptional importance of the vocational education system for the future efficient development of the country, comprehensive reformation of that system becomes highly significant and urgent.

The following priorities for the system development medium-term program were determined, while emphasizing the role of the vocational education and training (VET) role:

- Introduction of criteria of vocational education and teaching, based on personal abilities;
- Renovation of quality monitoring mechanisms;
- Creation of technical assistance and quality ensuring infrastructure;
- Improving expenditure efficiency and education results;
- Development of national capacities for modernization and monitoring of vocational education.

The structure of expenditure in general and vocational education programs, by different levels of education, is presented in Chart 7.1.

**Chart 7.1 Public Expenditure in Education over 2004-2009, by Levels of Education (Percent of Total Expenditure in Sector)**



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

**Table 7.2 Public Expenditure in Education over 2006-2009, as per MTEF 2006-2008 and MTEF 2007-2009 (Million Drams)**

Functional Classification Subgroup	2006		2007		2008		2009
	Adopted Budget	MTEF 2006-08	MTEF 2006-08	MTEF 2007-09	MTEF 2006-08	MTEF 2007-09	MTEF 2007-09
TOTAL EDUCATION	77477.4	65975.9	75293.9	81081.8	90447.9	85636.9	90818.9
Including							
Maintenance of executive authorities, republican and territorial units of public administration	396.2	269.4	303.4	433.9	353.2	48.8	502.3
Elementary, basic, and secondary general education	61737.3	52927.7	61676.1	64868.0	76177.0	67719.1	71168.1
Special general education	4335.0	4187.9	4423.9	4981.8	4833.8	5301.0	5574.5
Extracurricular training	2477.1	884.0	884.0	1259.1	884.0	1326.3	1449.2
Initial vocational (technical) education	1014.5	986.7	1261.0	1435.2	1405.8	1829.3	2204.3
Secondary vocational education	1827.6	1567.7	1592.7	2142.5	1640.1	2464.5	2794.6
Higher and post-graduate vocational education	5302.4	4572.8	4562.5	5538.2	4557.5	6110.2	6645.9
Additional education	387.3	579.7	590.3	423.1	596.5	437.7	480.1

Although both the MTEF 2006-2008 and the MTEF 2007-2009 stipulate for general education as the basic priority in the education sector, and the main expenditure items remain unchanged in both of them, the expenditure planned for 2007, both as to MTEF 2006-2008 and the MTEF 2007-2009, has increased reflecting:

- The effort to increase teacher wages up to the per capita annual GDP; instead of the MTEF 2006-2008 projection for increasing this indicator by 9.2 percent in 2007, the MTEF 2007-2009 has forecast it to increase by 19.57 percent in 2007 (the same principle of increasing wages has been applied to the administrative staff as well);
- In MTEF 2007-2009 wages of extracurricular, secondary vocational, higher and post-graduate, additional education institutions personnel were raised, at the same time ensuring the rates for minimal wages over 2007-2009 constituting 20.0 thousand drams, 25.0 thousand drams, and 30.0 thousands drams, respectively;
- Additional allocations were envisaged in relation with switching to 12 year study scheme from the 2006-2007 academic year;
- Additional allocations were envisaged over 2007-2009 in relation with increase of free education places in initial vocational (technical) education institutions by 1000;
- Sizable allocations were envisaged for food (the calculation norm for meeting nutrition needs will be increased by 20 percent in 2007), public utilities (as a result of increased tariffs), business trips, organization of heating with own boiler houses, capital renovation of educational institutions, etc.

### ***Expenditure Drivers***

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

The increase of expenditure in education over the MTEF 2007-2009 will be mainly directed to general education, to enable attaining the basic targets stipulated by the Poverty Reduction Strategic Program, meeting the Government's commitments, improving the efficiency of the system, as well as furthering the actions aimed at the improvement of the system efficiency and rationalization of the general education sector.

Particularly, over 2007-2009 it is envisaged to:

- Increase the average monthly teacher wages by 19.57 percent in 2007, up to around 69.7 thousand drams (as compared with 58.3 thousand drams in 2006), by 9.18 percent in 2008 and 8.67 percent in 2009, up to 76.0 thousand drams in 2008 and 82.5 thousand drams in 2009.
- Increase average monthly wages of the administrative staff by 19.57 percent in 2007 up to 71.8 thousand drams, as compared with 60.1 thousand drams in 2006, whereas in 2008 and 2009 it will be 1.5 times higher than the average monthly wages of pedagogues in 2008 and 2009, amounting to 115.3 and 125.3 thousand drams, respectively. Teaching-support and technical-support staff will have an increase of the average monthly wages over 2007-2009 by 9.18 percent, up to 25.0 thousand drams in 2008 and 30.0 thousand drams (equal to minimal wage in Armenia) in 2009.
- Starting from the 2006/2007 academic year annual increase by 634 classes over 2007-2009 is anticipated due to transition to 12-year study scheme with 1<sup>st</sup> classes for 2 age groups (for 6 and 6.5-7 years old) beginning from September, 2006.
- Provide additional 161.3 million drams annually to the general education schools, where the teacher workload is less than 1 FTE units for an average of 8 subjects, to finance mandatory social insurance payments.
- Provide resources for the development of training manuals, programs, and criteria, connected with switching to the 12-year study scheme.
- Provide pupils of elementary classes with free text-books.
- Provide financing for the development and publication of programs, textbooks, manuals, and other teaching material for special schools. For this purpose, the planned allocation over 2007-2009 is 90.0 million drams annually.
- Provide financing for Internet connection and maintenance of computer equipment at schools (304.3 million drams annually). Maintenance of computer equipment in general education schools will be provided for 330 schools, and 480 schools will be connected to Internet.
- Continue completing of pedagogic personnel in regions to fill up the need for teachers in remote, next-to-frontier, mountainous, and high-mountainous settlements' general education institutions.
- Increase by 20 percent the calculation norm for meeting nutrition needs of students of special schools over 2007-2009, which will make 940 drams for overnight students and 566 drams for the visiting ones, as compared with their 2006 levels at 783 drams and 472 drams.
- Double the allocations for business trips, make additional allocations for public utilities (as a result of increase in tariffs).
- Provide financing for capital renovation of school buildings.
- Further the introduction of the independent heating system through own boiler houses (in accordance with the Government's Decree No 593 dated May 20, 2002), and provide with additional financing for fuel and heating expenses, as necessitated by arranging school heating through own boiler houses.
- Provide schools with school assets.

In order to address the above-mentioned problems, there is a need to further and extend reforms aimed at the rationalization of the education system, for the purpose of achieving more efficient utilization of human and physical capital in education, as well as of improving the system management efficiency.

In particular, the following actions are to be taken for enhancing the efficiency in general education over 2007-2009:

- Increase the student/teacher FTE and student/non-teacher ratio up to 14.44 and 23.75, respectively, in 2009, as compared to 14.04 and 23.33 in 2007.
- Average class density over 2007-2009 will be 21.8 due to switch to 12-year study scheme.
- Achieve an optimal number of pupils at schools, ensuring the implementation of the Government Decrees № 1236 dated December 24, 2001, and № 2047-N dated December 5, 2002 (completion of under-completed classes or, in case of extreme under-completion, consolidation of two-three classes into one) and in accordance with the principles defined by the Government Decrees № 773 dated August 25, 2001, and № 1937-N dated December 5, 2002).
- Review of educational criteria, introduction of new teaching methods, and acquire new teaching materials, which will reflect in increase of expenses connected with development of new materials and services provided to teachers.

### ***Vocational Education***

Over 2007-2009, vocational education sector expenditures are determined by following factors:

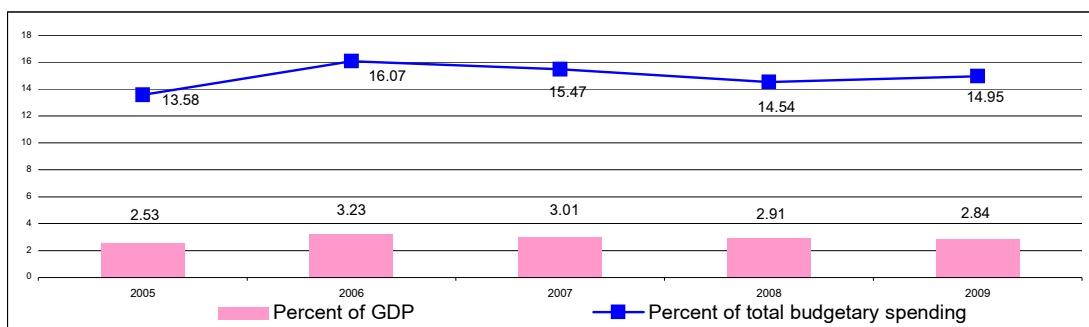
- Increase in wages over 2007-2009, which was implemented in secondary vocational education institutions implementing programs based on initial vocational and general education in accordance with general principles of proposed wage raise in general education system; in remaining secondary vocational education institutions average monthly wages of pedagogic and administrative staff were raised by 20 percent in 2007 up to 36.0 thousand drams. Teaching-support and technical-support staff of the secondary vocational education institutions, as well as the higher, post-graduate and additional education institutions personnel will have an increase of average monthly wages by 20 percent in 2007, at the same time ensuring the minimal wages in Armenia over 2007-2009 constituting 20.0 thousand drams, 25.0 thousand drams, and 30.0 thousand drams, respectively.
- Increase of free education places in technical education institutions by 1000 and opening of new vocational education institutions over 2007-2009;
- Increase in calculation norm for meeting nutrition needs per student by 20 percent in 2007;
- Increase in allocations for public utilities as a result of increase in tariffs.

### **7.1.3 EXPENDITURE COMMITMENTS OVER THE MTEF PERIOD**

Increasing public expenditure in education and improving the overall situation in that sector will be again prioritized over the whole MTEF 2007-2009 period.

The MTEF 2007-2009 provides for expenditure in education (including that for the maintenance of the administrative personnel and capital construction, as well as expenditure under credit projects and those of the Armenian Social Investment Fund) amounting to 81,081.8 million drams in 2007, 85,636.9 million drams in 2008, and 90,818.9 million drams in 2009. Expenditure increase, as compared with the respective previous year, will constitute 4.7 percent in 2007, 5.6 percent in 2008, and 6.1 percent in 2009.

Education expenditure, as to MTEF 2007-2009, will comprise 3.01 percent of GDP in 2007, 2.91 percent in 2008, and 2.84 percent in 2009.

**Chart 7.2 Planned Indicators of Budget Expenditure in Education****Table 7.3 Public Expenditure in Education over 2005-2009, by Directions (Million Drams)**

Functional Classification Subgroup	2005 Actual	2006 Adopted Budget	As per MTEF 2007-2009		
			2007	2008	2009
<b>TOTAL EXPENDITURE</b>	<b>56702.5</b>	<b>77477.4</b>	<b>81081.8</b>	<b>85636.9</b>	<b>90818.9</b>
Public administration in education and science	249.4	396.2	433.9	448.8	502.3
Elementary, basic, and secondary general education	44383.0	61737.3	64868.0	67719.1	71168.1
Special general education	3468.2	4335.0	4981.8	5301.0	5574.5
Extracurricular training	1537.7	2477.1	1259.1	1326.3	1449.2
Initial vocational (technical) education	669.4	1014.5	1435.2	1829.3	2204.3
Secondary vocational education	1439.3	1827.6	2142.5	2464.5	2794.6
Higher and post-graduate vocational education	4318.2	5302.4	5538.2	6110.2	6645.9
Additional education	637.3	387.3	423.1	437.7	480.1
<i>Change as compared with previous year, percent</i>					
<b>TOTAL EXPENDITURE</b>		<b>36.6</b>	<b>4.7</b>	<b>5.6</b>	<b>6.1</b>
Public administration in education and science		58.8	9.5	3.4	11.9
Elementary, basic, and secondary general education		39.1	5.1	4.4	5.1
Special general education		25.0	14.9	6.4	5.2
Extracurricular training		61.1	- 49.2	5.3	9.3
Initial vocational (technical) education		51.6	41.5	27.5	20.5
Secondary vocational education		27.0	17.2	15.0	13.4
Higher and post-graduate vocational education		22.8	4.4	10.3	8.8
Additional education		-39.2	9.2	3.5	9.7

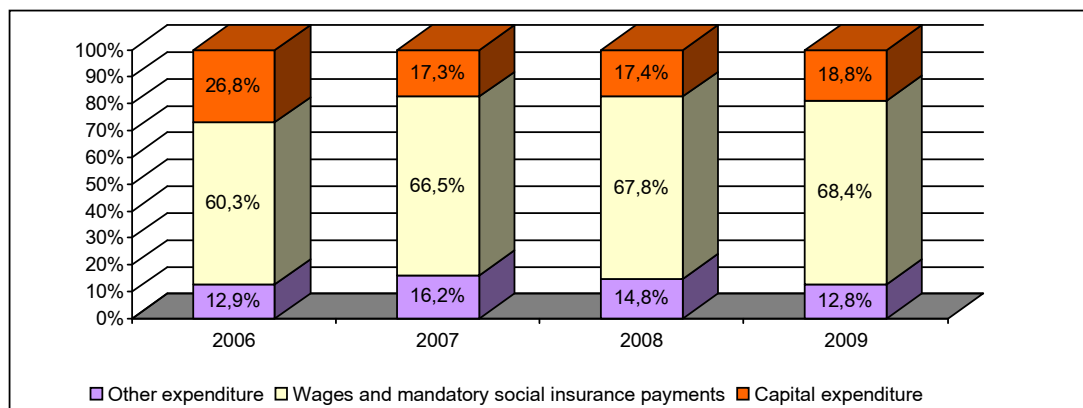
**Table 7.4 Structure of Public Expenditure in Education Over 2005-2009, by Levels (Percent of Total Expenditure in Sector)**

Functional Classification Subgroup	2005	2006	2007	2008	2009
<b>TOTAL EXPENDITURE</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Public administration in education and science	0.44	0.51	0.54	0.52	0.55
Elementary, basic, and secondary general education	78.27	79.68	80.0	79.08	78.36
Special general education	6.12	5.6	6.14	6.19	6.14
Extracurricular training	2.71	3.2	1.55	1.55	1.60
Initial vocational (technical) education	1.18	1.31	1.77	2.14	2.43
Secondary vocational education	2.54	2.36	2.64	2.88	3.08

Higher and post-graduate vocational education	7.62	6.84	6.83	7.13	7.32
Additional education	1.12	0.50	0.52	0.51	0.53

By the end of the MTEF period, current and capital expenditure will comprise 81.1 percent and 18.9 percent of the total expenditure in education, respectively. Payments for wages and mandatory social insurance comprise the major part in current expenditure.

**Chart 7.3 Public Expenditure in Education over 2006-2009, by Economic Classification Articles (Percent of Total Expenditure in Sector)**



**Table 7.5 Public Expenditure in Education over 2007-2009, by Existing and New Programs (Thousand Drams)**

Indicator	2007	2008	2009
Total expenditure under existing commitments	81076720.9	85636901.9	90818908.8
Total expenditure under new initiatives	5100.0		
<b>Total</b>	<b>81081820.9</b>	<b>85636901.9</b>	<b>90818908.8</b>

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

Over the MTEF period, the additional public expenditure in education will be almost fully channeled to the general education.

Expenditure allocated to elementary, basic, and secondary general education will increase by 5.1 percent in 2007, amounting to 64,868.0 million drams, or to 80.0 percent of the total public expenditure in education. It will increase by a further 4.4 percent in 2008, amounting to 67,719.1 million drams, or to 79.08 percent of the total public expenditure in education, and by another 5.1 percent in 2009, amounting to 71,168.1 million drams, or to 78.36 percent of the total public expenditure in education.

The planned increase in public expenditure in the general education sector will result in a substantial increase in per student expenditure. Under this scenario of further developments, per student expenditure in 2009 will increase by 27.8 percent, as compared with the 2006 level. However, it should be noted, that such a trend in per student expenditure is partially dependent on the assumed changes in the demographic structure of the population.

**Table 7.6 Per Student Public Expenditure in General Education**

	2006	2007	2008	2009
<b>Index (2006 indicator = 100)</b>	100.0	106.0	115.9	127.8
<i>Memorandum articles</i>				
Number of students (2006 indicator = 100)	100.0	99.1	94.6	90.2
Public expenditure in education (2006 indicator = 100)	100.0	105.1	109.7	115.3



Increasing teacher wages and improvement of their retraining practices are primary issues in education. Actions aimed at this objective are considered to be a guarantee for the improvement of the quality of education. The state will preserve the policy of increasing the wages.

Allocations provided for general education over 2007-2009 will enable to keep the average monthly teacher wages at the per capita GDP level. Wage increases will contribute to the process of completing general education schools with qualified teaching personnel; this issue has been most problematic in rural and next-to-frontier areas, which will be focused by authorities. Due to the rises, the average monthly teacher wages will increase from 58.3 thousand drams in 2006 to 69.7 thousand drams in 2007, 76.0 thousand drams in 2008, and 82.5 thousand drams in 2009.

The average wages of administrative staff in general education institutions will also be significantly increased over 2007-2009, constituting 71.8, 115.3, and 125.3 thousand drams, respectively. The average wages of teaching/educational and technical-support staff will also increase ensuring the minimal wages over 2008-2009 constituting 25.0 and 30.0 thousands drams, respectively.

Over the MTEF period, such wage policy will consume around 90.4 percent of current expenditure in general education.

The state will further conduct the policy of providing elementary school pupils with textbooks. In relation with switching to the 12-year study scheme starting from 2006/2007 academic year allocations are envisaged for the development of teaching manuals, programs, and criteria.

Reconstruction of school premises and solution of heating problems will also be considered as primary issues. In particular, inadequate heating systems and unfavorable building conditions hinder the regular educational process, resulting in significant fall of quality. Therefore, capital expenditure will be firstly channeled to addressing school heating problems, repairing lavatories and roofs, glazing, damp-coursing and sewer-laying works.

Sizable recourses have been provided for public utilities as a result of increase in tariffs, as well as by arranging school heating through own boiler houses, for business trips due to doubled expenses.

At the same time, there will be a special focus on improving the material and technical bases in schools.

In particular, issues such as equipping schools with modern information technologies will be emphasized. Allocations for that purpose will be channeled to the technical re-equipment of schools, maintenance of the basic network infrastructure, installation and maintenance of Internet connection in schools, establishment of Internet computer centers, and other works.

Over 2007-2009, 304.3 million drams will be allocated annually for financing the maintenance of Internet networks and hardware in schools. Maintenance of hardware in general education schools will be provided for 330 schools, and 480 schools will be connected to Internet.

Completion of pedagogic personnel in regions to fill up the need for teachers in remote, next-to-frontier, mountainous, and high-mountainous settlements' general education institutions will continue. Over 2007-2009, 86.3, 83.2, and 83.2 million drams respectively will be allocated for that purpose. The above mentioned amounts are calculated based on the fact that 400 pedagogues will be sent to regions as compared to 196 pedagogues in 2006. It is envisaged to enhance teachers retraining in regions, next-to-frontier settlements and NKR.

5.1 million drams are envisaged for the "RA Ecological Education Strategic Program" in 2007.

Targeted assistance from external sources will play a significant role in dealing with issues related to the equipment of schools with modern information technologies.

### **EXTERNALLY FINANCED PROGRAMS**

The Credit Project on "Education Quality and Relevance" aims to improve the quality of general education through modernizing its contents and introducing a unified system of quality control and assessment, to introduce Information and Communication Technologies (ICT) in the general education system, to improve pedagogical knowledge of teachers, and to further the reforms in general education.

Over 2007-2009, the following activities will be implemented under the project:

Development of a comprehensive document containing the state criteria for general education and the framework curriculum (General Education Procedure) and establishment of a new assessment system – under this component, the syllabi for the basic general education subjects, as well as the new system of student knowledge assessment will be developed and introduced. The "Assessment and Testing Center" will conduct school graduation and HEI admission examinations, through application of the progressive international experience.

Development and introduction of information and communication technologies (ICT) in schools – under this component, computer centers will be established in about 600 schools, and about 150 schools will be connected to the unified school network and provided with Internet connection over 2007-2008.

Teachers' professional retraining – under this component, around 30,000 teachers of the basic subjects of general education will be trained for application of the new subject syllabi and the new assessment system, and around 8,000 teachers will be trained for ICT application.

System management and efficiency – under this component, around 800 school principals will be retrained over 2007-2008. The Education Management Information System (EMIS) will be expanded and developed.

Teachers redundant due to the optimization will be provided social assistance.

In addition to the above-mentioned credit project, during 2007-2009 certain works will be implemented under the second Armenian Social Investment Fund Project, amounting to 654.7, 1,091.8, and 1,091.8 million drams, respectively.

Over 2007-2008 regional development programs will be implemented in Gegharkunik and Tavush regions for 92.7 and 19.2 million drams, respectively, by the means of financial assistance granted to the Republic of Armenia by the United Kingdom of Great Britain and Northern Ireland.

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

Expenditure in special general education will increase by 14.9 percent in 2007 amounting to 4,981.8 million drams, or to 6.14 percent of the total public expenditure in education. It will further increase by 6.4 percent in 2008, amounting to 5,301.0 million drams, or to 6.19 percent of total public expenditure in education, and by another 5.2 percent in 2009 amounting to 5,574.5 million drams or to 6.14 percent of total public expenditure in education.

Over the MTEF 2007-2009 period, the increase in expenditure for special education will be mainly driven by the growth in wages of the system employees, in line with the general principles of increasing wages in the general education system, as well as by the increase in the calculation norm of nutrition by 20 percent, which will make 940 drams for overnight students and 566 drams for the visiting ones, as compared with 2006 levels at 783 drams and 472 drams, respectively. Calculations have incorporated the increased tariffs of public utilities, as well as doubled expenses of business trips.

### ***Extracurricular Training***

Over 2007-2009, expenditure in extracurricular training will comprise 1.55, 1.55, and 1.60 percent of the total educational expenditures or 1,259.1, 1,326.3, and 1,449.2 million drams, respectively.

In extracurricular training sector pedagogic, administrative and support staff will be given an increase of the average monthly wages in 2007 by 20 percent, ensuring the minimal wage rates over 2007-2009 at 20.0, 25.0, and 30.0 thousands drams, respectively.

Over 2007-2009, allocations are envisaged for the "Special Creative Center for Juvenile Offenders" SNCO, constituting 9.0 million drams, 11.0 million drams, and 13.0 million drams, respectively. In 2009, 5.0 million drams are envisaged for extending activities of "Special Creative Center for Children" in regions.

Additional allocations were envisaged for communications and public utilities (as a result of increase in tariffs), for arranging heating through own boiler houses, as well as for business trips due to doubled expenses.

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

Expenditure provided for initial vocational (technical) education will increase by 41.5 percent in 2007, amounting to 1,435.2 million drams, or to 1.77 percent of the total public expenditure in education. It will further increase by 27.5 percent in 2008, amounting to 1,829.3 million drams, or to 2.14 percent of the total public expenditure in education; and by another 20.5 percent in 2009, amounting to 2,204.3 million drams, or to 2.43 percent of the total public expenditure in education.

Over the MTEF 2007-2009 period, the increase in expenditure on initial vocational (technical) education will be mainly driven by the growth in wages of the system employees, in line with the general principles of increasing wages in the general education system.

Additional allocations were envisaged in 2007-2009 calculations due to increase of free education places in technical education institutions by 1000 and opening new vocational education institutions.

Besides, additional allocations were envisaged for public utilities (as a result of increase in tariffs), as well as for business trips due to doubled expenses.

### ***Secondary Vocational Education***

Over 2007-2009, expenditure in secondary vocational education will be 2.64 percent, 2.88 percent and 3.08 percent of the total public expenditure in education, respectively, or will amount to 2,142.5 million drams, 2,464.5 million drams, and 2,794.6 million drams, respectively.

Wages in secondary vocational education institutions implementing programs on the basis of basic general education will be increased in accordance with the general principles of raising wages in the general education sector. In the rest of secondary

vocational education institutions average monthly wages of pedagogic and administrative staff were raised by 20 percent in 2007 up to 36.0 thousand drams. Teaching-support and technical-support staff of the secondary vocational education institutions, as well as higher, post-graduate and additional education institutions personnel will be given an increase of the average monthly wages by 20 percent in 2007, at the same time ensuring the minimal wage rates in Armenia over 2007-2009 constituting 20.0, 25.0, and 30.0 thousand drams, respectively.

The calculation norm for meeting nutrition needs of students has been increased by 20 percent, which makes 940 drams for overnight students and 566 drams for the visiting ones, as compared with 2006 levels at 783 drams and 472 drams, respectively.

Additional allocations were envisaged for communication and public utilities (as a result of increase in tariffs), as well as for business trips due to doubled expenses.

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

Expenditure in higher and post-graduate vocational education will amount to 5,538.2 million drams in 2007, 6,110.2 million drams in 2008, and 6,645.9 million drams in 2009; this will comprise 6.83 percent, 7.13 percent, and 7.32 percent of the total public expenditure in education, respectively.

Employees will be given an increase of the average monthly wages by 20 percent in 2007, at the same time ensuring the minimal wage rates in Armenia over 2007-2009 constituting 20.0, 25.0, and 30.0 thousand drams, respectively.

Post-graduate students' scholarship is calculated to 10.0 thousands drams monthly and scholarship of post-graduate students in Armenian-related disciplines is calculated to 15.0 thousands drams monthly.

Over 2007-2009, 27.6 million drams are envisaged annually for the Fund for "National Information Center for Mutual Academic Recognition and Mobility".

Additional allocations were envisaged for communication and public utilities (as a result of increase in tariffs), as well as for business trips due to doubled expenses.

#### ***Additional Education***

Expenditure in additional education will amount to 423.1 million drams in 2007, 437.7 million drams in 2008, and 480.0 million drams in 2009; which will comprise 0.52 percent, 0.51 percent, and 0.53 percent of the total public expenditure in education, respectively.

Employees will be given an increase of the average monthly wages by 20 percent in 2007, at the same time ensuring the minimal wage rates in Armenia over 2007-2009 constituting 20.0, 25.0, and 30.0 thousand drams, respectively.

Over 2007-2009, 62.8 million drams are envisaged annually for the RA Central Election Commission for conducting professional courses for members of election commissions, and 70.5 million drams annually for the Cassation Court to retrain judges.

At the same time, over 2007-2009, 33.0, 33.7, and 35.2 million drams respectively are envisaged for the Ministry of Justice to retrain special servants.

Additional allocations are envisaged for communication and public utilities (as a result of increase in tariffs), as well as for business trips due to doubled expenses.

2007-2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Annex 7.1 Expenditure in Education over 2005-2009, per Implementing State Bodies, by Groups and Subgroups of Functional Classification (Million Drams)

Group	Subgroup	2005				2006				2007				2008				2009			
		Actual		Adopted		Actual		Adopted		Actual		Adopted		MTEF		MTEF		Actual		Actual	
		Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure	Total	Including Capital Expenditure
04	EDUCATION, of which:	56702.5	47762.9	8939.6	77477.4	56719.1	20758.3	81081.8	67043.5	14038.4	85636.9	70695.2	14941.7	90818.9	73697.1	17121.8					
	01 Maintenance of executive authorities, republican and territorial units of public administration	249.4	191.7	57.7	396.2	354.8	41.5	433.9	433.9		448.8	448.8		502.3	502.3						
	03 Elementary, basic, and secondary general education	44383.0	36464.3	7918.6	61737.3	42929.7	18807.6	64868.0	50829.6	14038.4	67719.1	52777.4	14941.7	71168.1	54046.3	17121.8					
	Ministry of Education and Science	2359.5	1884.7	474.8	4800.0	2565.5	2234.5	5908.7	4677.7	1231.0	5097.4	4266.7	830.7	3201.7	3171.7	30.0					
	Ministry of Culture and Youth Affairs	128.2	128.2	0.0	152.1	152.1	0.0	168.7	168.7		173.9	173.9		187.1	187.1						
	Ministry of Urban Development	2672.3	0.0	2672.3	4808.6		4808.6	12060.0		12060.0	13000.0		13000.0	16000.0							
	Government's Staff	1095.5	3.4	1092.1	494.1		494.1	654.7		654.7	1091.8		1091.8	1091.8							
	Ministry of Territorial Administration				51.7		51.7	92.7		92.7	19.2		19.2								
	Ministry of Finance and Economy				8358.0		8358.0														
	Ministry of Environmental Protection							5.1		5.1											
	Yerevan City Municipality	7809.2	7800.4	8.8	8968.3	8968.3		10644.9	10644.9		11161.2	11161.2		11746.3	11746.3						
	Aragatsotn Marzpetaran	2755.1	2290.2	465.0	3073.3	2749.1	324.3	3046.5	3046.5		3206.5	3206.5		3322.7	3322.7						
	Ararat Marzpetaran	3450.6	3045.2	405.4	3842.7	3495.8	346.9	3811.4	3811.4		3978.0	3978.0		4158.5	4158.5						
	Armavir Marzpetaran	3458.4	3150.6	307.8	3918.8	3698.4	220.5	4170.9	4170.9		4394.2	4394.2		4590.0	4590.0						
	Gegharkunik Marzpetaran	3976.6	3592.9	383.7	4305.3	4155.3	150.0	4749.8	4749.8		4962.4	4962.4		5158.9	5158.9						
	Lori Marzpetaran	3710.0	3357.0	353.0	4085.4	3965.7	119.7	4608.2	4608.2		4938.3	4938.3		5202.0	5202.0						
	Kotayk Marzpetaran	3163.5	2889.4	274.0	3659.0	3359.0	300.0	3810.2	3810.2		3992.9	3992.9		4153.2	4153.2						
	Shirak Marzpetaran	3983.1	3711.2	271.9	4627.9	4353.0	274.9	4661.7	4661.7		4863.7	4863.7		5039.9	5039.9						
	Syunik Marzpetaran	2264.1	2037.4	226.7	2761.4	2374.4	386.9	2806.4	2806.4		2961.9	2961.9		3138.6	3138.6						
	Vayots Dzor Marzpetaran	1337.0	902.5	434.5	1519.6	1041.1	478.5	1213.2	1213.2		1293.0	1293.0		1359.3	1359.3						
	Tavush Marzpetaran	2220.0	1671.3	548.7	2311.1	2052.0	259.1	2454.9	2454.9		2585.0	2585.0		2818.2	2818.2						
	04 Special general education	3468.2	3390.5	77.6	4335.0	4271.5	63.5	4981.8	4981.8		5301.0	5301.0		5574.5	5574.5						
	Ministry of Education and Science	1485.7	1485.7	0.0	1960.9	1947.3	13.5	2271.0	2271.0		2433.0	2433.0		2576.7	2576.7						
	Government's Staff	40.0		40.0	50.0		50.0														
	Ministry of Urban Development	37.6		37.6																	
	Yerevan City Municipality	591.9	591.9		703.1	703.1		817.8	817.8		859.9	859.9		905.7	905.7						
	Aragatsotn Marzpetaran	105.8	105.8		120.5	120.5		139.4	139.4		152.5	152.5		161.3	161.3						

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Group	Subgroup	2005 Actual						2006 Adopted						2007						2008 MTEF						2009					
		Including			Including			Including			Including			Including			Including			Including			Including			Including			Including		
		Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total		
		151.4	151.4		193.4	193.4	230.3	230.3		251.9	251.9	265.1	265.1		265.1	265.1		265.1	265.1		265.1	265.1		265.1	265.1		265.1	265.1			
	Armarvir Marzpetaran	41.3	41.3		52.7	52.7	60.9	60.9		67.3	67.3	71.9	71.9		71.9	71.9		71.9	71.9		71.9	71.9		71.9	71.9		71.9	71.9			
	Gegharquniq Marzpetaran	229.3	229.3		273.7	273.7	312.5	312.5		324.2	324.2	332.6	332.6		332.6	332.6		332.6	332.6		332.6	332.6		332.6	332.6		332.6	332.6			
	Lori Marzpetaran	111.4	111.4		133.6	133.6	165.9	165.9		180.7	180.7	190.9	190.9		190.9	190.9		190.9	190.9		190.9	190.9		190.9	190.9		190.9	190.9			
	Kotayk Marzpetaran	317.9	317.9		392.6	392.6	460.5	460.5		488.6	488.6	511.8	511.8		511.8	511.8		511.8	511.8		511.8	511.8		511.8	511.8		511.8	511.8			
	Shirak Marzpetaran	306.1	306.1		393.9	393.9	453.7	453.7		467.9	467.9	478.6	478.6		478.6	478.6		478.6	478.6		478.6	478.6		478.6	478.6		478.6	478.6			
	Syunik Marzpetaran	49.8	49.8		60.5	60.5	69.9	69.9		74.9	74.9	79.7	79.7		79.7	79.7		79.7	79.7		79.7	79.7		79.7	79.7		79.7	79.7			
	Tavush Marzpetaran	1537.7	843.6	694.1	2477.1	999.4	1477.8	1259.1	1259.1		1326.3	1449.2	1449.2		1449.2	1449.2		1449.2	1449.2		1449.2	1449.2		1449.2	1449.2		1449.2	1449.2			
05	Extracurricular training	218.7	218.7		270.5	270.5	312.0	312.0		365.4	365.4	418.8	418.8		418.8	418.8		418.8	418.8		418.8	418.8		418.8	418.8		418.8	418.8			
	Ministry of Education and Science	14.3	14.3		15.3	15.3	27.0	27.0		29.2	29.2	59.9	59.9		59.9	59.9		59.9	59.9		59.9	59.9		59.9	59.9		59.9	59.9			
	Ministry of Culture and Youth Affairs	694.1	0.0	694.1	1477.8	0.0	1477.8					0.0	0.0																		
	Ministry of Urban Development	514.8	514.8		614.6	614.6	804.3	804.3		804.5	804.5	827.7	827.7		827.7	827.7		827.7	827.7		827.7	827.7		827.7	827.7		827.7	827.7			
	State Committee for Physical Training and Sports under the Government	33.7	33.7		23.2	23.2	27.5	27.5		29.8	29.8	34.0	34.0		34.0	34.0		34.0	34.0		34.0	34.0		34.0	34.0		34.0	34.0			
	Yerevan City Municipality	5.2	5.2		5.5	5.5	6.5	6.5		6.8	6.8	7.7	7.7		7.7	7.7		7.7	7.7		7.7	7.7		7.7	7.7		7.7	7.7			
	Aragatsotn Marzpetaran	4.6	4.6		4.9	4.9	5.8	5.8		6.2	6.2	7.2	7.2		7.2	7.2		7.2	7.2		7.2	7.2		7.2	7.2		7.2	7.2			
	Armarvir Marzpetaran	3.0	3.0		3.2	3.2	3.7	3.7		4.1	4.1	4.8	4.8		4.8	4.8		4.8	4.8		4.8	4.8		4.8	4.8		4.8	4.8			
	Gegharquniq Marzpetaran	15.2	15.2		16.3	16.3	18.5	18.5		20.8	20.8	23.2	23.2		23.2	23.2		23.2	23.2		23.2	23.2		23.2	23.2		23.2	23.2			
	Kotayk Marzpetaran	9.3	9.3		18.9	18.9	22.7	22.7		25.4	25.4	28.3	28.3		28.3	28.3		28.3	28.3		28.3	28.3		28.3	28.3		28.3	28.3			
	Shirak Marzpetaran	12.5	12.5		13.6	13.6	15.8	15.8		18.7	18.7	21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6			
	Syunik Marzpetaran	12.5	12.5		13.2	13.2	15.5	15.5		18.7	18.7	21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6		21.6	21.6			
	Vayotz Dzor Marzpetaran	669.4	663.3	6.1	1014.5	1014.5	1435.2	1435.2		1829.3	1829.3	2204.3	2204.3		2204.3	2204.3		2204.3	2204.3		2204.3	2204.3		2204.3	2204.3		2204.3	2204.3			
06	Initial vocational (technical) education	438.1	435.1	3.0	672.7	672.7	975.7	975.7		1326.5	1326.5	1667.6	1667.6		1667.6	1667.6		1667.6	1667.6		1667.6	1667.6		1667.6	1667.6		1667.6	1667.6			
	Ministry of Education and Science	11.8	11.8		25.0	25.0	28.8	28.8		30.5	30.5	32.8	32.8		32.8	32.8		32.8	32.8		32.8	32.8		32.8	32.8		32.8	32.8			
	Ministry of Agriculture	88.0	88.0		124.4	124.4	164.3	164.3		177.7	177.7	191.7	191.7		191.7	191.7		191.7	191.7		191.7	191.7		191.7	191.7		191.7	191.7			
	Yerevan City Municipality	22.7	22.7		39.2	39.2	56.1	56.1		63.5	63.5	66.8	66.8		66.8	66.8		66.8	66.8		66.8	66.8		66.8	66.8		66.8	66.8			
	Aragatsotn Marzpetaran	14.7	14.7		22.0	22.0	30.5	30.5		33.0	33.0	35.8	35.8		35.8	35.8		35.8	35.8		35.8	35.8		35.8	35.8		35.8	35.8			
	Armarvir Marzpetaran	15.1	15.1		22.1	22.1	29.2	29.2		32.1	32.1	34.1	34.1		34.1	34.1		34.1	34.1		34.1	34.1		34.1	34.1		34.1	34.1			
	Gegharquniq Marzpetaran	30.7	30.7		46.7	46.7	63.2	63.2		68.7	68.7	73.7	73.7		73.7	73.7		73.7	73.7		73.7	73.7		73.7	73.7		73.7	73.7			
	Kotayk Marzpetaran	23.5	23.5		31.8	31.8	46.7	46.7		53.3	53.3	54.6	54.6		54.6	54.6		54.6	54.6		54.6	54.6		54.6	54.6		54.6	54.6			
	Shirak Marzpetaran	4.2	4.2																												
	Vayotz Dzor Marzpetaran	20.5	17.4	3.1	30.6	30.6	40.7	40.7		44.0	44.0	47.3	47.3		47.3	47.3		47.3	47.3		47.3	47.3		47.3	47.3		47.3	47.3			
	Tavush Marzpetaran																														

2007-2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Group	Subgroup	2005 Actual						2006 Adopted						2007						2008 MTEF						2009					
		Including			Total			Including			Total			Including			Total			Including			Total			Including			Total		
		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure		Current Expenditure	Capital Expenditure				
		1439.3	1432.3	7.0	1827.6	1756.6	71.0	2142.5	2142.5		2464.5	2464.5		2794.6	2794.6		2464.5	2464.5		2794.6	2794.6		2464.5	2464.5		2794.6	2794.6				
	07	666.8	659.8	7.0	786.8	786.8		991.9	991.9		1235.2	1235.2		1494.2	1494.2		1235.2	1235.2		1494.2	1494.2		1235.2	1235.2		1494.2	1494.2				
		166.6	166.6		195.3	195.3		219.1	219.1		223.0	223.0		228.9	228.9		223.0	223.0		228.9	228.9		223.0	223.0		228.9	228.9				
		156.5	156.5		247.8	247.8	52.0	247.9	247.9		278.1	278.1		302.7	302.7		278.1	278.1		302.7	302.7		278.1	278.1		302.7	302.7				
		111.8	111.8		134.7	134.7		161.6	161.6		179.6	179.6		193.5	193.5		179.6	179.6		193.5	193.5		179.6	179.6		193.5	193.5				
		20.8	20.8		43.5	43.5	19.0	28.6	28.6		31.2	31.2		34.0	34.0		31.2	31.2		34.0	34.0		31.2	31.2		34.0	34.0				
		316.8	316.8		419.5	419.5		493.4	493.4		517.4	517.4		541.3	541.3		517.4	517.4		541.3	541.3		517.4	517.4		541.3	541.3				
	08	4318.2	4213.7	104.6	5302.4	5005.4	297.0	5538.2	5538.2		6110.2	6110.2		6645.9	6645.9		6110.2	6110.2		6645.9	6645.9		6110.2	6110.2		6645.9	6645.9				
		3235.8	3135.8	100.0	3696.8	3596.8	100.0	4119.0	4119.0		4689.5	4689.5		5222.3	5222.3		4689.5	4689.5		5222.3	5222.3		4689.5	4689.5		5222.3	5222.3				
					197.0		197.0																								
					104.8	104.8		113.1	113.1		114.4	114.4		117.1	117.1		114.4	114.4		117.1	117.1		114.4	114.4		117.1	117.1				
		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5		729.5	729.5				
		300.4	295.8	4.6	324.2	324.2		326.4	326.4		326.7	326.7		326.9	326.9		326.7	326.7		326.9	326.9		326.7	326.7		326.9	326.9				
		52.5	52.5		250.1	250.1		250.1	250.1		250.1	250.1		250.1	250.1		250.1	250.1		250.1	250.1		250.1	250.1		250.1	250.1				
	09	637.3	563.5	73.8	387.3	387.3		423.1	423.1		437.7	437.7		480.1	480.1		437.7	437.7		480.1	480.1		437.7	437.7		480.1	480.1				
		208.8	157.0	51.8																											
05	06	81.9	81.9		79.3	79.3		90.8	90.8		96.7	96.7		107.3	107.3		96.7	96.7		107.3	107.3		96.7	96.7		107.3	107.3				
01	02	57.0	57.0		62.0	62.0		59.0	59.0		61.0	61.0		85.0	85.0		61.0	61.0		85.0	85.0		61.0	61.0		85.0	85.0				
01	05	12.3	12.3		18.6	18.6		33.0	33.0		33.7	33.7		35.2	35.2		33.7	33.7		35.2	35.2		33.7	33.7		35.2	35.2				
03	01	48.8	48.8		68.4	68.4		75.8	75.8		81.8	81.8		88.0	88.0		81.8	81.8		88.0	88.0		81.8	81.8		88.0	88.0				
01	01	108.8	108.8		19.2	19.2		19.2	19.2		19.2	19.2		19.2	19.2		19.2	19.2		19.2	19.2		19.2	19.2		19.2	19.2				
		111.6	89.5	22.0																											
01	06				56.8	56.8		62.8	62.8		62.8	62.8		62.8	62.8		62.8	62.8		62.8	62.8		62.8	62.8		62.8	62.8				
01	01				0.6	0.6																									
03	03				70.5	70.5		70.5	70.5		70.5	70.5		70.5	70.5		70.5	70.5		70.5	70.5		70.5	70.5		70.5	70.5				
03	03	8.2	8.2		12.0	12.0		12.0	12.0		12.0	12.0		12.0	12.0		12.0	12.0		12.0	12.0		12.0	12.0		12.0	12.0				

## 7.2 SCIENCE

### 7.2.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS

Scientific and scientific-technical activities are financed by the state budget in base, project-targeted, and contractual (thematic) forms. The rules regulating base and contractual (thematic) financing of scientific and scientific-technical activities and project-targeted financing of scientific and scientific-technical public programs were approved by the Government's Decrees No 1121, 1122, and 1123 dated November 17, 2001.

With the aim to improve the system of financing the science, the volume of base financing of science was expanded and the project-targeted public financing form was introduced, which was formerly missing.

Since 2004, financing of 5 targeted projects approved by the Government in 2003 has started pursuant to the "Rules for Project-Targeted Financing of Scientific and Scientific-Technical Public Programs". During 2004, regular monitoring of the implementation of 4 target projects was carried out.

Starting from 2003, three out of four components of base financing have been put into practice. 2006 state budget allocations for scientific and scientific-technical infrastructure maintenance and development project constitute 951,592.5 thousand drams, 184,007.5 thousand drams for the maintenance of scientific objects considered as a national value, and 69,810.0 thousand drams for training of scientific cadres (post-graduate students' scholarship raised to 10.0 thousands drams monthly and scholarship of post-graduate students in Armenian-related disciplines raised to 15.0 thousands drams monthly), for the fourth one – implementation of fundamental and most important applied research projects, effectuated in 2005, allocations constitute to 1,528,754.0 thousand drams. In accordance with the "Rules for Project-Targeted Financing of Scientific and Scientific-Technical Public Programs", 5 targeted public projects have been financed since 2004 (2006 State Budget allocations for these projects constitute to 733,328.3 thousand drams). These are complex projects in the priority directions of scientific and technical development (with duration of 3-5 years).

Pursuant to the "Rules for Contractual (Thematic) Financing of Scientific and Scientific-Technical Activities", adopted in 2002, by the order of the Minister of Education and Science No. 27-A/Q, dated January 31, 2005, the process of contractual (thematic) financing of scientific and scientific-technical activities for 2006 started. Financing at 1,279,025.0 thousand drams for a total of 760 scientific theses and 2,720 researchers is envisaged.

Additional payments for ranks of a doctor and a candidate of science at the extent of 10 thousand and 5 thousand drams, respectively, are envisaged by the 2006 state budget. The program for reforms in the sphere of science has been developed and put into circulation

2006 state budget allocation to science constitute 5,193,065.3 thousand drams.

Due to the liberalization of scientific activities, the total financial volume of grant programs financed from abroad and by different international organizations, directed to the scientific sector of the country, in 2004 amounted to US\$ 8.452 million.

The following problems are present in the scientific sector:

- Slow process of formation of an efficient system for science administration, and incompleteness of the unified system of public administration;
- Division of the scientific sector into three parts – academic, higher educational, and sectoral;
- insufficiency of available financial resources and their inefficient usage;



- Scattered structure of the scientific sector, unnecessary multiplicity of scientific orientations, resulting in the inefficient usage of the scientific potential;
- Insufficient level of staff renewal in scientific organizations and HEI-s, the problem of the young cadres shift;
- Brain flow of qualified scientific cadres, firstly of young people, from Armenia;
- Need for enhancing the efficiency of scientific research in the priority branches of science in Armenia;
- Absence of a standing independent expert system;
- Absence of the state order to the science, in terms of the solution of clearly defined certain problems;
- The issue of improving financial status of researchers;
- The issue of increasing stipends of post-graduate students and those researching for doctor's degree;
- Integration of science with education, and its collaboration with the industry;
- Absence of an efficient system for introducing scientific outcomes, given the slow formation of the legislative framework for innovative activities in Armenia;
- Absence of a unified and comprehensive scientific information system;
- Absence of a modern scientific and technical base in the sector;
- Low level of commercialization of scientific outcomes.

Among the above-mentioned problems, the following ones should be prioritized:

- a) Implementation of reforms in the scientific sector aimed at taking the necessary actions at all levels of science administration for the establishment of a unified system of public administration;
- b) Ensuring a considerable rise in the wages. Beginning from 2007 annual increase of average wages by 20 percent is envisaged;
- c) Dealing with the problem of scientific potential reproduction.

## **7.2.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### ***Objectives***

The main objective of science is to play an active role in the economic development of Armenia, to effectively utilize the outcomes of scientific research in the economy, and to reserve a strong position for our country in the world community.

### ***Priorities***

Based on the above-mentioned problems, the following priorities are identified in the science sector over the next three years:

- 1) Reformation of the scientific sector;
- 2) Raising researcher wages;
- 3) Reproduction of scientific potential;
- 4) Establishment of a standing independent expert system;

5) Systematized organization of the works of the Scientific and Technical Information and Analysis Center.

**Table 7.2.1 Public Expenditure in Science over 2006-2009, as per MTEF 2006-2008 and MTEF 2007-2009 (Million Drams)**

Functional Classification Subgroup	2006		2007		2008		2009
	Adopted Budget	MTEF 2006-2008	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
SCIENCE, TOTAL	5193.1	4228.9	4736.8	5151.1	5193.4	5874.9	6550.8
Including							
Contractual (thematic)	1279.0	1077.7	1157.2	1328.7	1246.3	1503.8	1503.8
Base	2734.2	2394.0	2772.4	3083.2	2989.9	3631.9	4307.8
Project-targeted	733.3	551.0	601.0	739.2	751.0	739.2	739.2
Capital expenditures	446.6	-	-				

The increase in expenditure stipulated by the MTEF 2007-2009, as compared with the MTEF 2006-2008 indicators, is conditioned by the larger increase in budgetary revenues, which has resulted in expanded spending in science according to the Law "On Scientific and Scientific-Technical Activities".

### ***Expenditure Drivers***

In accordance with Article 23 of the Law "On Scientific and Scientific-Technical Activities", the state will annually provide for budget expenditure in science, to be added proportionally to the increase in budget revenues, as compared with their previous year level.

Based on the above-mentioned, the yearly growing budgetary allocations to the science sector over the MTEF period will be channeled to raising researcher wages and expenses resulted from increased tariffs for certain services.

### **7.2.3 SUMMARIZED FINANCIAL NEEDS FOR 2007-2009**

Additional budgetary allocations to science over 2007-2009 will be channeled primarily to raising the average wages of scientists by 20 percent.

A new tender for contractual (thematic) financed scientific researches will be announced in autumn 2007.

Starting from 2007, the Ministry of Education and Science will apply the principle of counterpart funding, which would partially address the problem of scarce budget allocations to science. In this respect, the issue of establishing a scientific fund should be necessarily considered. The principle of counterpart funding will serve as an additional incentive for assuring modern and high level scientific research and studies, and for involving financial means from various sources for the most attractive scientific projects.

In 2006, a new tender for public targeted projects will be announced instead of those, which will complete soon. It is intended to establish an independent expert unit in 2006 and develop it in the future. Activities of the independent expert unit will be based on independent expert examination of base, contractual (thematic), and other scientific projects.

**Table 7.2.2 Expenditure in Science over 2006-2009, by Programs (Million Drams)**

		<b>2006</b>	Difference (%)	<b>2007</b>	Difference (%)	<b>2008</b>	Difference (%)	<b>2009</b>
	<b>SCIENCE (excluding capital expenditures) TOTAL</b>	4746.52	<i>404.611</i>	5151.13	<i>723.748</i>	5874.88	<i>675.904</i>	6550.78
	including							
1.	Contractual (thematic)	1279.025	<i>49.68</i>	1328.705	<i>175.095</i>	1503.8	<i>0</i>	1503.8
	<i>Share in total expenditure in science (percent)</i>	24.63		25.80		25.60		22.96
2.	Base	2734.164	<i>349.0178</i>	3083.182	<i>548.653</i>	3631.835	<i>675.9044</i>	4307.739
	<i>Share in total expenditure in science (percent)</i>	52.65		59.85		61.82		65.76
3.	Project-targeted	733.3283	<i>5.913</i>	739.2413	<i>0</i>	739.2413	<i>0</i>	739.2413
	<i>Share in total expenditure in science (percent)</i>	14.12		14.35		12.58		11.28

2007-2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

**Table 7.2.3 Expenditure in Science over 2005-2009, as per Implementing State Bodies, by Groups and Subgroups of Functional Classification (Million Drams)**

Group	Subgroup	2006			2007			2008			2009		
		Adopted Budget			MTEF			MTEF			MTEF		
		Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure	Total	Current Expenditure	Capital Expenditure
04	10	5193.07	4746.52	446.55	5151.13	5151.13	5874.88	5874.88	6550.78	6550.78	2.25		
	including												
	Contractual (thematic) financing	1279.03	1279.03		1328.71	1328.71	1503.80	1503.80	1503.80	1503.80	1503.80	1503.80	
	Ministry of Education and Science	1279.03	1279.03		1328.71	1328.71	1503.80	1503.80	1503.80	1503.80	1503.80	1503.80	
	Base financing	2734.16	2734.16		3083.18	3083.18	3631.83	3631.83	4307.74	4307.74	4.31		
	Ministry of Education and Science	495.99	495.99		566.35	566.35	659.88	659.88	755.66	755.66	755.66	755.66	
	Ministry of Finance and Economy (National Academy of Science)	1635.39	1635.39		1846.06	1846.06	2210.12	2210.12	2688.84	2688.84	2688.84	2688.84	
	Ministry of Trade and Economic Development	305.11	305.11		339.83	339.83	395.89	395.89	455.27	455.27	455.27	455.27	
	Ministry of Healthcare	68.90	68.90		78.68	78.68	89.27	89.27	101.98	101.98	101.98	101.98	
	Ministry of Agriculture	96.63	96.63		110.80	110.80	125.70	125.70	143.59	143.59	143.59	143.59	
	Ministry of Labor and Social Security	2.02	2.02		2.34	2.34	2.65	2.65	3.03	3.03	3.03	3.03	
	Ministry of Culture and Youth Affairs	18.66	18.66		20.42	20.42	23.16	23.16	26.46	26.46	26.46	26.46	
	Ministry of Finance and Economy	15.32	15.32		17.56	17.56	19.92	19.92	22.76	22.76	22.76	22.76	
	Government's Staff	74.23	74.23		74.23	74.23	74.23	74.23	74.23	74.23	74.23	74.23	
	Department of State Property Management under the Government	21.92	21.92		26.92	26.92	31.01	31.01	35.92	35.92	35.92	35.92	
	Project-targeted financing	733.33	733.33		739.24	739.24	739.24	739.24	739.24	739.24	739.24	739.24	
	Ministry of Defence	605.52	605.52		610.40	610.40	610.40	610.40	610.40	610.40	610.40	610.40	
	Ministry of Finance and Economy (National Academy of Science)	127.81	127.81		128.84	128.84	128.84	128.84	128.84	128.84	128.84	128.84	
	Capital expenditures	446.55		446.55									
	Ministry of Urban Development	200.00		200.00									
	Ministry of Finance and Economy (National Academy of Science)	246.55		246.55									

Within the framework of program budgeting reform, distribution of allocations for the Ministry of Education and Science programs, classified by programs, for the MTEF 2007-2009 period, is provided in Table 1 of the Annex II.

## CHAPTER 8. HEALTH CARE

The 2007-2009 medium-term expenditure framework for health care has been developed on the basis of the respective provisions of the Government’s Decree No 994-N “On Approving the Poverty Reduction Strategic Program”, dated August 8, 2003. The MTEF 2006-2008 targets approved by the Government’s Decree No 777-N “On Approving the Republic of Armenia Medium-Term Expenditure Framework for 2006-2008” dated June 1, 2005, and the indicators of the programs being implemented during 2006 have also been taken into consideration.

### 8.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS IN HEALTH CARE SECTOR

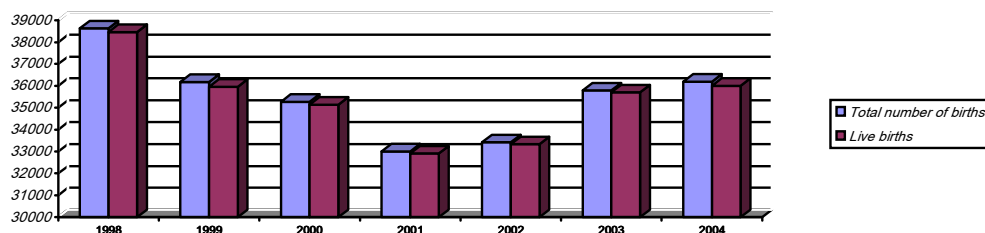
Over the recent years, in Armenia population’s demographic situation experienced definite changes that influenced health care sector. As a result of working age population migration from Armenia significant changes were recorded in population age groups. While in 90<sup>th</sup> children under 15 constituted 28.3 percent of general population, adults – 51.2 percent, and elderly persons – 20.5 percent, in 2004, due to migration, the situation has changed, these figures are as follows: children - decreased to 21.6 percent, adults - decreased to 46.3 percent, and elderly persons - increased to 32.1 percent and exceeds the children’s number by about 50 percent. Type of population changed from progressive into regressive. It is anticipated that type of population will change into stationary and then back to progressive due to positive social-economic trends in Armenia, reduction of migration, return of relatively young families to Armenia and increase in birth rate.

Birth rate over the independence years has decreased for 2.5 times. While in 1986, 81 thousand children were born in Armenia, in 2001 that figure reduced to 32 thousands; and the birth rate reduced from 24 to 8.4 per 1,000 residents. The general mortality over the same period has increased by 1.4 times (from 5.7 in 1986 to 8.0 in 2001 per 1,000 residents), and the population’s natural growth rate has declined by more than 8.7 times (from 18.3 to 2.1 per 1,000 residents, respectively). In this context, however, starting from 2002 some improvement in the birth rate has been observed (8.4 in 2001, 10.1 in 2002, 11.2 in 2003, 11.7 in 2004). Although, the indicator for general mortality still stays high, the infant mortality has reduced by more than twice (from 23.6 in 1986 to 11.5 in 2004 per 1,000 live births). The indicator of maternal mortality rate, which was 26.9 (per 100,000 live births) in 2004, demonstrates a declining trend over the last years. However, it is for more than 2 times higher than the respective European average indicator (8.8), although is much lower than the respective CIS average level (40.0).

Life expectancy since 2002 was 75.9 years and it has not changed noticeably later on.

Over the last years, childbirth rate has shown an increasing trend.

**Chart 8.1 Total Number of Births, of Which Live Births**



Maternal and infant health care issues and future strategic provisions in that area were defined by the Government's Decrees No 1000-N "On Approving the 2003-2015 Strategy for Maternal and Infant Health Care" dated August 8, 2003; No 994-N "On Approving the Poverty Reduction Strategic Program" dated August 8, 2003; and No 1745-N "On Approving the 2004-2015 National Program for Protection of Children's Rights in the Republic of Armenia", dated December 18, 2003.

Analysis for the purpose of having more clear understanding of indicators characterizing the dynamics of the population's health status has been carried out based on absolute figures of registered diseases. It is worth mentioning that in 2004 the number of observed diseases has decreased by 139.2 thousand cases as compared with 1999 (1,017.4 thousand cases in 2004 and 1,156.6 thousand cases in 1999). Decrease in number of diseases diagnosed for the first time is also registered (590.6 thousand cases in 2004, and 653.8 thousand cases in 1999). However, this pattern is not the same for particular diseases. The dynamics in socially dependent diseases and diseases of special significance is worth mentioning. Changes in general morbidity level are provided in Table 8.1.

	1999	2000	2001	2002	2003	2004
<b>General morbidity number</b>						
total	1 156 642	1055 795	977 653	967 179	1 139 331	1 017 434
Registered for the first time	653 836	594 015	531 208	519 843	604 952	590 621
<i>including</i>						
<b>Contagious and parasitic diseases</b>						
total	95 441	84 532	81 884	75 216	77 027	72 037
Registered for the first time	78 953	65 371	61 106	56 314	60 180	58 089
<i>Including: Tuberculosis</i>						
total	5 280	5 458	5 786	6 050	6 068	6 165
Registered for the first time	1 434	1 284	1 343	1 393	1 437	1 558
<b>Malignant neoplasm</b>						
total	22 589	21 927	23 451	24 384	25 580	26 522
Registered for the first time	5 415	5 413	5 666	5 734	5 951	6 174
<b>Diabetes</b>						
total	37 284	38 845	38 842	40 630	39 831	38 850
Registered for the first time	3 272	2 834	2 817	3 005	2 808	3 622
<b>Mental disorders</b>						
total	55 661	55 501	53 908	51 942	46 198	52 827
Registered for the first time	4 756	4 854	4 638	4 433	4 817	5 694
<b>Hypertonic diseases</b>						
total	33 333	32 842	31 353	31 442	31 507	31 613
Registered for the first time	5 173	5 029	5 244	5 866	6 181	6 234
<b>Heart ischemic disease</b>						
total	53 852	48 925	46 689	48 532	46 300	35 426
Registered for the first time	7 162	7 380	7 206	8 052	8 581	8 278
<b>Injuries and intoxications</b>						
total	76 398	72 188	60 888	61 143	60 966	46 357
Registered for the first time	75 048	70 948	59 501	59 537	59 757	45 450

**Table 8.1 General Morbidity of Population**

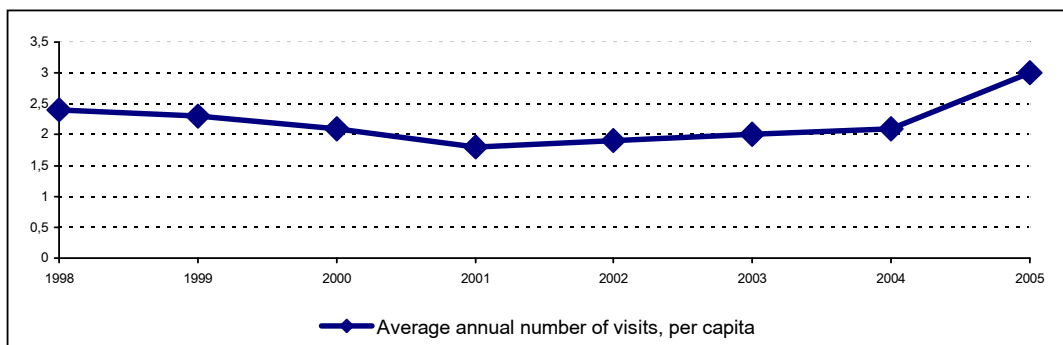
Statistical research provides with grounds for asserting that the level of general morbidity has declined. The general morbidity level was 1,135,723 cases in 1998, 1,139,331 cases in 2003, and 1,017,434 cases in 2004. As obvious from data provided in the Table, in 2004 registered cases of all these diseases during 15 years increased at a slow pace and vary between 1.2 and 1.9, and in case of certain diseases decrease has been registered. However, mortality cases noticeably exceed the increasing rates of registered diseases.

Based on the above-mentioned, it can be concluded that healthcare sector institutions, particularly primary (ambulatory-polyclinic) section, still do not organize primary and secondary preventive actions properly, do not reveal diseases and organize preventive actions actively and on time. From the other hand, population's hygiene and sanitary knowledge is inadequate, patients do not turn to doctors at time, prefer the self-medication or do not undergo medical treatment at all. As a result, progressive types of diseases are registered, mortality cases number increases, especially among the patients with socially dependent diseases and diseases of special significance.

Situational analysis shows that the system, though saturated with resources, did not operate efficiently, and, as a result, medical aid and services provided to population were at low level or not available for everybody, which resulted in collapse of trust toward the system by population.

The main priority in healthcare sector is still the primary (ambulatory-polyclinic) medical aid. Since 2006, all the population, regardless of age and social status, is included in ambulatory-polyclinic free medical aid programs (except the dental aid, which is provided free of charge only to children under 8 and those included in socially vulnerable groups of population), and, as a result, the number of visits to ambulatory-polyclinic institutions has increased noticeably.

**Chart 8.2 Average Annual Number of Visits to Ambulatory-Polyclinic (Per Capita)**



14,344.6 million drams are envisaged for primary (ambulatory-polyclinic) medical aid in 2006, as compared to 11,507.8 million drams in 2005; the growth rate is 24.7 percent. It is planned to implement six programs in the frameworks of primary (ambulatory-polyclinic) medical aid.

14,611.1 million drams (including 495.0 million drams for capital renovation expenses) are envisaged for hospital care in 2006, as compared to 13,344.8 million drams in 2005; the growth rate is 9.5 percent. Increase in hospital care expenses is mainly conditioned by the increase in average cost of per patient daily treatment, and increase of hospital treatment cases by 5,811, and expenses on healthcare institutions capital renovation by 455.0 million drams, as compared with 2005 State Budget. The average cost of per patient daily treatment in medical institutions providing hospital care, is forecast to be 9,000 drams, against the previous year's 8,700 drams; thus, there is an increase by 3.4 percent, conditioned by the increase in wages and costs of medicines, medical appliances, and laboratory-instrumental diagnostic equipment. The average monthly wage of the medical staff is to increase from the previous year's 37,500 drams to 38,700 drams in 2006, and that of the paramedical staff is to increase from the previous year's 29,300 drams to 30,300 drams.

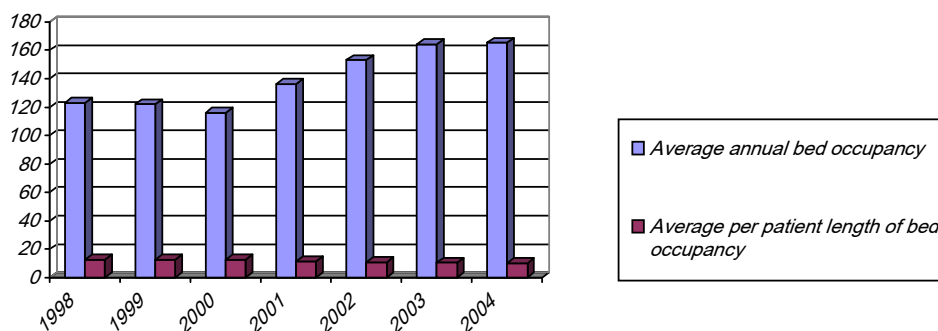
It is planned to implement twelve programs within the framework of hospital care during 2006.



Like in 2005, it is envisaged to include expenses on emergency aid services in hospital care subgroup in 2006. 336,615 emergency calls at the cost of 1,132.5 million drams are envisaged by the Project on "State Order for Emergency Aid" in 2006, as compared to 333,310 emergency calls at the cost of 1,088.9 million drams in 2005. The growth is conditioned by the increase of the number of emergency calls by 3,305 (including family doctors' 2500 visits by ambulances) at the cost of 7.9 million drams, and by the increase of the cost of an emergency call- at the cost of 35.7 million drams.

During the coming years, the optimization of the health care system will be deepened, aiming at the further implementation of the policy for improving the system efficiency, which implies reducing the bed stock, increasing the average annual bed occupancy, etc.

**Chart 8.3 Average Annual Bed Occupancy Rate and Average Disease Duration**



Under the conditions of continuous increase of public expenditure channeled to the health care sector, still there is an existing problem to ensure the targeted and efficient directedness of expenditure, as well as to raise the accessibility of medical services. Increasing public expenditure in health is one of the primary means for improving the situation in the sector. Public spending in health care is expected to increase over the whole MTEF period.

Due to implementing immune-preventive works, fighting against malaria and cholera, and taking complex anti-epidemic preventive actions, the situation with regard to certain infectious diseases has notably improved over 2000-2006. Cases of malaria from 1998 to 2004 decreased by almost twice; over 2000-2003, no cases of cholera and poliomyelitis were observed in the country. Cases of diphtheria, whooping cough, rubella, and tetanus have become rare. Since 1994, with regard to the diseases included in the Immune-Prevention National Program, a trend of reduction in morbidity and mortality has been registered.

However, there is still lack of up-to-date health statistical and informational-analytical system in the country. The development of normative acts for the prevention and monitoring of infectious diseases, as well as the implementation of analytical and organizational activities is still at an unsatisfactory level.

Among the outstanding problems, the health care system still faces the increasing number of patients with tuberculosis, insular diabetes, acute myocardial infarction, and cancerous growths.

The problem to ensure the constitutional right of every citizen for health care, to improve free medical care guaranteed by the state, and its real accessibility for population, is set before the healthcare system of the country.

## 8.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD

### 8.2.1 Objectives

Objectives of the public programs in health care are as follows:

1. **Assure hygienic and anti-epidemic security of the population, particularly:** eliminate local cases of diphtheria; reduce the number of hepatitis “B” virus carriers by at least 40 percent; reduce tuberculosis morbidity and mortality by 10 percent; reduce the number of reported cases of malaria to lower than 5 per 100,000 residents, and eradication of that disease; reduce and keep at a low level the incidence of diarrhea morbidity and mortality; eradicate rubella and declare rubella-free zone for certification.
2. **Assure primary health care of the population, provision of medical care to vulnerable groups of the population and to those included in separate (special) groups, particularly:** reduce the average level of cardiovascular diseases by 10 percent; reduce the number of hospitalization cases for micro- and macro-vascular complications and insular diabetics by 5 percent; improve the indicator of early diagnosis of tumor diseases by 15 percent; increase the share of preventative actions within primary medical-prevention activities; train approximately 150 family doctors and 150 family nurses annually; increase the level of replenishment with laboratory-instrumental diagnostic equipment and technologies, medicines, and medical appliances; improve the quality of provided medical care; increase the accessibility of medical services for insolvent groups of the population;
3. **Assure maternity and infant health care, particularly:** assure early consultative care for at least 70 percent of pregnant women; reduce the maternal mortality rate by one third; reduce the cases of childbirth at home, achieving 100 percent inpatient deliveries; reduce prenatal and early neonatal mortality by 10 percent; reduce infant mortality for children of 0 to 1, and up to 5 years of age, at least by one fourth; assure 90 percent enrollment in children inoculations; assure exceptional breast-feeding of 55 percent of children under 4 months, and of 30 percent of children under 6 months, assure 35 percent enrollment of the disabled children in individual rehabilitation programs;
4. **Assure provision of medical care to those being treated from diseases of special social significance.**

### 8.2.2 Priorities

Programs for the population’s hygienic and epidemic security, actual enhancement of the role of ambulatory-polyclinic care, assuring maternal and infant health care, preventing diseases of special social significance, and ensuring the medical aid of the vulnerable groups of the population and those included in separate (special) groups, as well as prevention of transmitted diseases and HIV/AIDS are identified as the priorities of health care in the Republic of Armenia.

#### *Hygienic and Epidemic Security*

Assuring the hygienic and epidemic security of the population is among the critical public issues and is guaranteed by the Law "On Assuring the Sanitary and Hygienic Security of the Population of the Republic of Armenia". Uninterrupted functioning of this system is of vital importance for the socio-economic development of the country and for the health care of the population.

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

Primary (Ambulatory-Polyclinic) Care

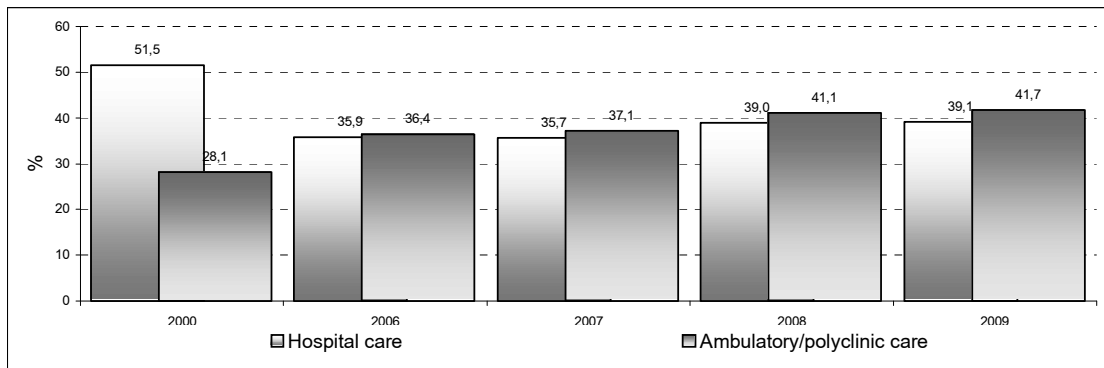
Enhancing the accessibility of health care services through focusing on primary health care is considered a priority in both the poverty reduction context and in the health care component of the MTEF 2007-2009.

In view of the higher accessibility and territorial availability of primary (ambulatory-polyclinic) care for the population, the share of primary health care expenditure will be increased within the public budget structure, at the expense of reducing the share of hospital care expenditure and increasing the amount of total expenditure.

In 2007, the allocation to primary (ambulatory-polyclinic) care will amount to 16,726.3 million drams; or it will increase for 16.6 percent as compared with the 2006 adopted budget, and will comprise 37.1 percent of the total spending in health care, as compared to 36.4 percent of the previous year.

The Poverty Reduction Strategic Program stipulates for increasing the share of allocations to primary (ambulatory-polyclinic) care within the total spending in health care up to 36.1 percent by 2007 (according to PRSP, the expenditure for centralized procurement of medicines has been included into the allocations to primary care. Currently, allocations to procurement of medicines are included in the "Other Health Care Services" subgroup, therefore, to ensure comparability, while calculating the rate of primary care, expenditure in the centralized procurement of medicine is excluded).

**Chart 8.4 Financing of Ambulatory and Hospital Care (Percent of Total Expenditure in Health Care)**

Maternal and Infant Health Care

Adequately focusing on maternal and infant health care, including on reproductive health issues, is of fundamental importance in raising a healthy generation and improving the health status of the population. For this purpose, the priority of maternal and infant health issues has been reestablished. Within the framework of the maternal and infant health care program, there will be substantial increases in budget allocations to obstetric-gynecological care at both hospital and ambulatory-polyclinic levels. In particular, per patient expenditure for obstetric-gynecological care at the primary level will be increased. With regard to infant medical care, special emphasis will be laid on disease prevention actions, including those of children inoculations.

Programs for Preventing Special Socially Significant Diseases and Provision of Medical Care to Vulnerable Groups and to Those Included in Separate (Special) Groups

Early detection of socially dependent diseases and diseases of special significance, organization and continuous control over medical aid to patients, agitation of healthy life-

style and raising the hygienic knowledge among people have great importance for health protection of population.

Over 2007-2009, the framework aims at the enhancement of the accessibility and the utmost provision of medical care to the vulnerable groups of the population and to those included in separate (special) groups. It is planned to increase the number of people included into vulnerable groups within the total number of medical care beneficiaries. The framework provides for the implementation of a broad range of preventive, diagnostic, and medical care activities for all major groups of diseases, at all levels of the health care system, without any limitation in the list of specialists, in the frequency of visits, and in the number of laboratory-instrumental diagnostic examinations over 2007-2009.

#### *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.

#### ***8.2.3 Expenditure Drivers***

As compared with the 2006 level, public expenditure in health care will increase by 5,692.7 million drams in 2007. Based on the public policy and the basic priorities in the sector, around 2,381.7 million drams, or 41.8 percent of that amount, will be channeled to primary care comprising 37.1 percent of the total health care expenditure in 2007, 41.1 percent in 2008, and 41.7 percent in 2009.

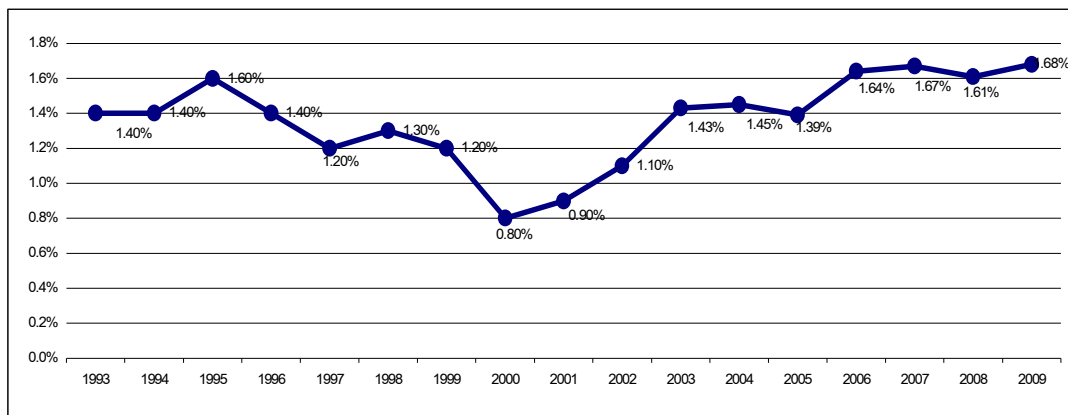
Some 5.1 percent of the total increase, or around 290.1 million drams, will be directed to the sanitary-hygienic security of the population. As compared with the 2006 level, public expenditure in this program will increase by around 15 percent, comprising 4.9 percent of the total health care expenditure in 2007, 5.4 percent in 2008, and 5.6 percent in 2008.

Expenditure in hospital care will increase by around 1,971.6 million drams in 2007, as compared with the 2006 level, comprising 34.6 percent of the total increase and 35.7 percent of the total health care expenditure in 2007, 39.0 percent in 2008, and 39.1 percent in 2009.

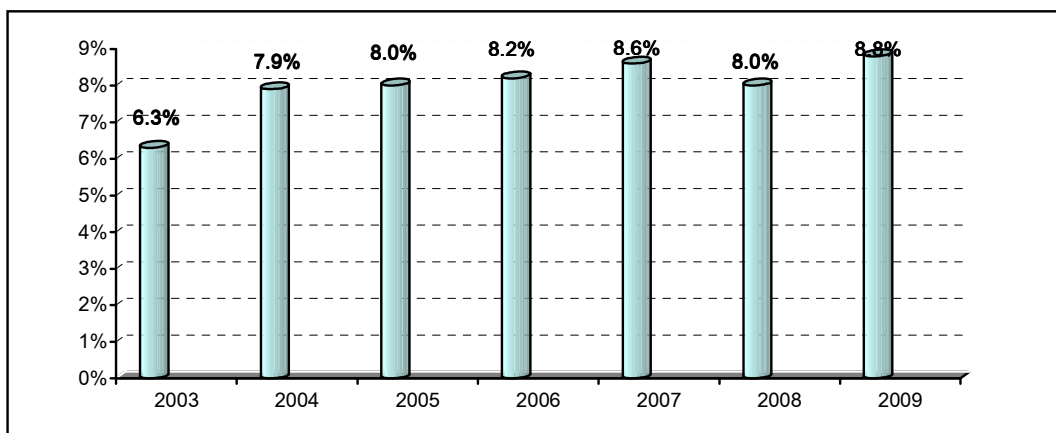
Taking into account the priority, higher accessibility and availability for population in territorial terms of primary (ambulatory-polyclinic) medical aid in comparison with hospital care, it is envisaged by health care public expenditure structure to provide for primary medical aid financing swift growth rates, particularly in 2007 health care expenditures will raise by 14.5 percent, as compared with 2006, and primary (ambulatory-polyclinic) medical aid expenditures will raise by 16.6 percent. Prevention and early detection of diseases in the frameworks of primary (ambulatory-polyclinic) medical aid is aimed to decrease general morbidity. While the 56.6 percent of the 1998 state budget allocations to health care sector were channeled to organization of hospital aid, and 19.0 percent- to primary healthcare, the proportion, respectively, is 35.7 percent and 37.1 percent in 2007, 39.0 percent and 41.1 percent in 2008, and 39.1 percent and 41.7 percent in 2009. Investments trend in health care sector show that primary health care sector, which is the most accessible for population and has the most important preventive function, began to operate more effectively, visits to ambulatory-polyclinic institutions have the tendency to grow.

### **8.3 EXPENDITURE COMMITMENTS OVER MTEF PERIOD**

Public expenditure provided for the health care system according to the MTEF 2007-2009 as a percentage of GDP is presented in the chart below.

**Chart 8.5 Level of Public Expenditure in Health Care (Percent of GDP)**

The share of public expenditure allocations in health care system within the total public expenditure, according to the MTEF 2007-2009, is presented in the chart below.

**Chart 8.6 Share of Health Care Expenditure within Total Public Expenditure (Percent)**

The increase in the budget allocations will be, in particular, channeled to attaining the objectives conditioned by inter-sectoral and intra-sectoral program priorities.

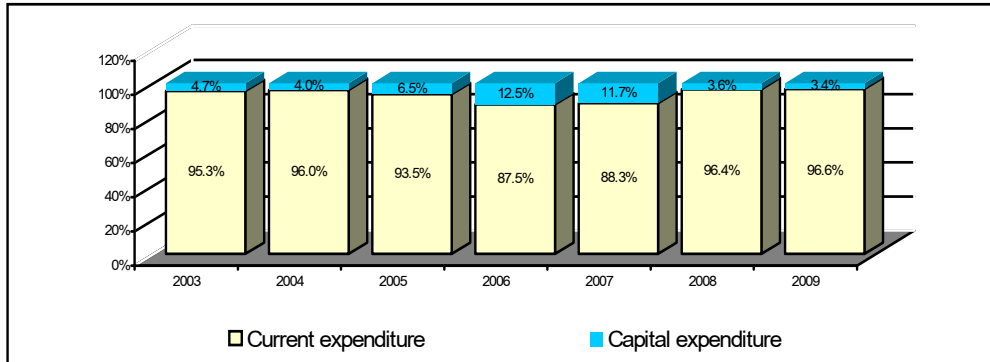
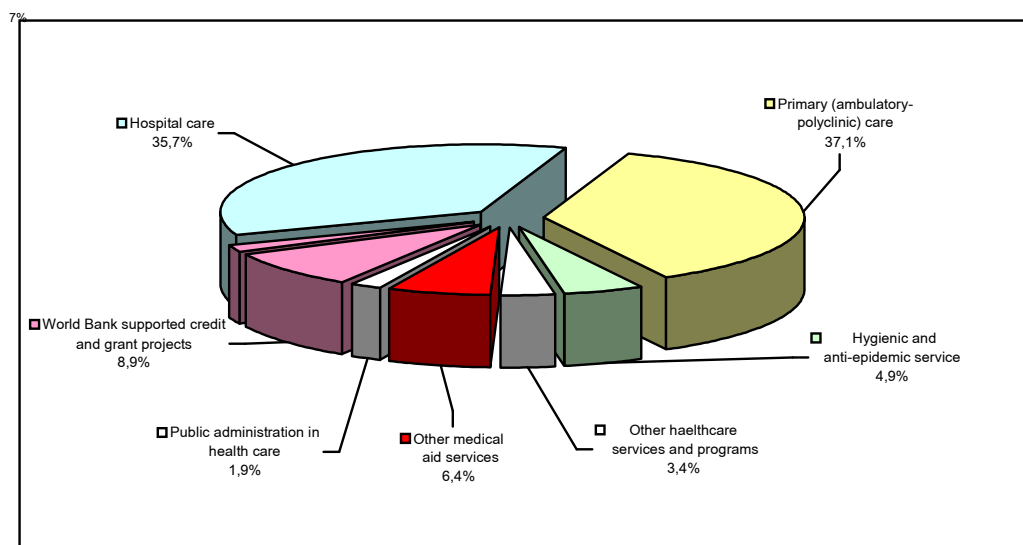
A basic provision of the medium-term expenditure framework, given the present level of available resources, has been the enhancement of the accessibility of medical services for the poorest and the most vulnerable groups of the population, through focusing on the improvement of medical services provided to the population.

The MTEF 2007-2009 allocations to health care (including expenditure for capital renovation and capital construction of health care institutions, Government's participation share in credit programs, as well as credit and grant programs) amount to 45,048.6 million drams in 2007, including current expenditure - 39,777.2 million drams and capital expenditure - 5,271.4 million drams; 47,320.4 million drams in 2008, including current expenditure - 45,636.5 million drams and capital expenditure - 1,683.9 million drams; and 53,609.3 million drams in 2009, including current expenditure - 51,811.2 million drams and capital expenditure - 1,798.1 million drams. The increase in expenditure, as compared with the respective previous year, is 14.5 percent or 5,692.7 million drams in 2007; 5.0 percent or 2,271.8 million drams in 2008; and 13.3 percent or 6,288.9 million drams in 2009.

**Table 8.2 Public Expenditure in Health Care, by Functional and Economic Classification Articles (Million Drams)**

<b>Functional Classification Groups, Subgroups and Projects</b>	<b>2005 Actual</b>	<b>2006 Adopted Budget</b>	<b>2007</b>	<b>+ -</b>	<b>%</b>	<b>2008</b>	<b>+ -</b>	<b>%</b>	<b>2009</b>	<b>+ -</b>	<b>%</b>
Healthcare, including	31,079.7	39,355.9	45,048.6	5,692.7	14.5	47,320.4	2,271.8	5.0	53,609.3	6,288.9	13.3
- Current expenditures	29,650.7	34,433.5	39,777.2	5,343.7	15.5	45,636.5	5,859.3	14.7	51,811.2	6,174.7	13.5
- Capital expenditures	1,429.0	4,922.4	5,271.4	349.0	7.1	1,683.9	-3,587.5	-68.1	1,798.1	114.2	6.8
Public administration expenditures in health care	483.7	730.5	847.1	116.6	16.0	863.8	16.7	2.0	986.4	122.6	14.2
<i>share within total expenditure in the sector (percent)</i>	1.2	1.9	1.9			1.8			1.8		
Hospital care	14244.9	14,116.1	16,087.7	1,971.6	14.0	18,451.4	2,363.7	14.7	20,952.5	2,501.1	13.6
<i>share within total expenditure in the sector (percent)</i>	36.2	35.9	35.7			39.0			39.1		
Primary (ambulatory-polyclinic) care, including	12,093.3	14,344.6	16,726.3	2,381.7	16.6	19,445.4	2,719.1	16.3	22,342.4	2,897.0	14.9
- Current expenditures	12,040.2	14,339.6	16,721.3	2,381.7	16.6	19,440.4	2,719.1	16.3	22,337.4	2,897.0	14.9
- Capital expenditures	53.1	5.0	5.0	0.0	0.0	5.0	-	-	5.0	-	0.0
<i>share within total expenditure in the sector (percent)</i>	30.7	36.4	37.1			41.1			41.7		
Hygienic and anti-epidemic service	1440.0	1,934.6	2,224.7	290.1	15.0	2,574.9	350.2	15.7	2,986.5	411.6	16.0
<i>share within total expenditure in the sector (percent)</i>	3.7	4.9	4.9			5.4			5.6		
Other medical aid services, including	2,057.3	2,720.2	2,865.0	144.8	5.3	3,301.3	436.3	15.2	3,832.9	531.6	16.1
- Current expenditures	1,093.7	1,725.0	1,725.0	0.0	0.0	1,983.8	258.8	15.0	2,321.0	337.2	17.0
- Capital expenditures	963.6	995.2	1,140.0	144.8	14.5	1,317.5	177.5	15.6	1,511.9	194.4	14.8
<i>share within total expenditure in the sector (percent)</i>	5.2	6.9	6.4			7.0			7.1		
Other healthcare services and programs	-	1,323.1	1,521.6	198.5	15.0	1,763.2	241.6	15.9	2,115.8	352.6	20.0
<i>share within total expenditure in the sector (percent)</i>	-	3.4	3.4			3.7			3.9		
Capital renovation of healthcare institutions, including	38.4	520.0	764.0	244.0	46.9	-			-		
- Capital expenditures	38.4	520.0	764.0	244.0	46.9	-			-		
<i>share within total expenditure in the sector (percent)</i>	0.1	1.3	1.7			-			-		
Credit and grant programs financed by World Bank and United Kingdom of Great Britain and Northern Ireland, including	722.1	3,666.8	4,012.2	345.4	9.4	920.4	-3,091.8	-77.1	392.8	-527.6	-57.3
- Current expenditures	348.2	264.5	649.8	385.3	145.6	559.0	-90.8	-14.0	111.6	-447.4	-80.0
- Capital expenditures	373.9	3,402.2	3,362.4	-39.8	-1.2	361.4	-3,001.0	-89.3	281.2	-80.2	-22.2
<i>share within total expenditure in the sector (percent)</i>	1.8	9.3	8.9			1.9			0.7		

The breakdown of the total spending in health care, as per current and capital expenditures, is presented below:

**Chart 8.7 Public Expenditure in Health Care, by Economic Classification (Percent)****Chart 8.8 Structure of Health Care Expenditure over 2007, by Subgroups (Percent)**

### Primary (Ambulatory-Polyclinic) Care

This system, as a priority, will attract overtaking additional allocations from the budget.

The proposed budgetary allocation to primary (ambulatory-polyclinic) care is 16,726.3 million drams in 2007. This is an increase by 16.6 percent, or by 2,381.7 million drams, as compared with the 2006 allocation at 14,344.6 million drams.

In 2007, average monthly wages of primary (ambulatory-polyclinic) system district physicians are expected to increase from 58,400 drams in 2006 to 64,200 drams; those of medical nurses – from 37,400 drams to 41,100 drams. Average monthly wages of physicians with particular specialization are expected to increase to 55,000 drams (as compared with 50,000 drams in 2006); those of nurses – to 33,000 drams (as compared with 30,000 drams in 2006).

In 2007, additional allocations for public utilities and communication expenses of institutions providing medical services, are envisaged due to increase of tariffs in heating, electricity, water-sewage and communications.

Beginning from 2006 ambulatory-polyclinic aid for the population is free of charge. As a result, the number of visits to district physicians, district pediatricians, family doctors, and physicians with particular specialization increased, and it has a tendency to grow. Due to

increase in number of visits, the number of laboratory-instrumental diagnostics is expected to increase from 3,022.2 thousands in 2006 to 3,376.2 thousands in 2007, including 180.0 thousand bacterioscopic examinations and oncocytological examinations of cervix of the uterus of women. For purposes of early detection of breast cancer, breast examination for women of 40 years old and above is envisaged once a year and in case of uncertainty 12.0 thousand mammography examinations are envisaged.

**Table 8.3 Financing of Primary Health Care over 2006-2009, by Programs (Million Drams)**

Financed Programs	2006 Budgeted	2007	Change, percent	Difference	2008	Change, percent	Difference	2009	Change, percent	Difference
1	2	3	4	5	6	7	8	9	10	11
<b>Primary (ambulatory-polyclinic) care, including</b>	14,344.6	16,726.3	16.6	2,381.7	19,445.4	16.3	2,719.1	22,342.4	14.9	2,897.0
State order for the population's primary health care	8,609.30	9,797.0	13.9	1,197	11,376.1	16.0	1,570	12,985	14.1	1,609
State order for specialized medical care	2,028.60	2,295.0	13.1	266	2,666.5	16.2	372	3,121.1	17.0	455
State order for hemodialysis	736.30	833.10	13.1	97	955.1	14.6	122	1,085.5	13.7	130
State order for obstetric-gynecological care	1008.3	1332.9	32.2	325	1,597.2	19.8	264	1,864.6	16.7	267
State order for medical care and expert advice of persons at call-up and pre-call-up age	1926.4	2,426.7	25.5	491	2,794.2	15.6	377	3,198.3	14.5	404
State order for sports medicine and anti-doping control	35.7	41.6	16.5	6	56.3	35.3	15	87.8	56.0	32

In 2008, allocations to primary (ambulatory-polyclinic) care will comprise 19,445.4 million drams (exceeding those of 2007 by 16.3 percent), and 22,342.4 million drams in 2009 (exceeding those of 2008 by 14.9 percent).

#### Hospital Care

The proposed allocation for hospital care is 16,087.7 million drams in 2007, an increase of 14.0 percent, or 1,971.6 million drams, as compared with the 2006 allocation of 14,116.1 million drams.

In 2007, average treatment duration will constitute 10.3 days, as compared with 10.6 days in 2006; average annual bed occupancy will constitute 158 days, as compared with 156 days in 2006.

In the framework of hospital care, the average cost of per patient daily treatment is forecast to be 10,200 drams in 2007, against the previous year's 9,000 drams; thus, there is an increase by 13.0 percent. Monthly wages of the medical staff in hospital care system is to increase from the previous year's 38,700 drams to 43,700 drams in 2007, and those of nurses is to increase from the previous year's 30,300 drams to 34,200 drams. In 2007, additional allocations to public utilities and communication expenses are envisaged due to increase of tariffs in heating, electricity, water-sewage and communications.

According to statistics, 8-10 percent of population (or around 295.0 thousand cases) need hospital care, of which 2006 budgeted state order is envisaged for 191.8 thousand cases, and 197.4 thousand cases in 2007. The increase of number of hospital care cases has resulted from increase in number of visits to hospitals by population due to economic stability in Armenia. As a result of number of programs and actions in primary (ambulatory-polyclinic) care and increase in number of ambulatory visits, number of first time diagnosed diseases has increased, particularly, as a result of mandatory examinations (mucus bacterioscopic and bacteriological examination, fluorography and other) of high-risk groups in primary (ambulatory-polyclinic) care framework the number of first time diagnosed active tuberculosis cases has increased. Thus, 1,284 cases were detected in 2000, 1,393 cases in



2002, 1,558 cases in 2004. In general, 6,165 patients with active tuberculosis were under supervision of tuberculosis dispensaries by January 1, 2005. The increase in number of tuberculosis cases has resulted also from long-term treatment of patients with drug-fast types of tuberculosis by modern methods under the tuberculosis treatment national program.

Increase in number of mental illnesses treatment cases has resulted from increase in number of first time diagnosed mental illnesses. Thus, 1,285 cases were detected in 2000, 1,411 cases in 2002, 1,653 cases in 2004. The growth trend continued in 2005 as well.

In 2005, within the framework of programs on "State Order for Medical Care of Socially Vulnerable Groups and of Those Included in Special Groups" and "State Order for Medical Care of Children Under 7", medical services were provided to 32.6 thousand patients and 23.0 thousand patients, respectively. In 2007, in the frameworks of these programs medical services to 34.5 thousand patients and 24.1 thousand patients, respectively, are envisaged. Increase in number of observed cases has resulted from both increased accessibility of hospital care mentioned above, and from enlarged lists of socially vulnerable and special groups, as far as 36 points are defined at present, instead of previously defined 38 points for vulnerable families to be included in the family allowance system.

**Table 8.2 Financing of Hospital Care over 2007-2009, by Programs (Million Drams)**

Financed Programs	2006 Planned	2007	Change, percent	Difference	2008	Change, percent	Difference	2009	Change, percent	Difference
<b>Hospital care, Including</b>	14,116.1	16,087.7	14.0	1,971.6	18,451.4	14.7	2,363.7	20,952.5	13.6	2,501.1
State order for tuberculosis treatment	902.0	1,054.2	16.9	152.1	1,210.2	14.8	156.1	1,374.9	13.6	164.7
State order for treatment of intestinal and other infectious diseases	523.1	654.9	25.2	131.8	748.7	14.3	93.8	846.5	13.1	97.8
State order for treatment of sexually transmitted diseases	74.3	77.9	4.9	3.6	89.3	14.7	11.4	101.3	13.4	12.0
State order for medical care of mental patients	1,310.5	1,398.5	6.7	88.0	1,611.5	15.2	213.1	1,824.6	13.2	213.1
State order for emergency medical aid	1,132.5	1,277.9	12.8	145.4	1,443.4	13.0	165.5	1,596.9	10.6	153.5
State order for medical care of narcological patients	80.4	102.7	27.7	22.3	118.1	15.1	15.5	134.8	14.1	16.7
State order for obstetric-gynecological care	2,006.9	2,145.8	6.9	138.9	2,461.1	14.7	315.3	2,798.0	13.7	336.9
State order for urgent medical assistance	3,037.2	3,231.9	6.4	194.7	3,699.2	14.5	467.4	4,219.1	14.1	519.9
State order for medical care of socially vulnerable groups and of those included in special groups	2,375.3	3,074.0	29.4	698.6	3,529.4	14.8	455.4	4,022.7	14.0	493.4
State order for medical care of children under 7	1,639.0	2,147.3	31.0	508.3	2,465.4	14.8	318.1	2,810.1	14.0	344.6
State order for medical care and expert advice of persons at call-up and pre-call-up age	1,035.0	922.8	-10.8	-112.1	1,075.1	16.5	152.2	1,223.6	13.8	148.6

\* 2006 budgeting and 2007 forecast indicators do not include allocations for capital construction.

In 2008, 18,451.4 million drams will be allocated for hospital care. The increase in expenditure as compared with 2007 is 14.7 percent or 2,363.7 million drams. The number of recipients of hospital care under the state order in 2008 will be 197.3 thousand cases. The average per patient daily treatment price will amount to 11,700 drams.

In 2009, 20,952.5 million drams will be allocated to hospital care. The increase in expenditure as compared with 2008 is 13.6 percent or 2,501.1 million drams. The number of recipients of hospital care under the state order in 2009 will be 197.3 thousand cases. The average per patient daily treatment price will amount to 13,300 drams.

#### Hygienic and Anti-Epidemic Service

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

In 2007, planned expenditure in the subgroup "Hygienic and Anti-Epidemic Service" is 2,224.7 million drams, including:

- State order for conducting hygienic and anti-epidemic expertise will increase from 1,439.4 million drams in 2006 to 1,655.4 million drams, or by 15.0 percent;
- State order for hygienic and anti-epidemic service will increase from 193.8 million drams in 2006 to 227.0 million drams, or by 17.1 percent;
- State order for procuring services for the prevention of especially dangerous infections will increase from 192.2 million drams in 2006 to 218.0 million drams, or by 13.4 percent;
- State order for procuring services for the prevention of HIV/AIDS will increase from 58.0 million drams in 2006 to 66.3 million drams, or by 14.3 percent;
- State order for procuring disinfections services will increase from 51.2 million drams in 2006 to 58.0 million drams.

Under the above-mentioned programs, resources will be channeled to conducting anti-epidemic examinations at sources of infectious diseases, monitoring implementation of the population's immunization, engaging in viral, sanitary-chemical research, preventative sanitary monitoring, hygienic examination of projects, and approval of the operation of newly constructed and reconstructed buildings, arranging complex anti-epidemic measures at sources of especially dangerous infectious diseases, such as intestinal and drop infections, cholera, brucellosis, hydrophobia, anthrax, and other dangerous infections, involving in educational activities for HIV/AIDS prevention, controlling risk groups, and conducting examinations. These measures will enable to ensure anti-epidemic security of the population and to reduce morbidity due to transmitted diseases.

In 2008, planned expenditure in the subgroup "Hygienic and Anti-Epidemic Service" is 2,574.9 million drams, comprising an increase by 15.7 percent over 2007.

In 2009, planned expenditure in the subgroup "Hygienic and Anti-Epidemic Service" is 2,968.5 million drams, comprising an increase by 16.0 percent over 2008.

#### Other Medical Care

Allocations for the centralized procurement of modern medical equipment are expected to amount to 1,140.0 million drams in 2007; 1,317.5 million drams in 2008; and 1,511.9 million drams in 2009.

1,725.0 million drams will be allocated for centralized procurement of medicines in 2007; 1,983.8 million drams in 2008; and 2,321.0 million drams in 2009.

*Externally Financed Programs*

Over the MTEF period, the second World Bank-financed credit program in healthcare will be implemented, aiming at the improvement of the quality and accessibility of medical care, conduction of an optimization policy resulting in the enhanced efficiency of the system.

The Health Care Modernization Project will be divided into four basic components: family medicine development; optimization and modernization of the hospital system; institutional development; project management.

Under the project, the medical and paramedical staff of the primary care unit will be retrained, thus completing the transition from the present ambulatory-polyclinic system to the family medicine system. The project is supposed to contribute to the improvement and expansion of educational centers, their provision with training, office, medical equipment, and transportation means. The working environment of the providers of family medicine services will be improved. The project is expected to finance the renovation of primary care institutions and the construction of ambulatories. It will also assist the internal optimization in some of the newly established hospital associations in Yerevan and in regions, strengthening their administration and management systems, introduction of management informational systems, and training of managerial staff. Hospital associations will be reequipped with the necessary equipment and training will be provided in the area of handling medical wastes. Under the project, capacities will be created for the assessment of health care, particularly in the form of national accounts of health, and reports on health system performance.

**Table 8.5 Amounts of World Bank Lending and the RA Government Participation Share, by Economic Classification (Million Drams)**

	2007	2008	2009
<b>Total</b>			
<b>Projects financed by World Bank and United Kingdom of Great Britain and Northern Ireland, including:</b>	4,012.2	920.4	392.8
- current expenditures	649.8	559.0	111.6
- capital expenditures	3,362.4	361.4	281.2
1. Healthcare System Modernization Project, being implemented by the financial support of the World Bank, including:	3,729.0	599.9	280.4
- current expenditures	498.1	379.8	111.6
- capital expenditures	3,230.9	220.1	168.8
2. Japan grant project within the Healthcare System Modernization Project, being implemented by the financial support of the World Bank, including:	151.7	179.2	-
- current expenditures	151.7	179.2	-
- capital expenditures	-	-	-
3. "Social and Economic Small-Scale Infrastructure Rehabilitation in Health Care Sector", subproject in the framework of the Armenian Social Investment Fund second project, being implemented by the financial support of the World Bank, including:	67.5	112.5	112.4
- current expenditures	-	-	-
- capital expenditures	67.5	112.5	112.4
4. Regional Development Program in Gegharkunik and Tavush, being implemented by the means of financial assistance granted to the Republic of Armenia by the United Kingdom of Great Britain and Northern Ireland, including:	64.0	28.8	-
- current expenditures	-	-	-
- capital expenditures	64.0	28.8	-

*Other Health Care Services and Programs*

In 2007, allocations to this subgroup will amount to 1,521.6 million drams or by 15.0 percent more than in 2006.

In 2008, allocations to this subgroup will amount to 1,763.2 million drams or by 15.9 percent more than in 2007.

In 2009, allocations to this subgroup will amount to 2,115.8 million drams or by 20.0 percent more than in 2008.

The subgroup comprises the following programs:

- State order for procurement of pathologic-anatomic, forensic, and genetic services;
- Indemnification of traveling expenses of the patients referred for treatment outside the country;
- State order for technologically difficult diagnostic examinations;
- State order for procurement of blood accumulation and related services;
- State order for regulation of pharmaceutical market and for procurement of related services;
- State order for procurement of other healthcare services;
- State order for national project against smoking.

**Table 8.6 Expenditure in Health Care, by Implementing Bodies (Million Drams)**

Agency	2007	2008	2009
1. RA President's Staff, including:	100.0	100.0	120.0
- Current expenditure	100.0	100.0	120.0
- Capital expenditure	-	-	-
2. RA Government's Staff, including :	67.5	112.5	112.5
- Current expenditure	-	-	-
- Capital expenditure	67.5	112.5	112.5
3. Ministry of Health, including :	44,666.8	46,903.0	53,159.9
- Current expenditure	39,531.9	45,365.4	51,479.3
- Capital expenditure	5,134.9	1,537.6	1,680.6
4. Police under the Government, including :	81.9	90.3	97.3
- Current expenditure	81.9	90.3	97.3
- Capital expenditure			
5. National Security Service under the Government, including :	26.8	29.5	31.8
- Current expenditure	26.8	29.5	31.8
- Capital expenditure			
6. Ministry of Territorial Administration, including:	64.0	28.8	-
- Current expenditure	-	-	-
- Capital expenditure	64.0	28.8	-
7. State Committee for Physical Training and Sports under the Government, including :	41.6	56.3	87.8
- Current expenditure	36.6	51.3	82.8
- Capital expenditure	5.0	5.0	5.0

Within the framework of program budgeting reform, distribution of allocations for the Ministry of Health programs, classified by programs, for the MTEF 2007-2009 period, is provided in Table 2 of the Annex II.

## **CHAPTER 9.**

### **SOCIAL INSURANCE AND SOCIAL SECURITY**

#### **9.1 SITUATIONAL OVERVIEW**

This section refers to those programs implemented by the Ministry of Labor and Social Affairs, the Department of Migration and Refugees of the Ministry of Territorial Administration, the State Fund for Social Insurance, and the Ministry of Education and Science, with regard to which the Ministry of Labor and Social Affairs acts as a superior body.

Increase of public financing of the sector and improvement of efficiency is considered a highest priority over the whole MTEF period.

General problems of the sector are directly connected and coincide with Poverty Reduction Strategic Program priorities, as well as with its participation and increased efficiency in development of social security system and reduction of poverty.

Among the key objectives to be attained in the sector are ensuring the pension security, provision of family allowances to the neediest families, social security of the disabled and elders, social security and state support to families, women and children, as well as state regulation of employment issues.

#### **Social Insurance**

The RA Law "On Mandatory Insurance Against Temporary Unemployment" came into force since January 1, 2006, and defines the scope of persons subject to mandatory social insurance against temporary unemployment, conditions providing with the right to receive insurance benefits, their types, procedures of calculation, assignment and payment (formerly, the mentioned relations were being regulated by the respective Government decrees). The Government adopted respective decrees in 2006 to ensure the application of the law. In 2007-2009, it is envisaged to take actions directed to the development of suggestions and assuring necessary motion for continuous improvement of legislation ensuring implementation of definite state programs on mandatory social security, as well as to unified application of related legislation.

#### **Pension Security**

The RA pension security system reforms are included into the list of priority actions by the RA Government for 2006. In this framework the following activities are envisaged:

- a) Adoption of the pension security reforms strategy in Armenia;
- b) Approving the program-schedule of pension security reforms actions;
- c) Creation of laws and other legal acts ensuring the realization of pension security reforms;
- d) Ensuring the full integration of individual (personalized) registration system into the pension security system.

Medium term developments in the sphere of pension security will be conditioned by the implementation of new pension strategy, and, as a result, it is envisaged to introduce a combined system of pension security, which will contain:

1. Public pension security;
2. Mandatory accumulative pension insurance for employed population under 30 by payments made from their wages;

### 3. Voluntary pension insurance through private pension funds and insurance companies.

Based on the respective provisions of the Poverty Reduction Strategic Program (Item 7.1.3, Sub-Items 285 and 292), special emphasis is placed on the implementation of the actions aimed at increasing the base for calculating mandatory social insurance payments, and to that purpose the introduction of individual (personalized) registration will continue, which is the core factor for real accumulative pension insurance implementation.

In this regard continuous improvement of legislation ensuring the usage of social security cards, examination of international expertise in automated exchange of data between databases, elaboration of suggestions for continuous improvement of mechanisms (procedure) of automated data exchange between social security area databases will continue.

The next issue identified by the Poverty Reduction Strategic Program is the abrupt toughening in the differentiation of age pensions depending on the length of service. The principle of social justice is assured to a certain extent through the introduction of the pensioner individual index, which determined that the longer is the length of service, the higher is the pension. This is the result of the Government's consistent policy, which enabled to nearly double the average rate of insurance component in pension (insured value for each year of the insurance length of service raised from 100 drams to 180 drams) over the last two and half years.

In the framework of pension reforms gradual increase of pension compensation indicator is envisaged (ensuring the compliance with the European Social Charter standards), which constitutes at least 40 percent for a person with 30 year insurance length of service, i.e. pension constitutes at least 40 percent of the person's former wage.

#### **Social Assistance**

##### **Family Allowance System**

As a key instrument for reduction of poverty, family allowances are of a specific role and significance.

The Family allowance system is effective already for 7 years, and changes over that period and shifts in number of registered beneficiary families testify on the extension of program targeting, as well as indirect reduction of poverty. The family should consider itself poor and anticipate certain assistance from the state in order to be registered in the system. Decrease in number of registered families and increase of beneficiary families ratio in it testifies, from one hand, about the awareness of population, and from the other hand, about growth of program targeting, as well as poverty reduction. Below the shift in number of beneficiary families in 1999-2005 is presented.

**Table 9.1 Ratio of Beneficiary Families in RA, 1999-2005**

	1999	2000	2001	2002	2003	2004	2005
Registered families (% of general number of families)	67.70	52.85	43.99	38.61	28.37	26.96	25.42
Beneficiary families (% of registered families)	40.68	50.52	54.70	54.86	67.84	63.88	64.81
Beneficiary families (% of general number of families)	27.54	26.70	24.06	21.18	19.25	17.22	16.48

Over the last two years, benefit proportions were differentiated. At the same time, in 2005 the bases were founded for the mechanism of providing one-off benefit payments (two cases defined for provision of one-off pecuniary aid are: childbirth, and entering the first grade of general education school in families eligible for allowance). In the first case, the one-off

pecuniary aid was determined to be at the extent of 35.0 thousand drams, and in the second case – 20 thousand drams.

Taking into account the good practice of 2004-2005, in 2006 minimal grade for eligibility for family allowance was lowered to 33.00 points from 34.00 in previous years, and the base rate increased by 1000 drams and made 7000 drams. Family allowance proportions were differentiated as follows:

Families with vulnerability assessed at 33.01-37.00 points: additional payment, accounted for each member of family under 18, is 4000 drams, additional payment, accounted for each member under 18 in families with four or more members under 18 (hereinafter – family with many children) – 5000 drams, additional payment for each member under 18 in families settled in high-mountainous or next-to-frontier areas – 4500 drams, additional payment for each member under 18 in families with many children and settled in high-mountainous or next-to-frontier areas – 5500 drams.

Families with vulnerability at 37.01-40.00 points: additional payment for each member of family under 18 – 4500 drams, additional payment for each member under 18 of family with many children – 5500 drams, additional payment for each member under 18 of families settled in high-mountainous or next-to-frontier areas– 5000 drams, additional payment for each member under 18 of families having many children and settled in high-mountainous or next-to-frontier areas– 6000 drams.

Families with vulnerability at 40.01 points and above: additional payment for each member of family under 18 – 5000 drams, additional payment for each member under 18 of family with many children – 6000 drams, additional payment for each member under 18 of families settled in high-mountainous or next-to-frontier areas – 5500 drams, additional payment for each member under 18 of families having many children and settled in high-mountainous or next-to-frontier areas– 6500 drams.

At the same time, in 2006 another case for provision of one-off pecuniary aid was determined – one-off pecuniary aid for funeral expenses in case of death of a member of family eligible for allowance (if he/she is not a pensioner or employed).

The implemented policy, i.e. directing financial resources mostly to families with children, is effective, as ratio of families with children in general number of beneficiary families continues to grow.

**Table 9.2 Ratio of Families With Children in 1999-2005**

	1999	2000	2001	2002	2003	2004	2005
Total number of families (% of registered families)	40.68	50.52	54.70	54.86	67.84	63.88	64.81
Families with children (% of registered families)	36.26	47.19	54.47	60.75	63.5	65.56	69.29

Such an attitude is approved by the Law "On Public Benefits", and this policy will be implemented over 2007-2009 as well.

In 2005 family allowance averaged 12.0 thousand drams. Average monthly number of beneficiary families amounted to 128.0 thousands, and, on average, 23.0 thousand families received one-off pecuniary aid.

2007 state budget allocations for allowance payments are envisaged to 26,587.7 million drams, which exceeds the previous year indicator by around 9.2 percent. This amount will be channeled to increasing the family allowance average level and mainly, like in previous years, to minor members of families. In 2007, average monthly number of beneficiary families will decrease to 125.1 thousands. Average family poverty allowance will increase

up to 17.6 thousand drams, and differentiated principle of allowance providing will be preserved.

#### Benefits to Persons Taking Care of Children Under Two Years of Age

Implementation of program on providing benefit to persons taking care of children under two years of age continues. So far, amount of benefit is too low (only 2500 drams). The number of beneficiaries per years is presented below.

**Table 9.3 Number of Beneficiaries Taking Care of Children Under Two Years of Age in 1999-2004**

Year	1999	2000	2001	2002	2003	2004
Beneficiaries	10450	10091	8780	7326	7721	7330

#### One-Off Benefit for Childbirth

Since October 2003, the amount of one-off benefit for child birth has been increased to 35.0 thousand drams. This fact contributed to increase in number of persons receiving this benefit. At the same time, it should be mentioned that it contributed to reduction of cases of not-registration of births in Armenia. Below the number of persons receiving benefit for child birth by years is presented.

**Table 9.4 Number of Beneficiaries of One-Off Benefit for Child Birth in 1999-2004**

Year	1999	2000	2001	2002	2003	2004
Number of born children	36500	34300	32100	32200	35800	37500
Beneficiaries	26200	24500	25674	25707	28884	30283
Beneficiaries (% of born children)	71.78	71.43	79.98	78.90	89.68	80.75

In 2005, one-off pecuniary aid at the extent of 35.0 thousand drams for a childbirth in families eligible for family allowance was determined by the "Family Allowance Program", i.e. indirectly child birth benefit was differentiated by family vulnerability level.

### Employment, Job, and Wages

#### Employment

Employment policy in Armenia is directed at enhancing total and efficient employment – stimulating the labor and employment, introducing mechanisms of increasing population income and fair distribution of resources.

In this regard, it is important to develop and implement a policy, which will contribute to economic development, from one hand, by developing abilities of the unemployed and heightening their economic activity and thus reducing their poverty, and from the other hand, by encouraging employers to maintain work-places, create new ones and fill up vacancies by skillful professionals proficient in modern technologies.

As of January 1, 2005 population of Armenia was 3,212.2 thousand people, labor force constituted for 63.5 percent of total population or 2,041.5 thousand people.

According to data by National Statistical Service, the average annual number of economically active population had a regular tendency to decrease over 1999-2005, decreasing from 1,462.4 thousand people in 1999 to 1,196.5 thousand people in 2005. In spite of economic growth over 1994-2004, the employment decreased form year to year and constituted 1,081.7 thousand people in 2005.



Structural reforms of Armenian economy brought to substantial changes in employment structure. As a result of structural reforms employment in public sector decreased and employment in private sector increased.

Number of persons seeking jobs in Armenia was 121.0 thousand people as of January 1, 2006. 73.5 percent of that number or 89.0 thousand people are unemployed. Women ratio in the unemployed is high (70.8 percent from unemployed or 63.0 thousand people). Ratio of urban population in the unemployed is very high – around 92.9 percent.

As of January 1, 2006, ratio of persons with higher education in general number of unemployed was 14.0 percent, persons with secondary vocational education – 25.8 percent, persons with general secondary education – 54.0 percent, and persons with incomplete secondary education – 6.2 percent.

Structure of the unemployed by age groups is: under 18 – 0.1 percent; 18-22 years old – 1.1 percent; 23-30 years old – 13.8 percent; 31-50 years old – 70.5 percent; and over 50 years old – 14.5 percent.

82.3 percent of unemployed were not employed for more than one year.

In 2005, 8,296 people got employed mainly in trade, catering, and industry sectors. Development trends are observed in agriculture and agricultural foodstuff processing, service, construction, industry sectors.

It is envisaged to create 20.0-22.0 thousand work places in 2006, of which 7,300 work places should be filled up by State Employment Service. Around 8,829 citizens will be involved in paid relief work.

On October 24, 2005 the RA National Assembly adopted the Law "On Social Security of Population in Case of Employment and Unemployment", and the Government adopted 9 decrees to regulate the relations defined by the law. Improvement of legislation relating employment is basic for activities in this area during the following three years. Introduction of social partnership system is important for development and implementation of employment sector policy. Efficient employment policy requires rapid growth of economy in all marzes of Armenia and in regions. Territorial administration and local self-governance bodies, non-governmental organizations, employers' unions, which are strongly interested in ensuring complete and efficient employment and living standards of population, should directly participate in implementation of employment policy in Armenia.

Main development trends of the sector over the next three years will depend greatly on conceptual approaches in employment macroeconomic policy, which will be included in general principles of employment policy development concept.

A large number of job seeking citizens, including disabled persons and young people, are in unequal conditions in labor market and have definite difficulties. According to the Law "On Social Security of Population in Case of Employment and Unemployment", this group of job seeking citizens is considered noncompetitive in labor market, and special projects aimed at increasing their competitiveness in labor market and employment are envisaged.

#### *Paid Relief Works*

Provision of paid relief works will continue in the future to ensure temporary employment for job seeking citizens, particularly, the unemployed, unemployed members of families registered in family allowance system, job seekers referred to as employed as a result of profiting from land privatization process, as well as other unemployed job seeking persons and students. Paid relief works are organized by local communities mainly to repair community social infrastructure, to contribute to repair works.

Labor Regulation System

Public labor regulation is significant for economic development of Armenia. Improvement of macroeconomic indicators greatly depends on labor motivation and stimulation in economy.

Particularly, public labor regulation policy will contribute to labor efficiency and quality. Improvement of labor payment system, labor safety and hygienic conditions in organizations, development of social partnership, creation and activity of workers' representatives' units, improvement of labor legislation and control over labor relations (which is the most important) are of special significance for labor stimulation. The above-mentioned reforms in labor sector will contribute to the regulating role of the state, organization and development of entrepreneurship, as well as to the improvement of investment situation and macroeconomic indicators in the republic.

By January 2006, Republic of Armenia has already ratified 29 conventions and recommendations of International Labor Organization regarding the labor sector.

The Labor Code adopted on November 9, 2004 and entered into force on June 21, 2005 requires new attitudes to labor relations and adoption of legal acts. In this regard, there is a need to develop the procedures of signing collective agreements between workers' communities and employers, define tariff-quality scales and other social guaranties.

There is a need to provide organizations, businessmen, labor unions with professional consulting on labor, wages, organization of labor safety and with appropriate information.

In this regard a number of legal acts ensuring application of the Labor Code should be adopted.

Consistent implementation of the policy in labor sector will result in regulation of employees' social-labor relations, improvement of working conditions and development of social partnership.

Wages Regulation System

There is still a number of unsolved problems, regarding inconsistency of employees' wage rate, material stimulation and social security systems with their competences and responsibilities.

Poverty Reduction Strategic Program has also stated the necessity of institutional reforms in public administration sector and improvement of labor remuneration of public servants in this context.

The policy of regulation of wages by the state will contribute to improvement of living standards of population.

Currently attempts are made to find such forms for providing salaries, which will be mostly consistent with modern requirements of organization of production.

Strategic decisions on labor payment rate, payment mechanisms, structure, and systems of additions to wages correspond to wages international attitudes in this regard and to the requirements of the RA Labor Code.

Over 2001-2005, the Republic of Armenia has already ratified two conventions relating wages (No. 95 "On Protection of Wages" and No. 131 "On Defining the Minimal Wage"), prepared by the Ministry.

A number of economic and legal reforms have been carried out over the last years.

Wages policy is directed to reducing the difference between the wages of public and private sector, which could be implemented by stages, taking into account macroeconomic indicators of Armenia.

There is a need to adopt a number of legal acts, which will contribute to improvement of payments system and solving the above-mentioned problems.

According to the Law "On Minimal Monthly Wage", the minimal monthly wage is 15,000 drams as of January 1, 2006, and the minimal monthly wage as calculative base is 1000 drams.

According to Poverty Reduction Strategic Program, it is envisaged to increase the minimal monthly wage up to 16,000 drams in 2015 aiming the reduction of poverty and improvement of the living standard of population. Under existing minimal monthly wage (15,000 drams as of January 1, 2006) the problem is that present minimal wage does not implement its social, reproductive, and regulatory functions, while it should be an instrument of the public revenue policy, which will contribute to improvement of labor efficiency.

Aiming to gradually increase the minimal wage up to 60 percent of the average wage (European Social Charter experts conclude that the minimal wages should constitute 60 percent of the average wage) and following the provisions of the International Labor Organization convention No. 131, International Labor Organization recommendation No. 135, and European Social Charter, the minimal wage in Armenia should be defined based on social-economic conditions and the rate of average wage in the country.

MTEF 2007-2009 envisages increase of minimal wage rate up to 20,000 drams in 2007, 25,000 drams in 2008, and 30,000 drams in 2009, maintaining the minimal monthly wage rate as calculative base at 1000 drams.

Base wage of civil servants is 30,000 dram as of January 1, 2006 (the rate of base wage is approved based on the report on Civil Servants' Base Wage Rate and Remuneration System, provided by Government authorized body, persuading from Article 14 of the Law "On Remuneration to Civil Servants", Government decree No. 1932, dated December 5, 2002 and Government decree No. 572, dated April 23, 2003).

Increase in the wages of civil servants is envisaged by MTEF 2007-2009.

### **Family, Women and Children Problems**

#### **All Day Long Care for Children**

Presently, 1,185 children deprived of parental care dwell in boarding houses throughout the country, of which 250 dwell in charitable boarding houses, 935 children dwell in 8 boarding houses under the Ministry of Labor and Social Affairs, of which 337 in specialized boarding houses.

The Government created all the necessary conditions in 8 boarding houses under the Ministry of Labor and Social Affairs for care and education of children deprived of parental care.

Over 2007-2009, care of the same number of children is envisaged in boarding houses, as the experience show that 80-90 children are entering boarding houses annually, and 57 children are already in line to enter special boarding houses.

The State Budget 2005 has also stipulated for providing children with pocket money, pursuant to Item 16 of the Annex approved by the Government Decree No 1324-N "On Recognition of the Public Administration Body Authorized by the Government of the Republic of Armenia, and on Approving the Minimum Public Social Criteria for the Care

and Education of Children at Boarding Houses”, dated August 5, 2004, which defines a monthly payment of 2,000 drams to the children at the age of 7-12, and of 3,000 drams to the children at the age of 13-18.

Society believes that children deprived of parental care for different reasons are the most socially vulnerable group of population. Expansion of social orphanage on the background of general unfavorable demographic conditions is a problem in Armenia. The fact is that over the last years children who have parents (often both parents), but for some reasons are deprived of parental care, reside together with one-side or both-side orphans in a boarding house.

The Ministry of Labor and Social Affairs in cooperation with the UNICEF has implemented "Boarding House Unloading Program" for 2002-2003 within the framework of annual projects jointly confirmed by the parties. The program was implemented in two stages. In 2002, the "Study of Conditions of the Children Residing in Boarding Houses" was implemented to find out the family status of children residing in boarding houses under the Ministry. To this end, two questionnaires for studying conditions of the children residing in boarding houses were compiled, and training of the surveyors was conducted. As a result, survey on conditions of 875 children in 8 boarding houses was conducted.

Studies of the boarding houses show that, as compared with 1998, the number of children at these institutions, especially in specialized boarding houses, has increased by 17 percent which reflects the complex impact of the population's deepening poverty, high prices on medicines and medical services, lack of parental skills, absence of a system for child care services and other factors. The increase in the number of boarding house inmates, as a rule, is accompanied with the growing share of children experiencing social orphanage. It should be also mentioned that, as compared with 2002, the number of children at the above-said boarding houses increased by 50 in 2003.

In 2003, the second component of the program – the "Study of Families of the Children Residing in Boarding Houses" – was implemented to find out the conditions of those families and the motives for giving their children to boarding houses, as well as to select the families eligible for getting back their children in case of appropriate state support. To this end, a questionnaire for studying families of the children residing in boarding houses was compiled, and training of the surveyors was conducted. 187 families of children residing in boarding houses were selected for survey. The social-financial status of the family, housing and communal conditions, health status of the family members, their employment issues, as well as the moral-psychological situation in the family were identified as the basic goals for studying the families. 168 families were practically studied, of which 78 with two parents and 90 with a single parent.

The expectation was that the number of children residing in boarding houses would decrease by 10 percent due to the implementation of the project. However, these expectations did not come true, and only 13 families out of 168 studied by specialists were recognized conditionally favorable ones for getting back their children provided that the family's social-financial problems are solved.

The other families were recognized unfavorable, due to the extremely poor social-financial, living, and moral-psychological conditions.

On July 1, 2004, the pilot program "Boarding House Unloading" was approved by the Government Decree No 988-N, stipulating that 26 children should be returned to the above-mentioned 13 families in 2004. However, based on agreement between the members of the Steering Committee of the European Commission's Food Program and the Minister of

Labor and Social Affairs, it was decided to suspend the program until a new unloading strategy is developed. The project is supposed to restart in 2006.

*Public Assistance to the Graduates of Children Tutorial Institutions (Hereinafter – Boarding Houses)*

The goal of this project is to ensure the social security of graduates of public boarding houses and prevent the expansion of this socially insecure group, create satisfactory conditions for graduates of public boarding houses to organize their lives on their own and for their integration into society.

Since 1991, around 300 persons have graduated from children tutorial institutions upon attaining the majority age. Around 220 of them have been discovered through relevant studies; most of them live in various dormitories at the Lamp Factory, students' hostels in Zeytun and the Nor-Nork Second District, at random places, in extremely unfavorable conditions. Presently, around 20-25 persons having attained the majority age are annually discharged from boarding houses throughout the country.

Pursuant to the Government Decree No 1419-N dated October 30, 2003, the program "Public Assistance to the Graduates of Children Tutorial Institutions" was approved and incorporated into the State Budget 2003 for the first time. The programs beneficiaries are supposed to be provided with:

- a) Accommodation/housing;
- b) Professional orientation, training, and retraining services;
- c) Income for meeting their basic needs;
- d) Medical assistance;
- e) Social patronage, etc.

*Provision of Socio-Psychological Rehabilitation Services to Children in Social Care Community Centers*

Presently, the Government implements a strategy for reforming children protection, which provides for decentralization of the care for children subject to risk (CSR) and of the subsystem of social care, making the system of care for these children more family-based and community-based, thus contributing to full social integration of the children.

Establishment of day-time care centers is stipulated by the Government's Decree No 1745-N "On Approving the 2004-2015 National Program for Protection of Children's Rights in the Republic of Armenia", dated December 18, 2003.

As a result of the pilot project "Reforms of the Children Care System" supported by the Japanese Social Development Fund and implemented over 2003-2005, the socio-psychological rehabilitation centers for children started to operate in 2005 in the Ajapnyak Community of Yerevan, and the one in Gyumri city will start operating in 2006. The aim is to transfer the implementation of most of envisaged actions of the children protection strategy to communities, since the existing centralized services are inconsistent for solving the different problems of children subject to risk, as they deprive children of possibility to be efficiently integrated into primary environment necessary for complete socialization of family, community and themselves.

The centers aim to deal with the problems of children deprived of parental care, those subject to that risk, as well as of children living in unfavorable and dangerous conditions, through social mediation, different types of assistance, socio-pedagogic, psychological, legal consultancy.

The tasks of the centers will be the following:

- a) Carry out social diagnosis of the risks threatening children (find out the causes and environment of risks), develop individual programs and schedules for eliminating the risks threatening each child;
- b) Carry out social-rehabilitation works for children subject to risk, according to individual plans;
- c) Participate in the arrangement of works for adoption, custody (tutorship), as well as settling the children deprived of parental care and those subject to that risk into tutor families;
- d) Assist in placing children, having left out of educational/training institutions, into such institutions;
- e) Support works for the protection of rights of the children included in risk-groups in communities;
- f) Support expanding the opportunities for children to enjoy services of health, educational, cultural, and other institutions;
- g) Contribute to raising the awareness of society on urgency of children problems and forming the active position to participate to solving of these problems.

### **Disabled and Elderly People Problems**

Main problems of the sector are: integration of the disabled in society, improvement of rehabilitative and prosthetic-orthopedic aid, organization of social services to lonely elders, ensuring social security of the World War II Veterans, disabled military servants and families of perished military servants, organization of long-term concessional loans lending to repressed persons for improvement of housing conditions, etc.

### **Services for Elderly People**

#### **Care for Elders**

Ensuring the social security of elders is one of the main problems of the Government.

Social services to elders and the disabled are provided in all day long care institutions (elders' nursing homes), as well as at their home places and in day-time care centers.

Currently, 1,000 elderly persons are residing in 4 elders' nursing homes of the system. Besides, 30 homeless persons are residing in Yerevan No. 1 nursing home, and another 50 elders - in day-time care center attached to Vardenis neuropsychological nursing home.

1,200 lonely elders and disabled persons get care at their home places.

There are about 11,000 lonely pensioners in the republic, who do not have inheritors, and the majority of them need social servicing and care.

#### **Improving Housing Conditions of Repressed Persons**

The process of providing long-term loans is implemented since 2000 (in accordance with the Law "On Repressed Persons" and the Government Decree No 410, dated July 20, 2000) aiming to regulate issues related to provision of long-term concessional loans to the repressed and their contiguous inheritors for housing construction purposes.

The State Budget 2006 provision for that purpose is 150.0 million drams. More than 400 repressed persons are registered in the Ministry, of which 300 have valid documents. The inflow of applications increased after amendments made to the Law "On Repressed Persons"

in 2005, according to which the repressed were allowed to take loans not only for construction of houses, but for purchasing as well.

### **Services to Disabled Persons**

#### **Free Provision of Prosthetic-Orthopedic Appliances, Rehabilitative and Technical Means to the Disabled, and Repair**

Provision of the disabled with prosthetic and rehabilitative appliances contributes to their integration into the society. Rehabilitation will provide the disabled with employment opportunities to partially meet their own needs and the needs of their families, which is among the requirements of our country's social policy and the Poverty Reduction Strategic Program.

Two specialized institutions (working by German and Armenian technologies) produce and provide the disabled with free upper and lower artificial limbs, orthesis, prosthetic and orthopedic shoes, go-assistants, crutches, sticks, medical corsets and trusses, instep supporters etc. They also arrange budgetary financed distribution of rehabilitative appliances (carriages, hearing aids and breast prosthetic devices) to the disabled.

Moreover, they repair prosthetic and prosthetic-orthopedic appliances. Carriages, hearing aids and orthopedic shoes repair is also envisaged in the framework of prosthetic and prosthetic-orthopedic appliances repair project.

Increase in MTEF allocations for provision of the disabled with prosthetic-orthopedic and rehabilitation appliances has resulted from activities of medical-social experts commissions and prosthetic organizations over the last years (early detection of the disabled who need prosthetic or rehabilitation appliances as a result of frequent visits to regions), as well as the necessity to provide new appliances after termination of their life span and necessity to include new appliances in the list of prosthetic appliances provided to the disabled.

Provision of the disabled with free rehabilitation appliances is envisaged by the Law "On Social Security of the Disabled in the Republic of Armenia".

At the same time, provision with free sound crating appliances and artificial eyes is envisaged by the "2006-2015 Strategy of Social Security of the Disabled" approved by the Minute No. 44 of the Government sitting from November 3.

Around 400 people with extracted vocal cords are registered in Armenia. They have communication difficulties that hinder their ability to live, work, learn adequately, and, as a result, they suffer psychological complexes and isolate themselves from society.

Production of artificial eyes for the disabled is not implemented in the framework of state order over the last years in the absence of state program.

Disabled persons who need artificial eyes are mainly socially vulnerable. They do not have necessary means to apply for paid prosthetics. The absence of an artificial eye is not only a cosmetic problem, but also a psychological one, especially for young people, who still should study, work and get married. Number of the disabled who need artificial eyes comprises 50 persons annually (according to data provided by the "Eye" Ltd.).

According to provisions of the Law "On Social Security of the Disabled in the Republic of Armenia" and "2006-2015 Strategy of Social Security of the Disabled" approved by the Government, it is necessary to undertake actions to integrate the disabled into society, provide them with necessary appliances.

State Budget 2006 provides for 12,898 cases, including:

- prosthetic-orthopedic and rehabilitation appliances      11,492

- carriages	200
- hearing aids	500
- repair of prosthetic-orthopedic appliances	706

*Provision of Hospital Services for Medical-Social Rehabilitation, Expertise of Workability*

The Law "On Social Security of the Disabled in the Republic of Armenia" defines that rehabilitation of the disabled and their return to full life is a significant factor to integrate them into the society. Rehabilitation will enable them to overcome the psychological complex of "being a heavy burden" for their family, to work and at least partially solve their own problems and social problems of the family, which is consistent with the objectives of the social policy of the country and with the Poverty Reduction Strategic Program.

Program of rehabilitation of the disabled immediately has to do with the provision of prosthetic appliances, since most part of the means provided for the program is spent on pre- and post-prosthesis treatment of patients.

The State Budget 2005 involved rehabilitation treatment of 309 persons through this program, nevertheless, actually 465 persons received rehabilitation treatment. The State Budget 2006 envisage rehabilitation treatment of 407 persons.

*Provision of Mental Health Rehabilitation Services*

Under this program, works for the preservation, recovery, and rehabilitation of people's mental health are implemented. The final goal of the program is to treat and rehabilitate the patients, to return them to full life.

The State Budgets for 2005 and 2006 referred to 392 patients, the volume is the same for the MTEF.

According to the Law "On Social Security of the Disabled in the Republic of Armenia" and through the Project on "Procurement of Services of Printing Books with Special Fonts, Preparing Copybooks, Recording of "Talking Books" for the Disabled Graduated from Schools, as well as for Those who Lost the Eyesight in Mature Ages within the Framework of the Program on " Provision of Services to the Disabled"", the State Budget 2006 for the first time envisaged to provide the disabled, who lost the eyesight, with 5,980 books printed with special fonts, copybooks and "Talking Books".

*Distribution of Food Received through Humanitarian Aid*

Within the framework of the General Agreement concluded between the World Food Program and the Government of the Republic of Armenia on June 9, 2000, and ratified by the National Assembly on September 12, 2001, on June 2, 2004 the Head of the Armenian Office of the World Food Program and the Minister of Labor and Social Affairs on behalf of the RA Government signed an agreement "On Assistance to the Vulnerable Groups and the Program of Actions for Long-Term Rehabilitation in Armenia". Pursuant to Item 3.1 of the Agreement, the Government has undertaken commitments with regard to provision of resources for unloading, storing, and distribution of foodstuff, for conduction of analysis of beneficiaries, and publication of their lists under the "Food Support Distribution" program.

The program value is US\$ 6,443,095. The program is consistent with one of the three basic areas identified in the Poverty Reduction Strategic Program – that is the social assistance, which enable the Government to mitigate social tension for 35,000 extremely poor families, or for 21.87 percent of the total number of 132,400 families eligible for family allowance. With the assistance of the United Nations World Food Program, the "Food Support Distribution" program has been implemented once per two months in Yerevan, urban settlements of Shirak and Lori Regions, through the territorial divisions of social services.



*Social Security Staff Retraining, Implementation of Methodological and Scientific-Research Activities*

This program aims to enhance the scientific and working qualification of labor and social sector staff, provide them with necessary manuals and guides; enhance the qualification of social workers, deepen their knowledge, improve their professional qualities by means of retraining, as well as through development and distribution of methodological manuals and guides ensure integration of theoretical knowledge and practical experience, familiarizing the employees of stakeholder organizations with Armenian laws, normative and legal acts, and with the changes in them.

*Programs on "Provision of Pecuniary Aid to the World War II Veterans, to Military Servants Disabled Due to the Reasons Defined by Article 13 of the RA Law No 258 Dated November 25, 1998, to the Families of Military Servants Perished (Deceased) When Performing Their Official Duties" and "Honorary Payments to Veterans"*

As in previous years, over 2007-2009, state regulation of social security issues of the World War II Veterans, the disabled military servants, and the families of perished (deceased) military servants, particularly the provision of pecuniary aid against certain privileges and provision of honorary payments to World War II Veterans has been of primary concern.

In accordance with the Law "On Amendments to the Law of the Republic of Armenia on the Veterans of the World War II" adopted by the RA National Assembly on October 26, 2005, since January 1, 2006, the amount of monthly honorary payments provided to World War II Veterans has been determined at 10,000 drams.

In accordance with the Law "On Amendments to the Law of the Republic of Armenia on Social Security of Military Servants and Their Family Members" adopted by the RA National Assembly on November 11, 2005, the monthly amount of pecuniary aid provided to the disabled military servants and to family members of perished (deceased) military servants against certain privileges, were raised since January 1, 2006:

- For the disabled military servants and to families of perished military servants from 5,000 drams to 6,000 drams;
- In the families of perished military servants consisting of 5 and more members, additional 2,000 drams for each next member, against 1,000 drams provided earlier.

Over 2007-2009, it is envisaged to increase the amount of monthly pecuniary aid to World War II Veterans, the disabled military servants, and the families of perished military servants due to increased tariffs of public utilities.

## **9.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### **9.2.1 Objectives**

The objective of the social insurance and social security sector is to facilitate reduction and overcoming the poverty among the population of the country, raise funds for increasing pensions, increase the average rate of benefits, create new work places, as well as enhance resource spending efficiency through improved directedness and implementation of targeted programs.

The basic objectives of the sector are as follows:

- To increase pensions annually, so that the average insurance (working) pension draws exceed the per capita poverty line before 2008 (PRSP, Clause 285);

- To increase the base amount of family allowance and the differentiated family vulnerability grade provided to the family members under 18 to reduce poverty and disparity;
- To increase the allocations for state support of graduates of boarding houses, which will provide for needs of those beneficiaries who were under 23 before 1991, and then - according to the annual number of the graduates of boarding houses;
- Continuous operation of social security card system, ensuring the rules of cards numbers application;
- Ensuring the introduction of three-level social monitoring system.

The main directions of the social security system, as identified by the PRSP, were reflected and valued by the Government Activities Program, particularly: raising rates of pensions and family allowances, reducing the number of beneficiaries, improving the targeting of family allowances, increasing the consumption level of the poorest above the food poverty line on the background of overall poverty reduction, and increasing the share of family allowance financing within the total public spending.

### 9.2.2 Priorities

In view of the specific characteristics of the social insurance and social security sector, among the 2007-2009 medium-term expenditure programs priority will be given to the following directions: family allowances, social pensions, maintenance of boarding houses for children and nursing homes for elderly persons, social aid to lonely elders at their home places, provision of prosthetic-orthopedic appliances to the disabled, implementation of state targeted programs relating employment issues, and one-off benefits for childbirth.

Priority programs are focused on providing the population with public benefits and pensions, services to the elders and children, integration of the disabled into society, ensuring population employment as prescribed by the Law "On Public Benefits"; the Law "On Public Pensions"; the Law "On the Rights of a Child"; the Law "On Social Security of Children Deprived of Parental Care"; the Law "On Social Security of the Disabled"; the Law "On Population Employment"; the Poverty Reduction Strategic Program; as well as by respective decrees of the Government.

**Table 9.6 Comparative Presentation of Expenditure in Social Sector by State Budget 2006, as to MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams)**

Functional Classification Subgroup	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Social insurance and social security	53085.0	55869.9	56364.0	57984.8	57736.9	58851.7	62203.7
Public administration in social insurance and social security	1207.2	1169.2	1364.4	1329.4	1553.3	1370.3	1536.3
Pension security	16598.2	17052.3	17567.8	17562.6	18548.2	18319.2	18979.8
Public benefits to population	27400.3	27034.4	29649.7	28095.0	30615.4	28681.6	31403.2
Social security programs	4542.3	4719.6	4525.3	5540.6	4551.6	5825.0	5600.8
Other social programs	3337	5894.4	3256.8	5457.2	2468.4	4655.6	4683.6

### 9.2.3 Expenditure drivers

#### Pension Security

1. Expenditure in the program "**Pension Security of the Military Officers Personnel and Their Family Members**" over 2007-2009 will decrease by 74.7 million drams and 230.8 million drams, respectively, and will increase by 117.6 million drams in 2009; this reflects the adjustments of calculation base during budget 2006 development (based on previous year actual indicators, anticipated number of new pensioners was recalculated to the average

annual one and comprises 37,286 people in 2007 (36,094 people in 2006), 38,411 people in 2008, and 39,533 people in 2009, maintaining the 2006 average monthly wage rate, adding the sum necessary for payment service, and maintaining pension current base rate). In State Budget 2006 pensions of military servants and their families members were increased by 10 percent, pension of the participants of the 1990-1994 military actions and their family members were increased by 20 percent.

2. Expenditure in the program "**State Budget Financing of Insurance Length of Service According to Article 45 of the Law on Public Pensions**" over 2007-2009, will increase by 59.6 million drams, 357.7 million drams, and 715.5 million drams, respectively, due to increase in value of one year insurance length of service by 40 drams in 2007 (the value of one year insurance length of service in 2006 is 180 drams), by 80 drams in 2008, and by 60 drams in 2009, maintaining the 496,843 insurance length of service years determined by State Budget 2006.

3. Expenditure in the program "**Indemnification of Damage Resulting in Disability, Professional Disease, or Other Harm to Health Incurred in Connection with Performing Official Duties by Employees**" over 2007-2009 will increase by 24.5 million drams, 42.1 million drams, and 59.6 million drams, respectively, reflecting the envisaged changes of minimal wage rates in Armenia.

#### Public Benefits to Population

1. Expenditure in the program "**Family Allowance and One-Off Pecuniary Aid**" in 2009 will be increased by 2,465.5 million drams reflecting the increase in the base rate of allowance and in per child additional payment, with consideration of the number of beneficiary families registered in high-mountainous and next-to-frontier areas.

Increase in expenditures of family allowance in 2009 is reflected also in PRSP.

At the same time, reduction in the number of the beneficiary families is forecast in 2009 (data presented in Tables 9.5 and 9.5.1).

2. Expenditure decrease in the program "**One-Off Benefit for Childbirth**" over 2007-2008 reflects adjusted calculation, and increase by 67.4 million drams in 2009 reflects the preservation of birth rate growth to 4.8 percent.

3. Expenditures in the program "**Benefit for Pregnancy and Childbirth**" were not envisaged, as the expenses in the area will be covered by Mandatory Social Security Budget according to The Law on Mandatory Insurance against Temporary Disability (HO-208-N, November 25, 2005).

4. Expenditures in the program "**Organization of Professional Education of Persons Which Do Not Have Insurance Length of Service or Have Insurance Length of Service of Less Than a Year**" by MTEF 2006-2008 were not envisaged, expenditures of 60.2 million drams annually are envisaged by MTEF 2007-2009.

5. Expenditures in the program "**Organization of Rehabilitation of Professional Labor Abilities of the Disabled Which Do Not Have Insurance Length of Service or Have Insurance Length of Service of Less Than a Year**" by MTEF 2006-2008 were not envisaged, expenditures of 5.0 million drams annually are envisaged by MTEF 2007-2009.

#### Social Security Programs

##### 1. Services Provided to Elders

1.1. Expenditure increase under the program "**Procurement of Nursing Home Services for Elders**", constitute 276.5 million drams in 2007, and 250.7 million drams annually over 2008-2009 due to:

a) 2006 budget calculations, included: a) increase in number of residents and staff; b) envisaged additions at the rate of 50 percent and 20 percent to the wages of Vardenis nursing home staff; c) increase of mandatory social payments minimal rate by 2,000 drams; d) adjustment of water tariff, heating expenses, expenses for mandatory medical examination of staff twice a year;

b) Taking into account the increase in tariffs of communication, water, and gas services and in business trips rates, increase by 10 of the inmates' number and increase in staff by 3 persons, as well as increase in wages and food expenses by 20 percent.

1.2. Expenditure increase under the program "**Procurement of Services for the Center for Social Servicing of the Lonely Elders at Home**" constitute 6.1 million drams in 2007, and 2.2 million drams annually over 2008-2009 due to increase in tariffs of communication, water, and gas services, as well as increase in wages and food expenses by 20 percent.

1.3. Expenditures in the program "**State Support to "Vardenis Neuropsychological Nursing Home" SNCO for Day-Time Care of Elders**" by MTEF 2006-2008 were not envisaged, expenditures of 14.8 million drams annually are envisaged by MTEF 2007-2009.

## 2. Services Provided to the Disabled

2.1 Expenditures in the program "**Free Provision of Prosthetic-Orthopedic Appliances, Rehabilitative, and Technical Means to the Disabled, and Repair**" increased by 163.7 million drams in 2007, and by 219.7 million drams annually in 2008-2009, due to fact that calculations include expenses of 38.0 million drams for provision of the disabled with artificial eyes and sound creating appliances (presented in Table 9.10), as well as the increased number of prosthetic-orthopedic appliances and other facilitating accessories, hearing aids and wheeled chairs for the disabled, and, as a result, the number (conditional units) will comprise to 14,983 conditional units in 2007, and 16,183 conditional units annually in 2008-2009.

2.2 Expenditures in the program "**State Support to "ArtMed" Medical Rehabilitation Center**" CJSC increased by 4.3 million drams annually over 2007-2009, due to the fact that 2006 budget calculations include:

a) Changes of patient per day average expenses in hospitals by Ministry of Healthcare (as compared with 8,300 drams in 2005, 9,000 drams were envisaged by State Budget 2006);

b) State Budget 2006 envisaged increase of the number of persons who need prosthetic services by 98 persons (309 persons in 2005).

2.3 Expenditures in the program "**Procurement of Services for Printing Books with Special Fonts, Preparing Copybooks and Recording "Talking Books" for the Disabled Graduated from Schools, as well as the Disabled, Who Lost the Eyesight in Mature Age**" by MTEF 2006-2008 were not envisaged, expenditures of 11.5 million drams annually are envisaged by MTEF 2007-2009.

## 3. Services Provided to Families, Women, and Children

3.1 Expenditures in the program "**Procurement of Services of Boarding Houses for Children**" increased by 208.4 million drams annually over 2007-2009, due to increase in tariffs of communication, water, and gas services and in business trips rates, as well as increase in wages and food expenses by 20 percent.

3.2 Expenditures in the program "**State Support to the Graduates of Children Tutorial Institutions of the RA**" over 2007-2009 increased by 56.1 million drams, 55.6 million drams, and 18.9 million drams, respectively, due to increase in real estate market prices by

1.7 million drams (1 apartment price is 4.0 million drams in 2006), at the same time the number of beneficiaries decreases.

3.3 Expenditures in the program **"Procurement of Social-Psychological Rehabilitation Services of Children Day-Time Care Centers"** decreased by 52.2 million drams annually over 2007-2009, due to adjustment of calculations, though tariffs of communication, water, and gas services and in business trips rates, as well as wages and food expenses (by 20 percent) have increased.

3.4 Over 2007-2008 for the construction of new premises for "Gyumri Children Home" SNCO capital expenditures of 29.1 million drams and 126.0 million drams, respectively, were envisaged; and for the repair of "Kharberd Specialized Children Home" SNCO old premises- capital expenditures of 53.7 million drams and 153.5 million drams, respectively, were envisaged.

4. Expenditures in the program **"Procurement of Services for Retraining the Methodological and Social Security Sector Staff"** increased by 7.1 million drams in 2007 and by 12.1 million drams annually over 2008-2009, due to increase in tariffs of communication, public utilities services and in business trips rates, as well as increase in wages by 20 percent (as a result average monthly wage comprises to 43.6 thousand drams; 36.3 thousand drams in 2006).

5. Expenditures in the program **"Activities for Dealing with Refugees' Social Problems"** over 2007-2009 increased by 2.2 million drams, 2.5 million drams, and 5.0 million drams, respectively, due to increase in wages by 20 percent (average monthly wage comprises to 19.2 thousand drams in 2006).

6. Expenditures in the program **"State Support to "Computer Center" SNCO under the Program on Procurement of Information Services on Refugees and Their Families"** increased by 29.8 million drams in 2007 and 31.7 million drams annually over 2008-2009, due to increase in tariffs of communication services and increase in wages by 20 percent (average monthly wage comprises to 40.0 thousand drams in 2006).

7. Expenditures in the program **"State Support to "Special Shelter" SNCO of the Department of Migration and Refugee of the Ministry of Territorial Administration"** over 2007-2009 increased by 1.2 million drams, 1.8 million drams, and 2.4 million drams, respectively, due to increase in tariffs of communication services and in business trips rates, as well as increase in wages and food expenses by 20 percent (average monthly wage comprises to 16.4 thousand drams in 2006).

#### Other Social Programs

1. Expenditures in the program **"Honorary Payments to Veterans"** over 2007-2009 increased by 65.4 million drams, 53.6 million drams, and 22.5 million drams, respectively, due to increase of monthly benefit up to 5,500 drams since January 1, 2006 (MTEF 2006-2008 monthly benefit rate comprised to 4,500 drams), while the number of veterans decreases.

2. Expenditures in the program **"Provision of Pecuniary Aid to the World War II Veterans, to Military Servants Disabled Due to the Reasons Defined by Article 13 of the RA Law No 258 Dated November 25, 1998, to the Families of Military Servants Killed/Perished (Deceased) When Performing Their Official Duties"** over 2007-2009 increased by 650.0 million drams, 633.2 million drams, and 601.8 million drams, respectively, due to envisaged changes in monthly compensation rates, taking into account the increases in tariffs of public utilities and decrease in the number of beneficiaries.

3. Expenditures in the Regional Development Project being implemented by the means of financial assistance granted to the Republic of Armenia by the United Kingdom of Great Britain and Northern Ireland were not envisaged by MTEF 2006-2008, expenditures of 23.5 million drams in 2007 and 9.6 million drams in 2008 were envisaged by MTEF 2007-2009.

4. Expenditures in the program "**Reimbursement for Deposits in USSR Savings Banks ASSR Republic Bank before June 10, 1993 by Citizens-Depositors of ArmSavingsBank**" by MTEF 2006-2008 were not envisaged, expenditures of 1,000.0 million drams annually are envisaged by MTEF 2007-2009.

### 9.3 EXPENDITURE COMMITMENTS

Sector priorities coincide with PRSP priorities, which are preparing legal and organizational bases for pension reforms, enhancing targeting in social aid programs and efficiency in social security and insurance programs, prioritizing the programs addressing the disabled and children in state programs.

#### *Pension Security*

The State Budget allocations to this subgroup will amount to 17,562.6 million drams in 2007, 18,319.2 million drams in 2008, and 18,979.8 million drams in 2009. The increase in expenditure is largely driven by the rise of the per year value of the insurance length of service.

The main indicators of pension security are presented in Tables 9.7 and 9.7.1 below.

**Table 9.7 State Budget Expenditure in Pension Security Over 2005-2009 (Million Drams)**

Group/Subgroup/Project	2005 Actual	2006 Adopted	Change, percent	2007	Change, percent	2008	Change, percent	209	Change, percent
1	2	3	3/2	4	4/3	5	5/4	6	6/5
06.02 Pension security, including:	14359.8	17052.3	18.7	17562.6	3.0	18319.2	4.3	18979.8	3.6
01. Pension security of military officers personnel and their family members	8592.0	10048.7	17.0	10417.9	3.7	10741.5	3.1	11089.8	3.2
02. Pension security of military ranks personnel and their family members	2308.0	2462.2	6.7	2346.4	-4.7	2326.4	-0.9	2306.5	-0.9
03. Social pensions	2315.4	3261.5	40.9	3236.6	-0.8	3199.1	-1.2	3159.6	-1.2
04. Budgetary indemnification for other types of activity included into the insurance length of service and calculated in accordance with Part 4 of the Article 45, and with Items 1, 4-8 of the Part 5 of the same Article of the Law "On Public Pensions"	2308.0	1073.2	12.5	1311.7	22.2	1788.6	36.4	2146.4	20.0
05. Indemnification for the damage resulting in disability, professional disease, or other harm to health incurred in connection with performing official duties	44.4	52.5	18.2	70.2	33.7	87.7	24.9	105.3	20.1
06. Pensions and monthly pecuniary aid assigned by Armenian laws and by Government decrees	146.1	154.3	5.6	179.8	16.5	175.9	-2.2	172.2	-2.1

**Table 9.7.1 Annual Growth in Pensions over 2005-2009**

Indicator	2005	2006	2007	2008	2009
Base pension (drams)	4000	4250	4250	4250	4250
Per year value of the insurance length of service	160	180	220	300	360
Number of labor pensioners (thousand persons)	487.6	484.8	481.7	478.4	475.2
Average monthly pension rate (drams)	9734.4	11863.4	13687.9	15565.8	17799.2
Number of social pensioners (thousand persons)	45.0	44.9	44.5	44.0	43.5
Average monthly pension rate (drams)	4867.0	6050.1	6056.5	6063.0	6059.5

*Public Benefit to Population*

State Budget allocations for this subgroup will amount to 28,095.0 million drams in 2007, 28,861.6 million drams in 2008, and 31,403.2 million drams in 2009.

Increase in expenses is mainly resulting from:

*Family Allowance*

Over 2007-2009, allocations will amount to 26,454.6 million drams, 26,977.7 million drams, and 29,631.6 million drams, respectively.

The main indicators of family allowance are presented in Tables 9.8 and 9.8.1 below.

As a result of increased targeting in family allowance program, the number of beneficiaries in Armenia will decrease, average monthly allowance rate will increase, allowance rate determination principles will be preserved, which coincide with PRSP policy and determined rates.

Allocations to the program "**One-Off Benefit for Childbirth**" over 2007-2009 will amount to 1,326.0 million drams, 1,389.4 million drams, and 1,457.2 million drams, respectively. The forecasts take into account the increase in birth rates in Armenia over the last years.

**Table 9.8 Family Allowances, 2005-2009 (Million Drams)**

Program	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
1	2	3	3/2	4	4/3	5	5/4	6	6/5
Family allowances	19572.0	24357.9	24.5	26454.6	8.6	26977.7	2.0	29631.6	9.8

**Table 9.8.1 Family Allowances, 2005-2009 (Million Drams)**

Indicator	2005	2006	2007	2008	2009
Average number of family members (person)	3.6	3.6	3.6	3.6	3.6
Number of beneficiary families (thousand families)	139	132.4	125.1	119.1	112.5
Family allowance expenditure as a share of GDP (percent)	1.0	1.2	1.2	1.2	1.2
Average monthly allowance (drams)	12115	15331.0	17622.3	18876.1	21949.4
Extreme poverty line, per capita, as to the PRSP (drams)	8002	8207	8416.7	8626.3	8836.0
Average monthly allowance, per capita (drams)	3365.3	4311.5	4892.3	5280.0	6137.8
Ratio to the extreme poverty line (percent)	42.1	52.5	58.1	61.2	69.5

*Social Security Programs*

Expenditure in social security programs will be in total 5,540.6 million drams in 2007; 5,825.0 million drams in 2008; and 5,600.8 million drams in 2009.

*Services Provided to Elders*

Over 2007-2009, the number of nursing home inmates is expected to increase by 10 (the present number is 1,000) and number of staff members by 3 persons (607.5 post units in 2006), as well as wages and food expenses will increase by 20 percent (in 2006, average monthly wage is 39.9 thousand drams, inmate per day food expenses are 864.4 dram), the increase in tariffs of communication, water, and gas services and in business trips rates were taken into account as well.

At the same time, 50 percent addition to official wages of employees included in the list of jobs and professions detrimental to health according to the Law "On Remuneration of Labor" (Government decree No. 1907-N from December 11, 2003, following the Law) and 20 percent addition to wages of persons working in areas included in the list of high-mountainous settlements, defined by the Government decree No. 226 from April 1, 1998, were taken into account for Vardenis Nursing Home staff members.

Inmates of nursing homes are under full care of the state.

Around 1,200 lonely elders and disabled persons are provided outpatient (at-home) services, and the monthly cost of servicing per person is 5.1 thousand drams, which is cheaper than the cost of servicing at nursing homes by approximately 18.5 times. Those, provided with outpatient services, receive general, legal, and psychological consultation, first medical aid, and other services.

Over 2007-2009, staff wages are expected to increase by 20 percent annually (29.5 thousand drams in 2006), the increase in communication tariffs has also been taken into consideration.

Temporary shelter to 30 homeless persons is provided by Program on "State Support to "Yerevan No. 1 Nursing Home" SNCO to Temporarily Shelter Homeless Persons". Over 2007-2009, increase of wages and food expenses by 20 percent is envisaged (in 2006, average monthly wage is 29.9 thousand drams, inmate per day food expenses are 806.0 dram); the increase in communication, gas, and water tariffs has also been taken into consideration.

*Services Provided to the Disabled*

In accordance with the Law "On the Social Security of the Disabled in the Republic of Armenia", the disabled are entitled to free provision of prosthetic-orthopedic and rehabilitative appliances, under the program "Free Provision of Prosthetic-Orthopedic Appliances, Rehabilitative, and Technical Means to the Disabled, and Repair". Expenditure in the program will total to 813.2 million drams in 2007 and 869.2 million drams annually over 2008-2009 (16,183 appliances per year over 2008-2009).

Provision of the disabled with prosthetic and rehabilitative appliances contributes to their integration into the society. Rehabilitation will provide the disabled with employment opportunities, to partially meet their own needs and the needs of their families, which is among the requirements of social policy and the Poverty Reduction Strategic Program.

Upper and lower artificial limbs, orthesis, prosthetic and orthopedic shoes, crutches, sticks, medical corsets and trusses, instep supporters, as well as sound crating appliances and artificial eyes are produced and delivered to the disabled free.

Budgetary financed distribution of rehabilitative appliances (carriages, go-assistants, hearing aids and breast prosthetic devices) to the disabled is also arranged. Moreover, repair of prosthetic appliances is also arranged.



Over 2007-2009 provision of fore-prosthetic and after-prosthetic services for 407 people are also envisaged by "**Procurement of Hospital Services for Medical-Sociological Rehabilitation, Expertise on Workability**" Program.

*Services Provided to Families, Women, and Children*

Over 2007-2009, by the "**Procurement of Services of Boarding Houses for Children**" Program, the following is envisaged:

- Preserve the number of inmates in boarding houses to 935 children;
- Increase the wages and food expenses by 20 percent (in 2006, average monthly wage is 43.9 thousand drams, inmate per day food expenses are 806.4 dram);
- Increase in communication services, gas, and water tariffs have also been taken into consideration during calculations.

At the same time, capital expenditures over 2007-2008 comprise: for the construction of new premises for "Gyumri Children Home" SNCO - 29.1 million drams and 126.0 million drams, respectively; and for the repair of "Kharberd Specialized Children House" SNCO old premises - capital expenditures of 53.7 million drams and 153.5 million drams, respectively.

"**State Support to the Graduates of Children Tutorial Institutions of the RA**" program expenditures over 2007-2009 will be 379.3 million drams, 378.8 million drams, and 342.1 million drams, respectively. Provision with apartments, aid in profession choice, education, retraining, provision of free medical and legal aid will continue in the framework of the program.

Expenditure in the program "**Unloading Children Tutorial Institutions**" over 2007-2009 will be 17.0 million drams annually.

The program aims to improve the system of children protection in Armenia.

In 2006 and 2007, the program will be implemented in Lori, for the following reasons:

- Availability of 5 institutions (1 children home and 4 special general education institutions) eligible for involvement into the program;
- Availability of a functioning infrastructures of children protection (which could act as service providers in the future);
- 1 day-time care center in Vanadzor, which provides social and psychological assistance to families (by non-governmental organizations);
- Psychological assistance center (by non-governmental organizations);
- 39 active and experienced non-governmental organizations, particularly, Social Services Integrated Center, which functions based on modern social technologies;

During the implementation of this project development potential of regional social service centers should be defined for enabling them to implement corresponding functions of the program in the future.

*Special Objectives*

- Public awareness campaign on children problems urgency for society and children protection system staff in selected regions;
- Implementation of alternative programs for children protection (boarding houses unloading in Lori Region 2006-2007);

- Implementation of preventive-rehabilitation activities with the children under the risk of finding themselves in boarding houses or special general education institution (hereinafter Institutions) and their families (in Lori Region, 2006-2007).

Expected Program Outcomes

- Enhanced awareness on children problems of society and representatives of the children protection system in the selected regions;
- Children returned to families (biological family, relatives' family) from Institutions;
- Families resigned from the idea to place their children back in Institutions;
- Developed package of various services offered to beneficiary families;
- Developed model of services provided to children under the risk and their families applicable throughout the country;
- Availability of a system for data collection, registration and exchange applicable throughout the country on children under the risk and their families, developed mechanism for data analysis.

**In order to attain the expected program outcomes, the following actions and measures are to be taken:**

- Provision of socio-psychological services (for example, family consultancy and therapy, training in parental skills, etc);
- Assistance to children education process (for example, placing into general education schools, provision of textbooks and other supplies, compensation of transportation expenses, etc);
- Assisting the establishment of minimal living conditions in families;
- Ensuring consistency of services for families and children;
- Supporting beneficiary families through the system of family allowance.

The Ministry of Labor and Social Affairs will implement the coordination and management of the program through non-governmental organization. The Ministry of Labor and Social Affairs successfully implements the "State Support to the Graduates of Children Tutorial Institutions of the RA" program for three years. Coordination and management activities of the program will also be ordered to civil society institutions. The chosen non-governmental organizations will implement the following activities:

- Enhancing awareness on modern solutions of children problems of representatives of the children protection system in selected regions (Lori region in 2006-2007);
- Children placement in biological families or relatives' families;
- Prevention of placement of children in Institutions;
- Development of a package of services offered to beneficiary families;
- Development of a model applicable throughout the country.

Main Problems of Further Developments

Further process of children protection sector reforms should solve the following problems:

1. Summarizing and dissemination of 2006 program implementation experience, including:

- Improving the quality of newly created services, retraining of corresponding staff, development of evaluation standards, and enhancement of monitoring system;

- Development of new professional services for the groups of children and families, which do not receive the necessary services as yet (for example, education programs for children with serious disabilities, creation of social integration opportunities for children over 18, which left the system);

- Development of other alternative programs (tutor families, creation of day-time care centers, etc.);

2. Prevention:

- Programs for socially vulnerable families, stressing the importance of prevention of children abuse and abandonment;

- Implementation of public awareness raising campaigns, provision of information to potential service beneficiaries, dissemination of information on results of children protection system reforms within the society;

3. Development of regional social activities (through regional social services and children social care community centers):

- More efficiently involve communities into dealing with the problems resulting in abandonment of children by their parents (legal representatives) or risks for children.

4. Revision of legislation and simplification of legal provisions as envisaged by 2007-2008 reforms implementation and development.

Expected Program Outcomes:

- a) Retraining of regional government social security divisions and social security regional centers staff in the area of children care and protection;

- b) Return of children to their biological families from boarding houses;

- c) Creation of necessary conditions in biological families for children care and education.

Expenditures in the program "**Provision of Social-Psychological Rehabilitation Services in Children Day-time Care Centers**" over 2007-2009 will be 135.9 million drams annually, envisaged for providing care for homeless children (200 children annually over 2007-2009). Increase in tariffs of communication services and in business trips rates, as well as increase of the wages and food expenses by 20 percent (in 2006, average monthly wage is 41.7 thousand drams, inmate per day food expenses are 346.6 drams) were taken into account during calculations.

Other Social Programs

Expenditures in the program "**Honorary Payments to Veterans**" over 2007-2009 will be 1,032.6 million drams, 1,023.4 million drams, and 992.4 million drams, respectively; the monthly amount of honorary payment to veterans is 10,000 drams.

Expenditures in the program "**Provision of Pecuniary Aid to the World War II Veterans, to Military Servants Disabled Due to the Reasons Defined by Article 13 of the RA Law No 258 Dated November 25, 1998, to the Families of Military Servants Perished (Deceased) When Performing Their Official Duties**" over 2007-2009 will be 2,230.0 million drams, 2,198.6 million drams, and 2,167.2 million drams, respectively.

**Table 9.9 Services Provided to Elders, Families, Women and Children, to the Disabled (Million Drams)**

Functional Classification Subgroup/Program	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
Social security actions	3927.8	4719.6	20.2	5540.6	17.4	5825.0	5.1	5600.8	-3.8
Only under the below-listed programs, total	2787.7	3383.7	21.4	3942.9	16.5	3970.9	0.7	3991.2	0.5
Services provided to elders	830.7	1174.4	41.4	1362.4	16.0	1362.4	0.0	1362.4	0.0
Services provided to families, women and children, including:	1206.9	1423.6	18.0	1839.6	29.2	2064.3	12.2	1805.1	-12.6
Children boarding houses	897.4	954.6	6.4	1213.6	27.1	1410.2	16.2	1130.7	-19.8
Public assistance to the graduates of children tutorial institutions	302.3	324.4	7.3	379.3	16.9	378.8	-0.1	342.1	-9.7
Services provided to the disabled, including:	750.1	785.7	4.7	949.4	20.8	1005.4	5.9	1005.4	0.0
Free provision of prosthetic-orthopedic appliances, rehabilitative, and technical means to the disabled, and repair	637.2	649.6	1.9	813.2	25.2	869.2	6.9	869.2	0.0

*New Programs*

1. Expenditures in the program **"State Support to "Mission Armenia" CNGO for Provision of Social Services to Lonely Elders and Disabled at Home and in the Elders Day-time Centers in Regions of Armenia"** over 2007-2009 will be 109.0 million drams annually, to provide services to 6,100 lonely, socially vulnerable elders and the disabled (social, health care, food and other public services) through "Mission Armenia" Charity Non-Governmental Organization. The organization opened 29 offices in 20 cities of 7 regions of Armenia over the years, which are repaired, furnished, provided with necessary equipment and are successfully operating by the support of various international organizations and local authorities. Around 6,700 socially vulnerable and lonely elders received social-medical services by the above mentioned 29 centers, including social, medical services and services at home, all day long care with nursing services, repairing of beneficiaries' apartments, care for mentally ill persons, etc. Over 2007-2009, State Budget allocations for wages and mandatory social payments of only 239 employees of CNGO are envisaged to ensure the future implementation of the program.

2. Expenditures in the program **"Expenditures for Provision of Children without Parental Care with Apartment under the Services Provided to Families, Women and Children Program"** over 2007-2009 will be 85.0 million drams, 114.0 million drams, and 171.0 million drams, respectively, aimed to purchase apartments for children without parental care centrally registered by the Ministry of Labor and Social Affairs (for 15 of them in line for apartment- in 2007, 20- in 2008, and 30- in 2009; 328 children totally registered). Price of one apartment is envisaged to 5.7 million drams (average price of an apartment purchased in the framework of "State Support to Children Tutorial Institutions" program was taken into account).

3. Expenditures in the program **"State Support to "Nork" Informational Analytical Center CJSC to Operate and Service the "Benefit-2" Database on Care for Children Under 2 and Childbirth One-Off Benefits under the Social Assistance Services Program"** over 2007-2009 will be around 9.0 million drams annually, aimed to create unified information database on childbirth one-off benefits and care for children under 2, which will enhance the efficient management of the institutions operating in the area, improvement of the quality of services to beneficiaries, increasing the public awareness, and development of clear mechanisms necessary for data exchange between public governance bodies databases.

**Table 9.10 Financing of New Programs over 2007-2009 (Million Drams)**

Program	2007	2008	2009
Social insurance and social security	57984.8	58851.6	62203.7
New programs, including:	241.4	269.9	326.9
State Support to "Mission Armenia" CNGO for Provision of Social Services to Lonely Elders and Disabled at home and in the Elders Day-time Centers in Regions of Armenia under the program Services Provided to Elders	109.0	109.0	109.0
Expenditures for Provision of Children without Parental Care with Apartment under the program Services Provided to Families, Women, and Children	85.5	114.0	171.0
State Support to "Nork" Informational Analytical Center CJSC to Operate and Service the "Benefit-2" Database on Care for Children Under 2 and Childbirth One-Off Benefits under the program Social Support Services	9.0	9.0	9.0
Free Provision and Repair of Prosthetic-Orthopedic Appliances, Rehabilitative, and Technical Means to the Disabled under the program Services Provided to the Disabled	38.0	38.0	38.0
Percentage share within total spending in the sector	0.42	0.46	0.53
Existing programs	57743.4	58581.6	61876.8
Percentage share within total spending in the sector	99.58	99.54	99.47

The MTEF 2007-2009 forecast of expenditure to be channeled to social insurance and social security, by directions, is presented in the table below.

**Table 9.11 State Budget Expenditure in Social Insurance and Social Security, over 2005-2009**

Functional Classification Subgroup	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
Share in GDP (percent)	2.1	2.3	x	2.2	x	2.0	x	1.9	x
Share in State Budget expenditure (percent)	9.7	11.6	x	11.1	x	10.0	x	10.2	x
Social insurance and social security, including:	46578.1	55869.9	19.9	57984.8	3.8	58851.7	1.5	62203.7	5.7
Public administration in social insurance and social security	695.8	1169.2	68.0	1329.4	13.7	1370.3	3.1	1536.3	12.1
<i>Share in total expenditure (percent)</i>	1.5	2.1	x	2.3	x	2.3	x	2.5	x
Pension security	15476.5	17052.3	10.2	17562.6	3.0	18319.2	4.3	18979.8	3.6
<i>Share in total expenditure (percent)</i>	33.2	30.5	x	30.3	x	31.1	x	30.5	x
Public benefits to the population	22267.8	27034.4	21.4	28095.0	3.9	28681.6	2.1	31403.2	9.5
<i>Share in total expenditure (percent)</i>	47.8	48.4	x	48.5	x	48.7	x	50.5	x
Social security programs	3792.7	4719.6	24.4	5540.6	17.4	5825.0	5.1	5600.8	x
<i>Share in total expenditure (percent)</i>	8.1	8.4	x	9.6	x	9.9	x	9.0	x
Other social programs	4345.3	5894.4	35.7	5457.2	-7.4	4655.6	-14.7	4683.6	0.6
<i>Share in total expenditure (percent)</i>	9.3	10.6	x	9.4	x	7.9	x	7.5	x
Credit programs, including:	881.1	1475.6	67.5	675.3	-54.2	0.0	x	0.0	x
<i>Share in total expenditure (percent)</i>	1.9	1.4	x	1.3	x	0.0	x	0.0	x
Current expenditure, including:	45856.7	54149.5	18.1	57253.5	5.7	58472.2	2.1	62203.7	6.0
<i>Share in total expenditure (percent)</i>	98.5	96.9	x	98.7	x	99.4	x	99.7	x

Functional Classification Subgroup	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
Capital expenditure, including:	571.4	1570.4	174.8	581.3	-63.0	279.5	48.1	0.0	x
<i>Share in total expenditure (percent)</i>	1.2	2.8	x	1.0	x	0.5	x	0.0	x
Borrowing minus repayment, including:	150.0	150.0	0.0	150.0	0.0	100.0	-33.3	200.0	100.0
<i>Share in total expenditure (percent)</i>	0.3	0.3	x	0.3	x	0.2	x	0.3	x

### EXTERNALLY FINANCED PROGRAMS

The Credit Agreement for the Social Security System Management Project between the Republic of Armenia and the International Development Association was concluded on July 30, 2004. The credit amount is SDR 3.6 million (US\$ 5.4 million).

Disbursements under this World Bank-financed project are expected to amount to 675.3 million drams in 2007.

The closing date is December 31, 2007.

The following activities are to be implemented under the project:

- Strengthening management and informational system capacities at the Ministry of Labor and Social Affairs;
- Establishing a more efficient and sustainable system for labor and employment, pensions and social assistance;
- Improving program management through application of prompt mechanisms for monitoring and assessment, thus strengthening social security of the poor and vulnerable groups of population.

**Table 9.12 Public Expenditure in Social Sector over 2005-2009, by Public Governance Bodies (Million Drams)**

Functional Classification Subgroups	2005 <i>Actual</i>	2006 <i>Budgeted</i>	2007	2008	2009
			<i>Forecast</i>		
1	2	3	4	5	6
<b>Social insurance and social security, including:</b>	<b>44145.9</b>	<b>55869.9</b>	<b>57984.8</b>	<b>58851.6</b>	<b>62203.8</b>
Current expenditure	44003.1	54299.5	57226.7	58572.2	62203.8
Capital expenditure	142.8	1570.4	758.1	279.5	0.0
State Fund for Social Insurance	17415.7	21140.6	20912.6	21607.0	22205.1
1. Pension security of military officers personnel and their family members	8592.0	10048.7	10417.9	10741.5	11089.8
2. Pension security of military private personnel and their family members	2308.0	2462.2	2346.4	2326.4	2306.5
3. Social pensions	2315.4	3261.5	3236.6	3199.1	3159.6
4. Budgetary financing for the length of service stipulated by Article 45 of the Law "On Public Pensions"	953.9	1073.2	1311.7	1788.6	2146.4
5. Indemnification for the damage resulting in disability, professional disease, or other harm to health incurred in connection with performing official duties	44.4	52.5	70.2	87.7	105.3
6. Pensions and monthly pecuniary aid assigned by Armenian laws and by Government decrees, compensation of the	146.1	154.3	179.8	175.9	172.2

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Functional Classification Subgroups	2005 <i>Actual</i>	2006 <i>Budgeted</i>	2007	2008	2009
difference in pensions					
7. Honorary payments to veterans	443.8	1054.4	1023.6	992.7	961.6
8. Provision of pecuniary aid to the World War II veterans, to persons disabled due to the reasons defined by Article 13 of the RA Law No 258 dated November 25, 1998, to the families of military servants perished (deceased) when performing their official duties	1616.2	1840.7	2230.0	2198.6	2167.2
9. Pregnancy and childbirth benefit	995.9	1094.2	0.0	0.0	0.0
10. Financial support of the unemployed for them to engage in entrepreneurial activities and to create jobs	0.0	10.0	7.5	7.5	7.5
11. Partial indemnification of wages to the employers having employed persons from vulnerable groups in the labor market	0.0	23.8	23.8	23.8	23.8
12. Organization of professional education of persons which do not have insurance length of service or have insurance length of service of less than a year	0.0	60.2	60.2	60.2	60.2
13. Organization of rehabilitation of professional labor abilities of the disabled which do not have insurance length of service or have insurance length of service of less than a year	0.0	5.0	5.0	5.0	5.0
Ministry of Labor and Social Affairs, including:	25671.9	32688.3	35809.0	36718.0	39378.4
Current expenditure	25671.9	32500.5	35726.2	36438.5	39378.4
Capital expenditure	0.0	187.8	82.9	279.5	0.0
1. Public administration apparatus of the Ministry of Labor and Social Affairs, including:	773.5	1169.2	1329.4	1370.3	1536.3
Current expenditure	773.5	1096.9	1329.4	1370.3	1536.3
Capital expenditure	0.0	72.3	0.0	0.0	0.0
2. Family allowance and one-off pecuniary aid	19572.1	24357.8	26454.6	26977.7	29631.6
3. Monthly benefits to persons taking care of children under 2, during their partially paid leave	208.1	217.9	217.9	217.9	217.9
4. One-off benefit for child birth	1249.5	1265.5	1326.0	1389.4	1457.2
5. Under the program Services Provided to Elders, including:	825.1	1174.4	1362.4	1362.4	1362.4
Current expenditure	825.1	1058.9	1362.4	1362.4	1362.4
Capital expenditure	0.0	115.5	0.0	0.0	0.0
5.1 Procurement of nursing home services for elders under the program Services Provided to Elders, including :	765.0	1014.7	1134.4	1134.4	1134.4
Current expenditure	765.0	950.5	1134.4	1134.4	1134.4
Capital expenditure	0.0	64.2	0.0	0.0	0.0
5.2 Procurement of services from the center for social servicing of the lonely elders at home under the program Services Provided to Elders	60.1	64.5	73.0	73.0	73.0

<b>Functional Classification Subgroups</b>	<b>2005 <i>Actual</i></b>	<b>2006 <i>Budgeted</i></b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
5.3 Provision of temporary shelter for homeless people under the program Support to Yerevan Nursing Home No. 1 SNCO, including:	0.0	88.8	30.0	30.0	30.0
Current expenditure	0.0	37.5	30.0	30.0	30.0
Capital expenditure	0.0	51.3	0.0	0.0	0.0
5.4 Procurement of work automation services under the program Services Provided to Elders	0.0	1.2	1.2	1.2	1.2
5.5 State support to Vardenis Neuropsychological Nursing Home SNCO for day-time care of elders under the program Services Provided to Elders	0.0	5.2	14.8	14.8	14.8
5.6 State support to Mission Armenia CNGO for provision of social services to lonely elders and the disabled at home and in the elders day-time centers in regions of Armenia under the program Services Provided to Elders	0.0	0.0	109.0	109.0	109.0
6. Under the program Services Provided to the Disabled, including:	750.1	785.7	949.4	1005.4	1005.4
6.1 Procurement of mental health rehabilitation services under the program Services Provided to the Disabled	45.0	49.8	49.8	49.8	49.8
6.2 Procurement of hospital services for medical-social rehabilitation, of workability under the program Services Provided to the Disabled	54.6	52.1	52.1	52.1	52.1
6.3 Procurement of services for operation and maintenance of the database on the disabled under the program Services Provided to the Disabled	8.6	16.8	16.8	16.8	16.8
6.4 Free provision and repair of prosthetic-orthopedic appliances, rehabilitative, and technical means to the disabled under the program Services Provided to the Disabled	637.2	649.6	813.2	869.2	869.2
6.5 Procurement of services for printing the BSPH form under the program Services Provided to the Disabled	4.7	4.7	4.7	4.7	4.7
6.6 Procurement of work automation services under the program Services Provided to the Disabled	0.0	1.2	1.2	1.2	1.2
6.7 Procurement of services for printing books with special fonts, preparing copybooks and recording talking books for the disabled graduated from schools, as well as the disabled, who lost the eyesight in mature age under the program Services Provided to the Disabled	0.0	11.5	11.5	11.5	11.5
7. Under the program Employment Services, including:	597.9	728.7	728.7	723.5	723.5
7.1 Paid relief works under the program Employment Services	584.0	700.0	700.0	700.0	700.0
7.2 Procurement of services for operation and maintenance of database on the unemployed (“Job” system) under the program Employment Services	9.3	19.8	19.8	19.8	19.8



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<b>Functional Classification Subgroups</b>	<b>2005 <i>Actual</i></b>	<b>2006 <i>Budgeted</i></b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
7.3 Expenses associated with the implementation of school staff optimization and social assistance subproject under the program Employment Services	4.6	5.3	5.3	0.0	0.0
7.4 Procurement of work automation services under the program Employment Services	0.0	3.7	3.7	3.7	3.7
8. Under the program Social Insurance and Social Security Services, including:	142.9	133.1	133.1	133.1	133.1
8.1 Procurement of services of the "Nork" Informational Analytical Center" CJSC for introduction of social security cards, operation and maintenance of the database under the program Social Insurance and Social Security Services	142.9	133.1	133.1	133.1	133.1
9. Under the program Services provided to Families, Women, and Children, including:	1201.0	1423.7	1839.6	2064.2	1805.1
Current expenditure	1201.0	1423.7	1756.8	1784.8	1805.1
Capital expenditure	0.0	0.0	82.9	279.5	0.0
9.1 Procurement of children boarding house services under the program Services provided to Families, Women, and Children	895.9	954.6	1213.6	1410.2	1130.7
Current expenditure	895.9	954.6	1130.7	1130.7	1130.7
Capital expenditure	0.0	0.0	82.9	279.5	0.0
9.2 State assistance to the graduates of children tutorial institutions under the program Services provided to Families, Women, and Children	300.1	324.4	379.3	378.8	342.1
9.3 Expenses for unloading children tutorial institutions under the program Services provided to Families, Women, and Children	0.0	17.0	17.0	17.0	17.0
9.4 Procurement of socio-psychological rehabilitation services from children day-time care centers under the program Services provided to Families, Women, and Children	5.0	119.4	135.9	135.9	135.9
9.5 Procurement of work automation services under the program Services provided to Families, Women, and Children	0.0	2.4	2.4	2.4	2.4
9.6 Procurement of services for operation and maintenance of the "Child" informational system under the program Services provided to Families, Women, and Children	0.0	5.9	5.9	5.9	5.9
9.7 Expenditures for provision of children without parental care with apartments under the program Services provided to Families, Women, and Children	0.0	0.0	85.5	114.0	171.0
10. Under the program Distribution of Food Received through Humanitarian Aid, including :	33.8	56.1	56.1	56.1	56.1
10.1 Procurement of services for	33.8	54.9	54.9	54.9	54.9

<b>Functional Classification Subgroups</b>	<b>2005 <i>Actual</i></b>	<b>2006 <i>Budgeted</i></b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
distribution of food received through humanitarian aid					
10.2 Procurement of work automation services under the program Distribution of Food Received through Humanitarian Aid	0.0	1.2	1.2	1.2	1.2
11. Under the program Social Support Services, including:	314.9	343.7	378.1	384.3	416.2
11.1 Procurement of postal services connected with the payment family allowance and one-off pecuniary aid under the program Social Support Services	269.7	292.1	317.5	323.7	355.6
11.2 Procurement of services for operation and maintenance of the family allowance database under the program Social Support Services	26.0	29.2	29.2	29.2	29.2
11.3 Procurement of services for printing the MCTK form under the program Social Support Services	11.7	11.7	11.7	11.7	11.7
11.4 Pecuniary aid to socially vulnerable citizens or families for urgent assistance under the program Social Support Services	7.5	8.3	8.3	8.3	8.3
11.5 Procurement of work automation services under the program Social Support Services	0.0	2.4	2.4	2.4	2.4
11.6 State support to "Nork" Informational Analytical Center" CJSC to operate and service "Benefit-2" database on care for children under 2 and childbirth one-off benefits under the program Social Support Services	0.0	0.0	9.0	9.0	9.0
12. Procurement of services for retraining of methodological and social security staff	0.6	25.1	31.3	31.3	31.3
13. One-off pecuniary indemnification for the damage caused to the repressed citizens	2.5	2.6	2.6	2.6	2.6
14. State support to Afghanistan War Veterans Union	0.0	5.0	0.0	0.0	0.0
15. Reimbursement for deposits in former USSR SavingsBanks ASSR Republic Bank before June 10, 1993 by citizens depositors of ArmSavingsBank	0.0	1000.0	1000.0	1000.0	1000.0
Ministry of Territorial Administration, including:	83.0	63.3	85.9	74.7	68.2
1. Public administration apparatus of the Department of Migration and Refugees	59.1	0.0	0.0	0.0	0.0
2. Actions for addressing social problems of refugees	10.9	12.2	14.2	14.6	17.0
3. State support for the "Computer Center" SNCO under the program for procurement of informational services on refugees and their families	9.6	29.6	39.5	41.4	41.5
4. State support for the "Special Shelter" SNCO of the Department of Migration and Refugees	3.4	7.3	8.2	8.7	9.3
5. One-off benefit to applicants for refugee status	0.0	0.5	0.5	0.5	0.5

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Functional Classification Subgroups	2005 <i>Actual</i>	2006 <i>Budgeted</i>	2007	2008	2009
6. Regional development program financed by the grant provided to the Republic of Armenia by the United Kingdom of Great Britain and Northern Ireland	0.0	13.7	23.5	9.6	0.0
Ministry of Finance and Economy	974.8	1942.6	1142.3	417.0	517.0
Current expenditure	832.0	560.0	467.0	417.0	517.0
Capital expenditure	142.8	1382.6	675.3	0.0	0.0
1. One-off social insurance payments to the rescue service and military servants disabled and to the families of rescue service and military servants perished (deceased) during defense operations	94.2	130.0	130.0	130.0	130.0
2. Indemnification of expenditure for the funeral of rescue service and military servants perished (deceased) during training call-ups, rescue service and military service, for the adjustment of tombs, acquisition and installation of gravestones	106.0	187.0	187.0	187.0	187.0
3. Indemnification for public arrears payable to shareholders of incomplete cooperative apartment buildings, including:	379.1	0.0	0.0	0.0	0.0
Capital expenditure	68.2	0.0	0.0	0.0	0.0
4. World Bank-assisted grant for piloting the program for the Children Care System Reforms, including:	189.3	0.0	0.0	0.0	0.0
5. Borrowing minus repayment, including:	131.6	150.0	150.0	100.0	200.0
5.1 Provision of long-term concessional loans to the repressed persons for individual house construction	131.6	150.0	150.0	100.0	200.0
6. Credit program, including:	74.6	1475.6	675.3	0.0	0.0
6.1 World Bank-assisted program for the Social Security System Administration, including:	74.6	1475.6	675.3	0.0	0.0
Current expenditure	0.0	93.0	0.0	0.0	0.0
Capital expenditure	74.6	1382.6	675.3	0.0	0.0
Ministry of Transport and Communications	0.0	20.0	20.0	20.0	20.0
1. Indemnification of profit lost due to provision of discounted or free services to non-resident organizations	0.0	20.0	20.0	20.0	20.0
Ministry of Education and Science	0.5	15.0	15.0	15.0	15.0
1. Indemnification for the paid higher education of the children of perished freedom-fighters	0.5	15.0	15.0	15.0	15.0

Within the framework of program budgeting reform, distribution of allocations for the Ministry of Labor and Social Affairs programs, classified by programs, for the MTEF 2007-2009 period, is provided in Table 3 of the Annex II.

## **CHAPTER 10. CULTURE, INFORMATION AND SPORTS**

### **10.1 CULTURE**

2007-2009 medium-term expenditure framework allocations to culture will be channeled to the implementation of 37 existing and 41 new programs. These programs will be implemented through 25 public administration bodies, for which the Ministry of Culture and Youth Affairs will act as the superior body.

#### ***10.1.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS***

Public administration bodies and organizations included in the sector are preserving, protecting, distributing, developing and advertising cultural values, regulating youth issues and implementing cultural events according to the Government policy in the sphere.

Implemented and envisaged programs have been aimed at enhancing the role of culture, preserving cultural heritage and potential, discovering and stimulating creative potential of personality and society, ensuring the development of the traditional forms of culture, and integration into international cultural structures.

During 2005, the structural and separated departments of the authorized public administration body in the sector have drafted 3 laws, 3 concepts, have developed 3 cultural programs regarding cultural policy, 7 draft Government decrees and 7 other legal acts, of which 5 were adopted by the Government, aimed at regulation of legal relations in the sector.

The programs are mainly implemented through 17 libraries (of which 10 are in the regions), 40 museums (of which 11 are in the regions), 4 cultural centers (of which 3 are in the regions), and 40 theatric-concert organizations (of which 8 are in the regions), where budget allocations are channeled.

The main tasks of the sector are related with stimulating creative potential of individuals and the society, providing state support to culture, developing legislative framework, preserving the historical-cultural heritage, developing modern and national arts, encouraging significant achievements in culture, promoting programs for appropriate presentation of the Armenian culture abroad, improving cultural education and science, ensuring harmonious social-cultural development of national minorities, and interregional cultural collaboration; these tasks derive from the priorities identified by the Poverty Reduction Strategic Program and Children's Rights Protection Program. At the same time, allocations in the sector are channeled to:

- Formation of civil society and enhancing the role of culture;
- Preservation of cultural monuments, values, including non-material values, and Armenian fonts;
- Systematization of cultural education and science and introduction of new programs and methods;
- Integration of National culture into International cultural processes;
- Adoption of new types and directions of cultural exchanges;
- Activation of cultural life in the regions of Armenia, cooperation between public authorized body, public territorial governance and local self-governance bodies, development and implementation of joint cultural programs, organization of monitoring process and professional business trips;

- Cooperation with non-governmental organizations, including creative and minority groups unions.

A number of cultural organizations handed over to the supervision of local self-governing bodies were closed down or do not fully operate due to emergency conditions of premises, adverse environment, scarcity of material-technical resources, shortage of personnel and other reasons.

Historical monuments and cultural value preservation and cultural science sectors are in need of additional financial and material resources.

Introduction of modern information technologies in culture is insufficient, universal Armenian fonts for computers are not generated, and their application throughout the country is not regulated.

Certain difficulties are present in the cultural sector with regard to the lack of material/technical resources.

Legal framework and legal relations of the sector are still incomplete.

There is no acting system for retraining and re-qualification of sector professionals.

### Libraries

The sector comprises the program "State Support to Libraries" for 13 libraries under the Ministry of Culture and Youth Affairs, 1 library under the Ministry of Trade and Economic Development, and 2 libraries of the National Academy of Sciences. Implementation of the program incorporates the following indicators characterizing the coverage of the basic functions of the libraries: in territorial terms – Yerevan City and 10 regions of the country, in terms of readers age groups – juveniles and adults, in terms of literary and informational contents of the library stock - multiple-discipline or specialized orientation, including that of musicological, scientific, bio-medical, and technical.

Decreasing trends were registered in the sector over the last fifteen years resulting from deterioration of libraries buildings conditions, drastic decrease of library stock, damaged heating systems, deterioration of interlibrary connections, though positive changes were registered over 2004-2005. The process of stock automation in all public libraries began, 7 libraries provide electronic services, 5 libraries are included in the "Creation of Armenian Libraries Unified Automation Network" program at the expense of State Budget allocations and grants.

2004-2006 allocations were mainly directed to replenishment of library stock, introducing modern information technologies, considering the library-informative service as the primary issue in libraries activities, which resulted in a number of positive outcomes: in 13 libraries under the Ministry of Culture and Youth Affairs the number of readers in 2005 exceeded the 2004 indicator by 9 percent, the number of served books – by 8 percent, the number of visits – by 4 percent, and replenishment of libraries stock – by 3 percent.

Nevertheless, the number of replenished literature corresponding to readers' current demands and procurement of information technologies necessary for electronic services is still low in respect of enhanced efficiency of library-informative services provided to society. To this effect, targeted allocation to re-equipment of libraries material and technical basis, replenishment with modern literature, establishment of stable thermal-humidity atmosphere for library stock preservation, as well as book conservation and restoration will be furthered over the coming years.

One of the main preconditions for dealing with the basic problems in the sector is the renovation of libraries buildings (particularly, capital renovation of hazardous buildings of

the Armenian National Library, Tavush and Lori regional libraries) under the MTEF 2007-2009.

### Museums

Presently, the sector is represented by programs in 48 museums (including branch museums, reserve-museums, and the Exhibition Center) under the Ministry of Culture and Youth Affairs, 1 museum under the Ministry of Natural Environment Protection, 2 museums within the system of the Ministry of Defense, 2 museums under the Ministry of Urban Development, 4 museums under Yerevan Municipality, 2 museums under Ararat Marzpetaran, 1 museum under Gegharquniq Marzpetaran, 1 museum under Lori Marzpetaran, 3 museums (including 1 branch museum) under Shirak Marzpetaran, 1 museum under Syunik Marzpetaran, and 1 museum under Vayotz Dzor Marzpetaran.

The total museum stock with over two million items, which is an essential element of the Armenian cultural heritage, represent the Armenian history and culture, all branches of Armenian art and architecture, as well as natural heritage from the very beginning of human civilization to contemporary times.

The main problem of the sector is the protection and appropriate presentation of cultural heritage kept in museums. To this end, repairing of museum buildings, organization of permanent exhibitions, ensuring the stable thermal-humidity atmosphere in exhibitions and depositories and safety of museum items is significant.

13 museums were renovated, Yerevan City Historical Museum moved to a new building in 2005 after capital renovation financed by Lincy Foundation over the last years.

Still buildings of 9 museums (including 3 geographical museums), as well as home-museums of Kh. Abovyan, A. Khachatryan, P. Sevak, and Jermuk Art-Gallery (branch of Armenian National Art-Gallery) need renovation.

Over 2004-2006, new permanent exhibitions were organized in 11 museums, which allowed to open new exhibition sections, represent more than 4,000 items, which have never been exhibited previously.

More frequent exhibitions in museums and new arrangements enhanced the interest of Armenian and international society towards the museums, which, in its turn, contributed to increase in number of visitors (275,031 visitors were registered in 2005 exceeding the indicator of 2004 by 97,589).

304 items of equipment (air conditioners, computers) were purchased to ensure the stock-taking, automation and preservation of museums collections.

1 car was purchased to implement the "Museum on Wheels" program, which will allow familiarizing the population of far and next-to-frontier settlements with museums collections through jointly organized exhibitions by museums and by the means of centralized spending of financial resources.

### Archiving

Preservation of the documents comprising the archive stock of the Republic of Armenia is implemented through both the archives of public agencies, public governance and local self-governance bodies, state institutions and organizations, and the Armenian National Archive SNCO. The National Assembly has adopted the Law "On Archiving", which provides the formerly absent regulation of the most crucial issues in this area.

Particularly, public administration bodies, public institutions and organizations are required to create staff archives to replenish, take stock, preserve and utilize the archive documents originating from their activities according to the Law. Such archives were created in

majority of public administration bodies in 2005. The process continues in 2006; determination of the types of documents to be kept in these archives is underway.

In 2005 archiving system was transferred to the supervision of Ministry of Territorial Administration, which will promote the improvement of archiving in the RA marzes and in regions.

In 2005 the National Films Collection was included in the archiving system as a branch of the Armenian National Archive. The Armenian films-photo-audio collection is also kept there, but the collection is in desperate need of better storage conditions.

#### Preservation of Cultural Values (Export, Import)

Substantial activities were undertaken to develop sub-legislative acts regulating the processes of exporting and importing of cultural values and items after the adoption of the Law "On Exportation and Importation of Cultural Values". Ten legal acts and regulations were adopted by the Government.

"Expertise Center of Cultural Values" SNCO was established by the Government Decree No. 1194-N dated August 4, 2005. The Center has given 325 licenses for exporting the cultural values. 1,144 cultural values were allowed to be exported, 1,657.7 thousand drams of state taxes were collected. 4,611 items were allowed to be exported without cultural values exporting licenses. 60 cultural values temporary exporting licenses were given, according to which 238 cultural values were licensed to be exported temporarily. 12 temporary importing applications were received, according to which temporary import of 427 items was registered. 2 public exhibitions temporary export was registered. 58 exhibition items were conveyed to Russian Federation and 50 exhibition items were conveyed to Canada. 19 musical instruments from Armenian Unique Stringed Musical Instruments Public Collection were temporarily exported. 88 books representing cultural values were confiscated and presented to the corresponding division of Court Decisions Enforcement Service, of which 38 items were passed to Armenian Historical Museum, 47 items to Armenian National Library and 3 items to Matenadaran for permanent preservation.

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

Preservation and development of the traditions of the national theatric art, opera and ballet has been implemented through 40 theatric-concert organizations.

1,621 performances were staged in 17 public theatres under the Ministry of Culture and Youth Affairs, servicing an audience of 307,348 in 2005. 17 concert groups and concert organizations of the sector have organized 240 concerts attended by an audience of 107,953. International ARMMONO-3 Festival, regional TAVUSH-2005 Festival, Children and Youth Puppet 1<sup>st</sup> Festival, and Recitation Festival were organized by state support. 10 performances were staged in Yerevan and RA marzes by state support. 3 Armenian theatres went on tours abroad. 3 contests, 10 concerts, 3 contest-festivals, 4 exhibitions, and 3 different types of cultural events were organized by state support.

A comprehensive program of actions dedicated to 1600<sup>th</sup> anniversary of Armenian letters invention was developed. The laser disk of a film was created, jubilee evening and exhibition of Armenian books were arranged under the program. Letters Parade performance was staged in Ejmiatsin. 16 jubilees of Armenian famous cultural figures, social-political figures, and cultural organizations were organized.

"Knowledge and Emblem, Belief and Tradition" international scientific conference, "Let's Preserve Our Culture" music festival and "Cane Stalk" folk-music festival were organized in folk-art area.

22 international bilateral intergovernmental and interdepartmental agreements were prepared and signed in cooperation with Ministry of Foreign Affairs. Official delegations visited to Germany, Japan, Thailand, Belarus, and Cyprus. Exchanges with professionals, artists and groups, exhibitions in Armenia (from 3 countries) and abroad (in 3 countries) were conducted. Saxony-Anhalt land of Germany, Sharja Arabic Emirate, and Belarus cultural days were organized in Armenia. Russian Year in Armenia cultural program was implemented. Armenian children's participation to international children and youth painting arts contest-exhibitions was ensured (around 200 paintings, of which 25 awarded with prizes). In general, more than 1,200 people have participated in international cultural cooperation program events.

National minorities' children musical 2<sup>nd</sup> festival was organized jointly with national minority unions in Armenia.

31 young boys and girls have participated to CIS countries Delphian 2<sup>nd</sup> (Kishinev) and 3<sup>rd</sup> (Kiev) Games in 2004-2005 by state support. They have won 4 golden, 5 silver, 6 bronze medals, as well as from 6<sup>th</sup> to 4<sup>th</sup> grade prizes and diplomas.

Young Musicians (Children and Youth) Republican Contest-Festival named after A. Spendiarov was organized. By the efforts of the Ministry and under the Government decree the 6<sup>th</sup> cultural-educational institution ("Special Creative Center for Juvenile Offenders" SNCO) was established.

#### Cinematography

The public policy strategy of the Republic of Armenia in cinematography incorporates factors such as the need for the preservation, propagation, and development of cinematography as a means of visual-auditory communication, the continuous development of film production technologies, and ensuring Armenia's presence in international cinematography festivals and markets.

The adoption of the Law "On the Cinematography", as well as the elaboration of respective legislative and legal acts is important for the preservation, propagation, and development of cinematography in the Republic of Armenia.

2 international film-festivals were organized, 1 full-length fiction film, 2 fiction films, 7 short film, 3 animated films, 10 documentary films and 2 news-reels were produced in 2005.

#### Preservation of Historical-Cultural Monuments

The protection of immovable historical-cultural monuments includes their state registration, certification, and documentation, ensuring their protection from damage, and purposeful utilization, exploration, fortification, and restoration, as well as the establishment of a comprehensive scientific-informational database.

There are around 24,000 registered monuments, grouped into 4,500 territorial preservation zones; among them, there are 700 ancient, old, and medieval Armenian capitals, strongholds and inhabitations, 1,200 monasteries, churches and temples. There are hundreds of graveyards, historical tombs, various secular buildings, samples of memorial and monumental art.

Monuments are classified into two groups based on historical-cultural valuation criteria – monuments of republican importance, and those of local importance; they are also classified by sphere – archeological, historical, designing and architectural, and monumental arts. Specially protected historical-cultural land zones were separated in 89 communities of the marzes, researches on technical conditions, preservation and restoration of monuments situated there were conducted. 7 from one-source purchasing contracts were signed for restoration of churches in 4 marzes.



Cooperation between the Ministry of Culture and Youth Affairs of the RA and the Ministry of Culture of the Iran Islamic Republic continued. The Ministry have cooperated also with the European Council, Directorate of New Culture and Cultural and Natural Heritage, as well as with other public administration bodies.

Since 1998, monastery complexes in Haghpat and Sanahin, Geghard Monastery and Azat River Valley, churches in Echmiadzin, and Zvartnotz archeological site were included into the World Heritage List of UNESCO. The Gnshikadzor Cultural Landscape was proposed for inclusion into the above-mentioned list.

State lists of monuments in Ararat, Aragatsotn, Vayots Dzor, Gegharkunik, Kotayk, Lori, Shirak and Tavush marzes were approved. Archeological diggings were conducted in the areas of two endangered monuments – Nerkin Naver and former Shengavit town zone.

### Publishing

The publishing field has an important role in the development of the state and the society, in the creation, preservation, and propagation of national cultural and intellectual values, and the integration of Armenians into the world civilization. Publishing is a field of liberal activities, incorporating 228 publishing houses and around 50 polygraphic enterprises. Progressive trends were observed in the book market within the period of 2000-2005. 1,078 titles of books have been published in the country in 2004. While the sector demonstrates certain developments for self-regulation in terms of thematic solutions, edition volumes, costs, distribution, and promotion of printed material is still far from being satisfactory. The level of books sale is low due to absence of book-selling network. The followings were published in 2005 under state order, by certain programs:

<i>Category</i>	<i>Edition (copies)</i>	<i>Quantity</i>
Children's literature	3200	6
Encyclopedic literature	3500	2
Popular scientific literature	1900	3
Other literature	20000	40
Translated literature	1000	2
Jubilee literature	2200	5

27 titles of books dedicated to 90<sup>th</sup> anniversary of Armenian Genocide and 1600<sup>th</sup> anniversary of Armenian letters invention with a total edition of 17,500 copies, 7 titles of national minority newspapers, 36 titles of literary-cultural, scientific and other press, 24 titles of regional and countrymen associations newspapers, as well as "Grashkharh" monthly magazine were published by state support in 2005.

### Youth Affairs

Public policy in youth affairs, which is one of the most important functions of the Government, is of a strategic importance. It is directed to creation of economic and organizational conditions and guarantees for comprehensive development, self-affirmation and self-expression of young generation, which will accept national and universal values, feel responsible for his homeland and nation.

"The Pan-Armenian Youth International Center" foundation was established according to the Government decree No. 520 dated June 11, 2001, which is aimed at developing collaboration among Armenian, Diaspora and international youth, development and implementation of joint programs.

The "Youth Activities Organization Center" SNCO was established according to the Government decree No. 418 dated April 17, 2002. Some 67 events were conducted in this

field in 2005 aimed at the implementation of public youth policy according to the provisions of the "Concept for the Public Youth Policy".

Publishing of the "View" youth newspaper continued. "Baze" Pan-Armenian Festival and "Youth, Reality, Prospects" Republican Youth Conference were organized. The Ministry has cooperated with international youth organizations, particularly, Youth Directorate of the European Council. "Summer University" gathering in Armenia was organized for the members of European Union Youth Affairs Management Committee (CDEJ).

### ***10.1.2. OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD***

#### ***10.1.2.1 Objectives***

The 2007-2009 medium-term expenditure framework is aimed at the realization of the following objectives in different fields of culture.

##### *Libraries*

Libraries ensure the preservation of Armenian written cultural and information resources included in Armenian library stock and their utilization by the society by promoting the implementation of Poverty Reduction Strategic Program educational goals, i.e. improvement of population's educational level, development of country's scientific, technical and cultural potential.

The main goals are as follows:

- Ensure preservation of the library stock comprising more than 11.8 million items, including more than 7,000 old publications;
- Annual replenishment of library stock with 16,000 information material carriers corresponding to modern reader demands;
- Ensure the accessibility of the library stock, implementation of library informative services through increasing the number of served printed items by 100,000 and electronic items by 2,000;
- Replenish and preserve the reserved national funds of printed material;
- Found national bibliography;
- International cooperation in libraries sector.

##### *Museums*

Museums ensure preservation of museum stock, which is the component of Armenian cultural heritage, its transition to coming generations, proper presentation to the society, which stimulates the cultural tourism in Armenia and contributes to the implementation of Poverty Reduction Strategic Program, thus contributing to economic development of the country.

The main goals are as follows:

- Ensure preservation of the museum stock comprising more than 2 million items;
- Increase circulation of exhibits kept in stock storages by around 4,000 items annually, through arranging permanent exhibitions and displays;
- Ensure the increase in the number of museum visitors by 3,000 annually.

Archiving

- Ensure preservation and accessibility of the Armenian archive stock, including film-photo-audio documents collection, through introduction of modern technologies;
- Ensure the quality of the service provided to the state and citizens;
- Replenish archive stock by 40,000 items annually, including personal documents on origins of Armenian famous public figures;
- Disinfection and restoration of 78,600 archive items annually to ensure the preservation of Armenian archive stock;
- Introduction of unified automated system for public registration;
- Automation of information and searching systems and creation of electronic repository.

Arts (Theatre, Music, Dancing)

- Preserve, develop, and propagate various branches of art;
- Generate social consciousness of the art development criterion;
- Search for new ideas and values, create conditions for reproduction and development of the creative potential of the society;
- Create favorable conditions for the propagation of Armenian classical and modern compositions;
- Develop and popularize national folklore and ethnography;
- Facilitate the formation of the civil society (with regard to the ideas of historical consciousness, language, aesthetics, love, kindness, and patriotism).

Cinematography

- Preserve, develop, and propagate traditions of cinematography;
- Produce national films, which have special socio-political, cultural and artistic significance for the country, as well as Armenian films, film-debuts, animation films for children and youth;
- Create equal conditions for competitive selection of film projects;
- Create conditions for the domestic production of fiction, animation, and documentary films in consistency with international criteria;
- Preserve and propagate domestic films;
- Ensure Armenia's participation in international cinematography festivals and other international cinematography events.

Preservation of Cultural Values (Export, Import)

- Creation of information system of Armenian historical-cultural movable heritage;
- Regulation of the legal framework ensuring the preservation of Armenian historical-cultural movable heritage;
- Ensuring the appropriate conditions for research of historical-cultural movable heritage;
- Prevention of illegal export and import of cultural heritage.

*Preservation of Historical-Cultural Immovable Monuments*

- Preservation of Armenian historical-cultural monuments from decay, destruction and extermination, their transition to future generations;
- Examination, reinforcement, putting in order and turning into museums of monuments (ancient and middle-age settlements, graveyards, castles and large number of various ruinous monuments), which are owned by the state and are not transferred to other users, as well as preservation of historical, architectural and cultural unique and valuable monuments;
- Contribution to development of tourism in Armenia.

*Publishing*

- Ensure the availability of national and international literary, scientific, and cultural values for the population in the form of publications;
- Ensure targeted publication and distribution of printed materials of national cultural and spiritual value;
- Ensure presentational needs of the country to spread and highlight the public policy through published materials;
- Prioritize the publication of children and youth literature as a base for future development of civil society;
- Form the Pan-Armenian publishing space, implement the policy of active collaboration with the Diaspora, organize exhibitions and trade exhibitions of Armenian books in Armenia and within Diaspora, foundation of complete bibliography;
- Promote the targeted delivery of books printed in the Republic of Armenia and popularization of Armenian book culture abroad, as well as international publishing cooperation;
- Stimulate the import of foreign editions into Armenia and book exchange activities.

*Youth Issues*

The main goal of youth public policy is to create socio-economic, legal-political, spiritual-cultural, organizational conditions and guarantees for social self-realization of the youth, to make maximum use of their creative potential for the welfare of society.

The goal of youth public policy strategy is to improve youth living conditions, organize their rest and enhance their participation in social and political developments, including public-political, social and cultural issues.

The main goals are as follows:

- Stimulate the youth participation in decision-making process (on communities, marzes, national levels);
- Contribute to reduction of poverty in Armenia and unemployment of the youth;
- Have mentally and physically healthy young people;
- Enhance human abilities and institutional capacities of the youth, and awareness of society on youth affairs.

**10.1.2.2 Priorities**

Priorities of the development of culture are as follows:

- Preservation, fortification, renovation, restoration, and improvement of immovable historical-cultural monuments;
- Support and encourage creative activities of theatric-concert organizations, through the implementation of social-creative state orders, installation and operation of luminous and audio equipment, and heating systems;
- Ensure further establishment of the unified automated network of Armenian libraries;
- Arrange new exhibitions;
- Ensure preservation and accessibility of the cultural heritage – library, museum, archive, film-photo-audio stocks, through the establishment of the automated system.

Allocations stipulated by the MTEF 2006-2008 and the MTEF 2007-2009 are presented in Table 10.1.

**Table 10.1 MTEF 2006-2008 and MTEF 2007-2009 Allocations to Culture Sector, by Subgroups (Million Drams)**

N	Functional Classification Groups/Subgroups/Programs	2006		2007		2008		2009
		MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
07.01.	Public administration	236.2	247.5	278.6	264.4	324.8	273.2	305.7
07.02.	Libraries	727.3	757.3	741.3	892.1	767.6	920.6	1054.2
07.03.	Museums and exhibitions	1569.6	1880.6	1990.6	2341.1	2025.4	1231.7	2232.4
07.04.	Culture houses, clubs, centers	18.0	18.9	19.1	22.8	18.6	22.4	22.5
07.05.	Other cultural institutions	384.7	606.0	418.6	512.3	417.1	512.3	520.9
07.06.	Arts	2193.6	2989.7	1833.3	3098.5	1870.5	2546.8	2600.2
07.07.	Cinematography	482.9	482.9	482.9	554.0	482.9	584.1	554.6
07.08.	Restoration and protection of monuments and cultural values	760.9	782.2	905.9	915.6	960.9	255.5	921.5
07.11.	Publishing houses, editorial offices	525.8	621.5	523.9	681.9	523.9	696.7	653.4
07.12.	Collection of information	53.9	55.8	53.9	55.9	53.9	55.9	55.9
07.14.	Youth programs	286.2	316.2	286.2	342.8	286.2	342.8	342.8
07.15.	Political parties, NGO-s, trade unions	130.2	180.2	130.2	180.2	130.2	180.2	180.2
	<b>TOTAL</b>	<b>7369.5</b>	<b>8938.8</b>	<b>7664.6</b>	<b>9861.9</b>	<b>7862.0</b>	<b>7622.3</b>	<b>9444.4</b>

When comparing the MTEF 2006-2008 and the MTEF 2007-2009 forecasts for expenditure in 2007, there is an increase of 2,197.3 millions drams, due to increase in mandatory social payments base tariffs already envisaged by State Budget 2006, as well as increase in wage funds and service tariffs, introduction of new programs. In 2008, expenditures decreased by 239.7 million drams, mainly due to decrease in expenditures for the restoration of monuments and cultural establishments.

#### 10.1.2.3 Expenditure Drivers.

- Civil servants official base wage increase, as well as natural growth;
- Cultural sector employees wage increase in 2007 by 20 percent, according to general social problems and goals of PRSP approved by the Government;
- Increase in service tariffs;
- Increase of minimal wage by 5,000 drams annually;

- Implementation of the complex program for the capital renovation of cultural establishments and restoration of monuments;
- Increased financing of services due to increased number of cultural service beneficiaries;
- Envisaged new programs in culture sector (Table 10.2);
- Replenishment of material-technical base of the culture sector.

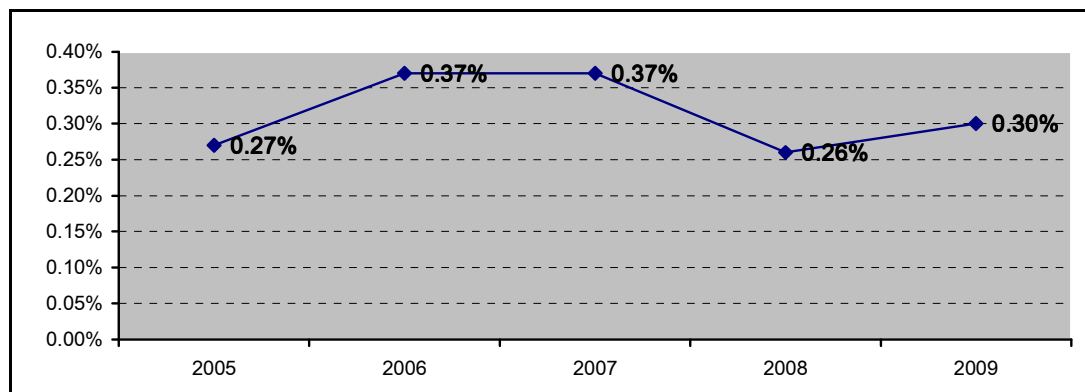
**Table 10.2 Public Expenditure in Culture Sector over 2007-2009, by Existing and New Programs (Million Drams)**

Indicator	2007	2008	2009
General expenditure for existing commitments	9177.5	7206.2	8905.1
General expenditure for new programs	684.4	416.2	539.3
<i>Percentage share within total expenditure in sector</i>	6.9	5.5	5.7
<b>Total</b>	9861.9	7622.3	9444.4

**10.1.3 EXPENDITURE ROGRAMS IN CULTURE OVER THE MTEF PERIOD**

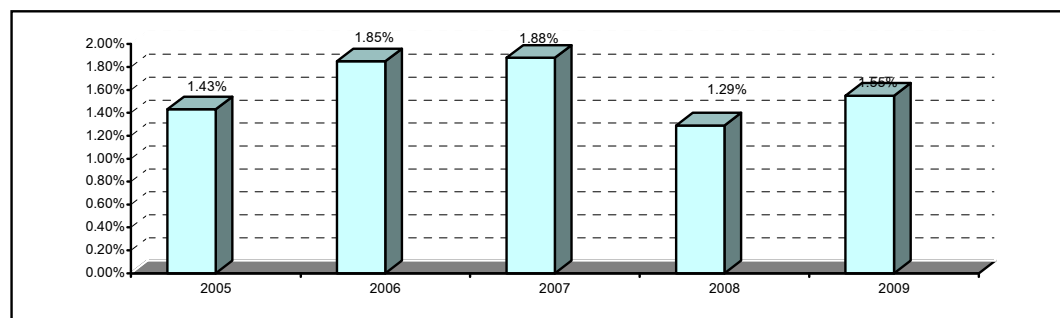
Public expenditure in culture/GDP ratio, as stipulated by the medium-term expenditure framework for 2007-2009, is presented in the chart below:

**Chart 10.1 Public Expenditure in Culture (Percent to GDP)**



Public expenditure in culture/State Budget expenditure ratio, as stipulated by the medium-term expenditure framework for 2007-2009, has the following dynamics:

**Chart 10.2 State Budget Expenditure in Culture (Percent of Total Budgetary Expenditure)**



According to the 2007-2009 medium-term expenditure framework, the expenditure in culture (including administrative maintenance and capital construction expenses) will increase by 10.3 percent in 2007, as compared with the previous year, up to 9,861.9 million drams; in 2008 the expenditure in culture, as compared with previous year, will decrease by 22.7 percent to 7,622.3 million drams (due to decrease in spending for capital construction), and will increase in 2009, as compared with previous year, by 23.9 percent up to 9,444.4 million drams.

**Table 10.3 Public Expenditure in Culture Sector over 2007-2009, by Directions (Million Drams)**

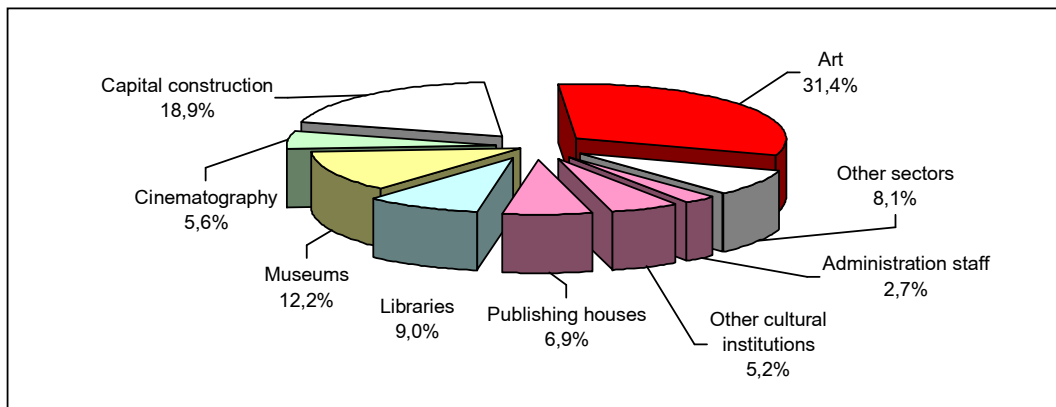
Group, subgroup	Functional Classification Subgroup	Actual	Adopted Budget	MTEF 2007-2009		
		2005	2006	2007	2008	2009
<b>07</b>	<b>TOTAL, including:</b>	<b>5 958.0</b>	<b>8 938.7</b>	<b>9 861.9</b>	<b>7 622.3</b>	<b>9 444.4</b>
07.01.	Public administration	161.8	247.5	264.4	273.2	305.7
07.02.	Libraries	601.3	757.3	892.1	920.6	1 054.2
07.03.	Museums and exhibitions	1 135.3	1 880.6	2 341.1	1 231.7	2 232.4
07.04.	Culture houses, clubs, centers	96.8	18.9	22.8	22.4	22.5
07.05.	Other cultural institutions	300.4	606.0	512.3	512.3	520.9
07.06.	Arts	1 677.1	2 989.7	3098.5	2 546.8	2 600.2
07.07.	Cinematography	447.6	482.9	554.0	584.1	554.6
07.08.	Restoration and protection of monuments and cultural values	527.3	782.2	915.6	255.5	921.5
07.11.	Publishing houses, editorial offices	500.7	621.5	681.9	696.7	653.4
07.12.	Collection of information	52.3	55.8	55.9	55.9	55.9
07.14.	Youth programs	279.6	316.2	342.8	342.8	342.8
07.15.	Political parties, NGO-s, trade unions	177.8	180.2	180.2	180.2	180.2
<i>Change as compared with previous year, percent</i>						
<b>07</b>	<b>TOTAL, including:</b>		<b>50.0</b>	<b>10.3</b>	<b>-22.7</b>	<b>23.9</b>
07.01.	Public administration		53.0	6.9	3.3	11.9
07.02.	Libraries		25.9	17.8	3.2	14.5
07.03.	Museums and exhibitions		65.7	24.5	-47.4	81.2
07.04.	Culture houses, clubs, centers		-80.5	20.8	-1.7	0.2
07.05.	Other cultural institutions		101.7	-15.5	0.0	1.7
07.06.	Arts		78.3	3.6	-17.8	2.1
07.07.	Cinematography		7.9	14.7	5.4	-5.1
07.08.	Restoration and protection of monuments and cultural values		48.3	17.1	-72.1	260.7
07.11.	Publishing houses, editorial offices		24.1	9.7	2.2	-6.2
07.12.	Collection of information		6.6	0.3	0.0	0.0
07.14.	Youth programs		13.1	8.4	0.0	0.0
07.15.	Political parties, NGO-s, trade unions		1.4	0.0	0.0	0.0

Generally, increase of expenditure in culture sector over 2007-2009 will comprise 505.6 million drams (including, 58.2 million drams for administration staff, 296.9 million drams for libraries, 188.1 million drams for museums, 71.7 million drams for cinematography, 32.0 million drams for publications, 325.8 million drams for capital renovation of cultural

establishments and monuments restoration). At the same time, expenditure for art and other cultural institutions decreased by 474.6 million drams due to conclusion of some programs.

Below the culture sector expenditure distribution by subgroups is presented.

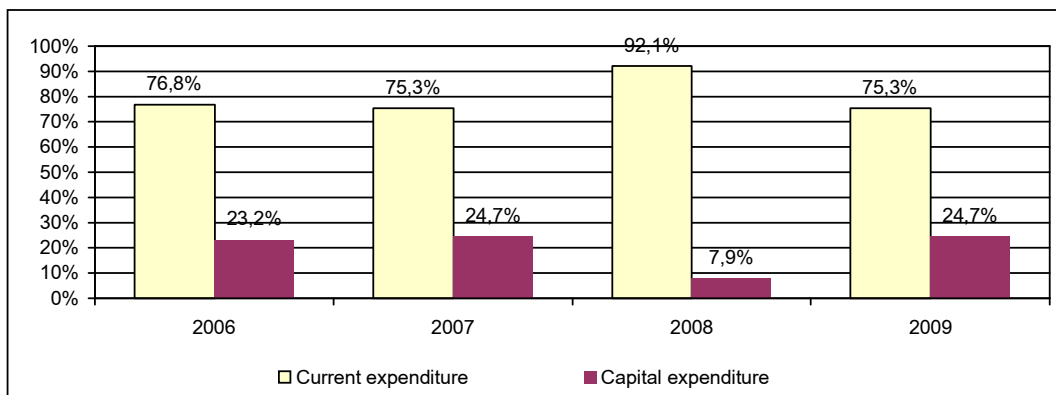
**Chart 10.3 Expenditures Structure in Culture Sector in 2007, by Subgroups (Percent)**



Wages constitute the main part of 2007-2009 cultural and youth programs current expenditure – 51.1 percent, 54.7 percent, and 56.0 percent, respectively.

The structure of spending in culture, by current and capital expenditure, will be as follows:

**Chart 10.4 Structure of Public Expenditure in Culture, by Economic Classification (Percent of Total Public Expenditure in Sector)**



### 10.1.4 PUBLIC SECTOR REVENUES

In addition to the allocations from the State Budget, expenditure in culture is also financed from own revenues.

These revenues are generated mainly through the provision of paid services, booking, and film distribution.

Revenues from the paid services are channeled to wage premiums, procurement of goods, communal services, replenishment of the library and museum stock.

The present and forecast expenditure of the Ministry of Culture and Youth Affairs, financed from the State Budget and from own revenues, is presented below.



**Table 10.4 Present and Forecast Expenditure of the Ministry of Culture and Youth Affairs, Financed from the State Budget and from Provision of Paid Services, by Programs (Million Drams)**

Functional Classification Subgroup	2005		2006		2007		2008		2009	
	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues
	<i>Actual</i>		<i>Budgeted</i>		<i>Forecast</i>					
TOTAL	889.5	121.0	4049.5	748.9	4096.0	795.5	3929.2	831.9	4117.7	883.9
<i>Share in total expenditure (percent)</i>	88.0	12.0	84.4	15.6	83.7	16.3	82.5	17.5	82.3	17.7
07.02.01 State support to libraries - MCYA			510.0	25.0	586.5	25.0	589.5	25.0	695.4	25.0
<i>Share in total expenditure (percent)</i>			95.3	4.7	95.9	4.1	95.9	4.1	96.5	3.5
07.02.02 State support to the National Book Chamber - MCYA	29.8	3.4	35.2	3.4	44.6	3.5	43.1	3.5	69.9	3.6
<i>Share in total expenditure (percent)</i>	89.8	10.2	91.2	8.8	92.8	7.2	92.5	7.5	95.1	4.9
07.03.01 State support to museums - MCYA			754.7	72.0	905.7	75.0	892.0	77.0	888.8	80.0
<i>Share in total expenditure (percent)</i>			91.3	8.7	92.4	7.6	92.1	7.9	91.7	8.3
07.05.01 Subsidizing of the Armenian National Archive SNCO – MTC	158.4	21.4	211.4	29.4	264.4	32.4	263.7	35.6	271.8	35.6
<i>Share in total expenditure (percent)</i>	88.1	11.9	87.8	12.2	89.1	10.9	88.1	11.9	88.4	11.6
07.06.01 State support to Opera and Ballet Academic Theater after A. Spendiarov SNCO - MCYA			644.2	116.4	646.2	145.4	648.3	158.8	658.7	189.3
<i>Share in total expenditure (percent)</i>			84.7	15.3	81.6	18.4	80.3	19.7	77.7	22.3
07.06.02 State support to National Academic Theatre after G. Sundukyan SNCO - MCYA			140.8	49.0	170.1	52.0	171.0	55.5	175.0	58.5
<i>Share in total expenditure (percent)</i>			74.2	25.8	76.6	23.4	75.5	24.5	74.9	25.1
07.06.03 State support to other theatres and concert organization - MCYA			919.6	367.1	1176.9	382.0	1038.1	394.0	1065.6	404.3
<i>Share in total expenditure (percent)</i>			71.5	28.5	75.5	24.5	72.5	27.5	72.5	27.5
07.06.03 State support to other theatres and concert organization – other public administration bodies	163.6	81.8	232.6	79.0	301.6	80.2	283.5	82.5	292.5	87.6
<i>Share in total expenditure (percent)</i>	66.7	33.3	74.6	25.4	79.0	21.0	77.5	22.5	77.0	23.0
07.06.03 State support to films production	268.9	7.2	300.5	3.8						
<i>Share in total expenditure (percent)</i>	97.4	2.6	98.8	1.2						

Budgetary allocations to culture over 2005-2009, by subgroups and by current and capital expenditure, are presented in Table 10.5.

**Table 10.5 Budgetary Allocations to Culture over 2005-2009, by Budget Expenditure Functional Classification Subgroups, Public Bodies, and Current and Capital Expenditures (Million Drams)**

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
07	<b>TOTAL, including:</b>	5 958.0	8 938.7	9 861.9	7 622.3	9 444.4
	- <i>Current expenditure</i>	4 903.3	6 868.5	7 428.8	7 016.7	7 110.0
	- <i>Capital expenditure</i>	1 054.6	2 070.2	2 433.1	605.6	2 334.3
07.01.	Public administration, including:	161.8	247.5	264.4	273.2	305.7
	- Current expenditure	159.5	229.6	264.4	273.2	305.7
	- Capital expenditure	2.2	17.9	0.0	0.0	0.0
07.02.	Libraries, including:	601.3	757.3	892.1	920.6	1 054.2
	- <i>Current expenditure</i>	584.7	732.5	851.7	855.6	895.2
	- <i>Capital expenditure</i>	16.6	24.8	40.4	65.0	159.0
07.02.01.	State support to libraries	553.6	697.3	815.7	820.8	826.1
	- <i>Current expenditure</i>	553.6	697.3	801.7	805.8	826.1
	- <i>Capital expenditure</i>	0.0	0.0	14.0	15.0	0.0
	Ministry of Culture and Youth Affairs	401.3	510.0	586.5	589.5	604.9
	- <i>Current expenditure</i>	401.3	510.0	586.5	589.5	604.9
	Ministry of Trade and Economic Development	83.4	103.3	117.8	118.4	121.0
	- <i>Current expenditure</i>	83.4	103.3	117.8	118.4	121.0
	Ministry of Finance and Economy	68.9	84.0	111.5	112.9	100.3
	- <i>Current expenditure</i>	68.9	84.0	97.5	97.9	100.3
	- <i>Capital expenditure</i>	0.0	0.0	14.0	15.0	0.0
07.02.02.	State support to Armenian National Book Chamber	29.8	35.2	40.7	40.8	41.7
	- <i>Current expenditure</i>	29.8	35.2	40.7	40.8	41.7
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	29.8	35.2	40.7	40.8	41.7
07.02.03.	State order on centralized procurement of equipment for Armenian National Book Chamber and libraries	17.9	24.8	24.8	50.0	50.0
	- <i>Current expenditure</i>	1.3	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	16.6	24.8	24.8	50.0	50.0
	Ministry of Culture and Youth Affairs	17.9	24.8	24.8	50.0	50.0
	New programs, including:	0.0	0.0	10.9	9.0	136.4
	- <i>Current expenditure</i>	0.0	0.0	9.3	9.0	27.4
	- <i>Capital expenditure</i>	0.0	0.0	1.6	0.0	109.0
	1.13 Furnishing of libraries reading rooms	0.0	0.0	0.0	0.0	90.5
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	90.5
	Ministry of Culture and Youth Affairs	0.0	0.0	0.0	0.0	90.5
	2. Armenian fonts preservation, introducing and utilization program	0.0	0.0	3.9	2.3	2.3
	- <i>Current expenditure</i>	0.0	0.0	2.3	2.3	2.3
	- <i>Capital expenditure</i>	0.0	0.0	1.6	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	3.9	2.3	2.3

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N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	3. Creation and replenishment of electronic repository of national bibliography magazines and newspapers Armenologic articles program	0.0	0.0	0.0	0.0	25.9
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	17.9
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	8.0
	Ministry of Culture and Youth Affairs	0.0	0.0	0.0	0.0	25.9
	4. Furnishing of Republican Scientific-Technical Library reading rooms	0.0	0.0	0.0	0.0	3.3
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	3.3
	Ministry of Trade and Economic Development	0.0	0.0	0.0	0.0	3.3
	5. Automation of informative-bibliologic service of NAS basic library	0.0	0.0	3.0	4.0	5.0
	- <i>Current expenditure</i>	0.0	0.0	3.0	4.0	5.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	0.0	0.0	3.0	4.0	5.0
	6. Preservation of library stock, which is the part of Armenian cultural heritage	0.0	0.0	4.0	2.7	2.2
	- <i>Current expenditure</i>	0.0	0.0	4.0	2.7	2.2
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	0.0	0.0	4.0	2.7	2.2
	7. Furnishing of NAS libraries reading rooms	0.0	0.0	0.0	0.0	7.1
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	7.1
	Ministry of Finance and Economy	0.0	0.0	0.0	0.0	7.1
07.03.	Museums and exhibitions, including:	1 135.3	1 880.6	2 341.1	1 231.7	2 232.4
	- <i>Current expenditure</i>	777.3	1 001.6	1 259.7	1 180.6	1 202.4
	- <i>Capital expenditure</i>	358.0	879.1	1 081.4	51.1	1 030.0
07.03.01.	State support to museums	803.4	1 001.6	1 159.3	1 170.4	1 189.7
	- <i>Current expenditure</i>	775.7	1 001.6	1 159.2	1 164.3	1 189.7
	- <i>Capital expenditure</i>	27.7	0.0	0.1	6.1	0.0
	Ministry of Culture and Youth Affairs	608.0	754.7	867.4	877.0	888.8
	- <i>Current expenditure</i>	580.3	754.7	867.3	870.9	888.8
	- <i>Capital expenditure</i>	27.7	0.0	0.1	6.1	0.0
	Ministry of Defence	56.4	69.3	85.4	85.7	87.6
	- <i>Current expenditure</i>	56.4	69.3	85.4	85.7	87.6
	Ministry of Urban Development	17.0	22.9	26.7	26.8	27.4
	- <i>Current expenditure</i>	17.0	22.9	26.7	26.8	27.4
	Ministry of Environmental Protection	14.8	18.5	21.6	21.7	22.3
	- <i>Current expenditure</i>	14.8	18.5	21.6	21.7	22.3
	Yerevan Municipality	60.2	77.2	89.2	89.6	92.0
	- <i>Current expenditure</i>	60.2	77.2	89.2	89.6	92.0
	Ararat Marzpetaran	6.2	8.3	9.7	9.8	10.0
	- <i>Current expenditure</i>	6.2	8.3	9.7	9.8	10.0
	Gegharkunik Marzpetaran	7.3	8.8	10.2	10.3	10.5
	- <i>Current expenditure</i>	7.3	8.8	10.2	10.3	10.5

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	Lori Marzpetaran	4.3	5.6	6.6	6.6	6.8
	- <i>Current expenditure</i>	4.3	5.6	6.6	6.6	6.8
	Shirak Marzpetaran	20.0	24.7	29.1	29.3	30.2
	- <i>Current expenditure</i>	20.0	24.7	29.1	29.3	30.2
	Syunik Marzpetaran	4.7	5.8	6.8	6.9	7.1
	- <i>Current expenditure</i>	4.7	5.8	6.8	6.9	7.1
	Vayots Dzor Marzpetaran	4.5	5.7	6.7	6.7	6.9
	- <i>Current expenditure ñ</i>	4.5	5.7	6.7	6.7	6.9
07.03.02.	Capital renovation of cultural establishments	204.2	819.2	1 000.0	0.0	1 000.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	204.2	819.2	1 000.0	0.0	1 000.0
	Ministry of Urban Development	204.2	819.2	1 000.0	0.0	1 000.0
07.03.03.	Yerevan city municipal expenditures	67.1	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	67.1	0.0	0.0	0.0	0.0
	Yerevan Municipality	67.1	0.0	0.0	0.0	0.0
07.03.04.	State order on centralized procurement of equipment for museums	55.6	59.9	43.0	30.0	30.0
	- <i>Current expenditure</i>	1.6	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	54.0	59.9	43.0	30.0	30.0
	Ministry of Culture and Youth Affairs	55.6	59.9	43.0	30.0	30.0
	New programs, including:	0.0	0.0	138.8	31.3	12.7
	- <i>Current expenditure</i>	0.0	0.0	100.5	16.3	12.7
	- <i>Capital expenditure</i>	0.0	0.0	38.3	15.0	0.0
	1. Artistic night illumination and installation of radio of "Garni" and "Zvartnots" reserve-museums	0.0	0.0	34.5	15.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	34.5	15.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	34.5	15.0	0.0
	2. Organization of permanent exhibition of Museum-Institution after A. Tamanyan	0.0	0.0	0.5	0.7	2.7
	- <i>Current expenditure</i>	0.0	0.0	0.5	0.7	2.7
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Urban Development	0.0	0.0	0.5	0.7	2.7
	3. Organization of permanent exhibition of Yerevan City Historical Museum	0.0	0.0	75.0	15.6	10.0
	- <i>Current expenditure</i>	0.0	0.0	75.0	15.6	10.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Yerevan Municipality	0.0	0.0	75.0	15.6	10.0
	4. Organization of permanent exhibition of Gyumri Folk Art and City Routine Museum	0.0	0.0	25.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	25.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Shirak Marzpetaran	0.0	0.0	25.0	0.0	0.0
	5. Gasification of Orbeli brothers House-Museum	0.0	0.0	3.8	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	3.8	0.0	0.0

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N	Subgroups	2005 Actual	2006 Adopted Budget	2007	2008	2009
				MTEF 2007-2009		
	Ministry of Culture and Youth Affairs	0.0	0.0	3.8	0.0	0.0
07.04.	Cultural houses, clubs, centers, including:	96.8	18.9	22.8	22.4	22.5
	- Current expenditure	14.4	18.9	21.7	21.9	22.5
	- Capital expenditure	82.4	0.0	1.0	0.5	0.0
07.04.01.	State support to cultural houses, clubs, centers	14.4	18.9	22.8	22.4	22.5
	- Current expenditure	14.4	18.9	21.7	21.9	22.5
	- Capital expenditure	0.0	0.0	1.0	0.5	0.0
	Ministry of Culture and Youth Affairs	12.4	16.3	19.8	19.4	19.3
	- Current expenditure	12.4	16.3	18.7	18.8	19.3
	- Capital expenditure	0.0	0.0	1.0	0.5	0.0
	Kotayk Marzpetaran	0.7	0.9	1.0	1.0	1.0
	- Current expenditure	0.7	0.9	1.0	1.0	1.0
	Syunik Marzpetaran	0.7	0.9	1.0	1.0	1.0
	- Current expenditure	0.7	0.9	1.0	1.0	1.0
	Vayots Dzor Marzpetaran	0.7	0.9	1.0	1.0	1.0
	- Current expenditure	0.7	0.9	1.0	1.0	1.0
07.04.02.	Capital renovation of cultural establishments	82.4	0.0	0.0	0.0	0.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	82.4	0.0	0.0	0.0	0.0
	Ministry of Urban Development	82.4	0.0	0.0	0.0	0.0
07.05.	Other cultural institutions, including:	300.4	606.0	512.3	512.3	520.9
	- Current expenditure	286.1	597.3	489.9	491.9	500.6
	- Capital expenditure	14.3	8.7	22.4	20.3	20.4
07.05.01.	State support to "Armenian National Archive" SNCO	158.4	211.4	264.4	263.7	255.2
	- Current expenditure	158.4	211.4	248.4	249.5	255.2
	- Capital expenditure	0.0	0.0	16.0	14.2	0.0
	Ministry of Territorial Administration	158.4	211.4	264.4	263.7	255.2
07.05.02.	State support to "Informative-Analytical and Public Relations Center" SNCO	9.0	11.9	15.9	16.0	14.4
	- Current expenditure	9.0	11.9	14.0	14.1	14.4
	- Capital expenditure	0.0	0.0	1.9	1.9	0.0
	Ministry of Culture and Youth Affairs	9.0	11.9	15.9	16.0	14.4
07.05.03.	State support to "Yerevan Zoo" SNCO	100.8	160.3	178.3	178.6	179.9
	- Current expenditure	100.8	160.3	178.3	178.6	179.9
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Yerevan Municipality	100.8	160.3	178.3	178.6	179.9
07.05.04.	State support to "Folk Arts and Craftsmanship Center" SNCO	12.8	18.5	20.7	21.2	19.9
	- Current expenditure	12.8	16.5	19.2	19.3	19.9
	- Capital expenditure	0.0	2.0	1.4	1.9	0.0
	Ministry of Culture and Youth Affairs	12.8	18.5	20.7	21.2	19.9
07.05.05.	State support to "Cultural Values Expert Center" SNCO	5.0	28.9	28.0	28.0	28.6
	- Current expenditure	5.0	22.2	25.5	25.6	26.3
	- Capital expenditure	0.0	6.7	2.5	2.4	2.4

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N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
	Ministry of Culture and Youth Affairs	5.0	28.9	28.0	28.0	28.6
07.05.06.	State support to "AYAS" Marine Research Club	0.0	175.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	175.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Government staff	0.0	175.0	0.0	0.0	0.0
07.05.07.	Installation of fire security system in Armenian National Archive	14.3	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	14.3	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	14.3	0.0	0.0	0.0	0.0
	New programs, including:	0.0	0.0	5.0	4.8	22.9
	- <i>Current expenditure</i>	0.0	0.0	4.4	4.8	4.9
	- <i>Capital expenditure</i>	0.0	0.0	0.6	0.0	18.0
	1. Reconstruction of air conditioning system in first building of Armenian National Archive	0.0	0.0	0.0	0.0	16.6
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	16.6
	Ministry of Territorial Administration	0.0	0.0	0.0	0.0	16.6
	2.1. Creation of folk art repository	0.0	0.0	3.8	3.8	3.8
	- <i>Current expenditure</i>	0.0	0.0	3.8	3.8	3.8
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	3.8	3.8	3.8
	2.2. Armenian traditional heritage collection, development and spreading program	0.0	0.0	0.7	1.0	1.1
	- <i>Current expenditure</i>	0.0	0.0	0.7	1.0	1.1
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	0.7	1.0	1.1
	2.3. Purchasing equipment for Folk Arts and Craftsmanship Center	0.0	0.0	0.6	0.0	1.4
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.6	0.0	1.4
	Ministry of Culture and Youth Affairs	0.0	0.0	0.6	0.0	1.4
07.06.	Art, including:	1 677.1	2 989.7	3098.5	2 546.8	2 600.2
	- <i>Current expenditure</i>	1 641.5	2 596.4	2 671.0	2 278.2	2 340.2
	- <i>Capital expenditure</i>	35.6	393.3	427.5	268.6	260.0
07.06.01.	State support to "Opera and Ballet Academic theatre after A. Spendiaryan" SNCO	283.0	644.2	434.7	470.5	398.7
	- <i>Current expenditure</i>	283.0	321.4	386.2	388.3	398.7
	- <i>Capital expenditure</i>	0.0	322.9	48.4	82.2	0.0
	Ministry of Culture and Youth Affairs	283.0	644.2	434.7	470.5	398.7
07.06.02.	State support to "National Academic Theatre after G. Sundukyan" SNCO	125.4	140.8	170.1	171.0	175.0
	- <i>Current expenditure</i>	125.4	140.8	170.1	171.0	175.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	125.4	140.8	170.1	171.0	175.0
07.06.03.	State support to other theatres and concert organizations	908.5	1 152.2	1 303.9	1 313.0	1 358.1

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	- <i>Current expenditure</i>	908.5	1 081.8	1 303.9	1 313.0	1 358.1
	- <i>Capital expenditure</i>	0.0	70.4	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	744.8	919.6	1 022.3	1 029.5	1 065.6
	- <i>Current expenditure</i>	744.8	849.2	1 022.3	1 029.5	1 065.6
	- <i>Capital expenditure</i>	0.0	70.4	0.0	0.0	0.0
	Yerevan Municipality	95.0	152.2	185.3	186.4	192.1
	- <i>Current expenditure</i>	95.0	152.2	185.3	186.4	192.1
	Syunik Marzpetaran	17.2	20.2	24.3	24.5	25.3
	- <i>Current expenditure</i>	17.2	20.2	24.3	24.5	25.3
	Shirak Marzpetaran	32.5	38.4	46.1	46.4	48.3
	- <i>Current expenditure</i>	32.5	38.4	46.1	46.4	48.3
	Gegharkunik Marzpetaran	18.9	21.8	26.0	26.2	26.9
	- <i>Current expenditure</i>	18.9	21.8	26.0	26.2	26.9
07.06.04.	State support to implementation of cultural events	259.2	295.8	340.4	340.4	340.4
	- <i>Current expenditure</i>	259.2	295.8	340.4	340.4	340.4
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	226.4	261.6	306.1	306.1	306.1
	- <i>Current expenditure</i>	226.4	261.6	306.1	306.1	306.1
	Shirak Marzpetaran	3.4	3.5	3.5	3.5	3.5
	- <i>Current expenditure</i>	3.4	3.5	3.5	3.5	3.5
	Lori Marzpetaran	2.6	2.7	2.7	2.7	2.7
	- <i>Current expenditure</i>	2.6	2.7	2.7	2.7	2.7
	Armavir Marzpetaran	0.4	0.5	0.5	0.5	0.5
	- <i>Current expenditure</i>	0.4	0.5	0.5	0.5	0.5
	Kotayk Marzpetaran	2.3	2.4	2.4	2.4	2.4
	- <i>Current expenditure</i>	2.3	2.4	2.4	2.4	2.4
	Tavush Marzpetaran	3.3	3.3	3.4	3.4	3.4
	- <i>Current expenditure</i>	3.3	3.3	3.4	3.4	3.4
	Ararat Marzpetaran	2.6	3.2	3.2	3.2	3.2
	- <i>Current expenditure</i>	2.6	3.2	3.2	3.2	3.2
	Gegharkunik Marzpetaran	3.2	3.3	3.3	3.3	3.3
	- <i>Current expenditure</i>	3.2	3.3	3.3	3.3	3.3
	Vayots Dzor Marzpetaran	4.8	4.9	4.9	4.9	4.9
	- <i>Current expenditure</i>	4.8	4.9	4.9	4.9	4.9
	Syunik Marzpetaran	7.0	7.2	7.2	7.2	7.2
	- <i>Current expenditure</i>	7.0	7.2	7.2	7.2	7.2
	Aragatsotn Marzpetaran	3.2	3.3	3.3	3.3	3.3
	- <i>Current expenditure</i>	3.2	3.3	3.3	3.3	3.3
07.06.05.	Capital renovation of cultural establishments	35.6	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	35.6	0.0	0.0	0.0	0.0
	Ministry of Urban Development	35.6	0.0	0.0	0.0	0.0
07.06.06.	State support to Tbilisi Theatre after P. Adamyan	20.0	20.0	20.0	20.0	20.0
	- <i>Current expenditure</i>	20.0	20.0	20.0	20.0	20.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Foreign Affairs	20.0	20.0	20.0	20.0	20.0
07.06.07.	Monthly honorary payments to persons who received "Peoples" honorary title	30.6	34.4	35.4	37.8	40.2

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	- <i>Current expenditure</i>	30.6	34.4	35.4	37.8	40.2
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Social Security State Fund	30.6	34.4	35.4	37.8	40.2
07.06.08.	State support to events dedicated to 70th anniversary of H. Matevosyan	14.9	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	14.9	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	14.9	0.0	0.0	0.0	0.0
07.06.09.	State support to organization of events of Armenian Year in France and in Russian Federation	0.0	702.3	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	702.3	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Government staff	0.0	702.3	0.0	0.0	0.0
07.06.10.	State support to organization of events of Armenian Year in France	0.0	0.0	400.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	400.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Government staff	0.0	0.0	400.0	0.0	0.0
	New programs, including:	0.0	0.0	394.0	194.2	267.8
	- <i>Current expenditure</i>	0.0	0.0	14.9	7.8	7.8
	- <i>Capital expenditure</i>	0.0	0.0	379.1	186.4	260.0
	1. Purchasing equipment for Opera and Ballet Academic Theatre after A. Spendiaryan	0.0	0.0	211.6	177.8	260.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	211.6	177.8	260.0
	Ministry of Culture and Youth Affairs	0.0	0.0	211.6	177.8	260.0
	2. Installation of air conditioning system in National State Theatre	0.0	0.0	11.2	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	11.2	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	11.2	0.0	0.0
	3. Installation of audio and illumination systems in Goris State Dramatic Theatre after V. Vagharshyan	0.0	0.0	27.8	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	27.8	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	27.8	0.0	0.0
	4. Current repair of stage mechanisms and equipment of Goris State Dramatic Theatre after V. Vagharshyan	0.0	0.0	11.3	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	11.3	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	11.3	0.0	0.0
	5. Purchasing concert costumes, radio equipment and folk musical instruments for Armenian Folk Instruments Orchestra	0.0	0.0	7.1	8.6	0.0
	- <i>Current expenditure</i>	0.0	0.0	7.1	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	8.6	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	7.1	8.6	0.0



N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	6. Purchasing armchairs for the auditorium of State Chamber Music Theatre	0.0	0.0	6.4	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	6.4	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	6.4	0.0	0.0
	7. Purchasing of audio and illumination equipment for Marionette State Theatre	0.0	0.0	35.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	35.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	35.0	0.0	0.0
	8. Purchasing assets, audio and illumination equipment for State Dramatic Theatre after A. Kharazyan	0.0	0.0	2.9	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	2.9	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	2.9	0.0	0.0
	9. Purchasing assets, audio and illumination equipment for State Chamber Music Theatre	0.0	0.0	28.6	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	28.6	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	28.6	0.0	0.0
	10. Purchasing assets and armchairs for auditorium of State Dramatic Theatre after H. Abelyan	0.0	0.0	9.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	9.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	9.0	0.0	0.0
	11. Replenishment of equipment of State Puppet Theatre after H. Tumanyan	0.0	0.0	15.5	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	15.5	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	15.5	0.0	0.0
	12. Purchasing assets, audio and illumination equipment for Kapan State Dramatic Theatre after A. Shirvanzade	0.0	0.0	19.9	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	19.9	0.0	0.0
	Syunik Marzpetaran	0.0	0.0	19.9	0.0	0.0
	13. "Fairy Tale in Guest"- rural children servicing event	0.0	0.0	0.8	0.8	0.8
	- <i>Current expenditure</i>	0.0	0.0	0.8	0.8	0.8
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	0.8	0.8	0.8
	14. State support and promotion of international theatrical festivals, including:	0.0	0.0	4.0	4.0	4.0
	- <i>Current expenditure</i>	0.0	0.0	4.0	4.0	4.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	a) ARMMONO	0.0	0.0	2.0	2.0	2.0
	b) HAYFEST	0.0	0.0	2.0	2.0	2.0
	Ministry of Culture and Youth Affairs	0.0	0.0	4.0	4.0	4.0

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				MTEF 2007-2009		
	15. Cultural events program in Armavir Marz	0.0	0.0	2.1	2.1	2.1
	- <i>Current expenditure</i>	0.0	0.0	2.1	2.1	2.1
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Armavir Marzpetaran	0.0	0.0	2.1	2.1	2.1
	16. Cultural events program in Lori Marz	0.0	0.0	0.9	0.9	0.9
	- <i>Current expenditure</i>	0.0	0.0	0.9	0.9	0.9
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Lori Marzpetaran	0.0	0.0	0.9	0.9	0.9
07.07.	Cinematography, including:	447.6	482.9	554.0	584.1	554.6
	- <i>Current expenditure</i>	447.6	482.9	554.0	584.1	554.6
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
07.07.01.	State support to films production	415.0	450.0	450.0	450.0	450.0
	- <i>Current expenditure</i>	415.0	450.0	450.0	450.0	450.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	415.0	450.0	450.0	450.0	450.0
07.07.02.	State support to other services in cinematography sector	32.7	32.9	32.9	32.9	32.9
	- <i>Current expenditure</i>	32.7	32.9	32.9	32.9	32.9
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	32.7	32.9	32.9	32.9	32.9
	New programs, including:	0.0	0.0	71.1	101.2	71.7
	- <i>Current expenditure</i>	0.0	0.0	71.1	101.2	71.7
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	1. Copying, restoration and digitalizing of documental films	0.0	0.0	8.4	8.4	8.4
	- <i>Current expenditure</i>	0.0	0.0	8.4	8.4	8.4
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	8.4	8.4	8.4
	2. Production of documental films on film-strips	0.0	0.0	30.0	60.0	30.0
	- <i>Current expenditure</i>	0.0	0.0	30.0	60.0	30.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	30.0	60.0	30.0
	3. Ensuring participation of documental films to films festivals	0.0	0.0	1.2	1.2	1.2
	- <i>Current expenditure</i>	0.0	0.0	1.2	1.2	1.2
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	1.2	1.2	1.2
	4. Reimbursement of business trips spendings on films production, participation to international films festivals, films-photo-audio stock preservation	0.0	0.0	31.6	31.7	32.2
	- <i>Current expenditure</i>	0.0	0.0	31.6	31.7	32.2
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	31.6	31.7	32.2
07.08.	Restorations and protection of monuments and cultural values, including:	527.3	782.2	915.6	255.5	921.5
	- <i>Current expenditure</i>	37.3	42.2	55.3	55.5	56.5

## 2007-2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 Actual	2006 Adopted Budget	2007	2008	2009
	- Capital expenditure	490.0	740.0	860.3	200.0	865.0
07.08.01.	State support to "Historical-Cultural Heritage Expert Center" SNCO	37.3	42.2	50.6	50.8	51.8
	- Current expenditure	37.3	42.2	50.6	50.8	51.8
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	37.3	42.2	50.6	50.8	51.8
07.08.02.	Planning/designing and estimating works	86.0	0.0	0.0	0.0	0.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	86.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	86.0	0.0	0.0	0.0	0.0
07.08.03.	State order on monuments restoration	404.0	720.0	860.3	200.0	865.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	404.0	720.0	860.3	200.0	865.0
	Ministry of Culture and Youth Affairs	374.3	0.0	860.3	200.0	865.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	374.3	0.0	0.0	0.0	0.0
	Armavir Marzpetaran	29.7	0.0	0.0	0.0	0.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	29.7	0.0	0.0	0.0	0.0
07.08.04.	Costruction of other establishments	0.0	20.0	0.0	0.0	0.0
	- Current expenditure	0.0	0.0	0.0	0.0	0.0
	- Capital expenditure	0.0	20.0	0.0	0.0	0.0
	Ministry of Urban Development	0.0	20.0	0.0	0.0	0.0
	New programs, including:	0.0	0.0	4.7	4.7	4.7
	- Current expenditure	0.0	0.0	4.7	4.7	4.7
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	1. Development of monuments cadastre	0.0	0.0	4.7	4.7	4.7
	- Current expenditure	0.0	0.0	4.7	4.7	4.7
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	0.0	0.0	4.7	4.7	4.7
07.11.	Publishing houses, editor's offices, including:	500.7	621.5	681.9	696.7	653.4
	- Current expenditure	492.7	614.9	681.9	696.7	653.4
	- Capital expenditure	7.9	6.6	0.0	0.0	0.0
07.11.01.	State support to publication of scientific magazines and monographies	30.0	34.5	38.7	38.9	39.7
	- Current expenditure	30.0	34.5	38.7	38.9	39.7
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	30.0	34.5	38.7	38.9	39.7
07.11.02.	State order on publication of literature	37.6	135.4	135.4	135.4	135.4
	- Current expenditure	37.6	135.4	135.4	135.4	135.4
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	37.6	135.4	135.4	135.4	135.4
07.11.03.	State support to publication of public press	57.4	66.7	60.3	60.3	60.3
	- Current expenditure	57.4	60.1	60.3	60.3	60.3
	- Capital expenditure	0.0	6.6	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	57.4	66.7	60.3	60.3	60.3
07.11.04.	State support to "Economica Magazine" CJSC	30.2	35.6	35.6	35.6	35.6
	- Current expenditure	30.2	35.6	35.6	35.6	35.6

2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	30.2	35.6	35.6	35.6	35.6
07.11.05.	State support to private press publishing	44.9	46.4	46.4	46.4	46.4
	- <i>Current expenditure</i>	44.9	46.4	46.4	46.4	46.4
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	44.9	46.4	46.4	46.4	46.4
07.11.06.	State support to children and youth newspapers and magazines publication	32.1	34.7	37.4	40.9	44.8
	- <i>Current expenditure</i>	32.1	34.7	37.4	40.9	44.8
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Education and Science	32.1	34.7	37.4	40.9	44.8
07.11.07.	State order on publications	258.5	258.2	258.2	258.2	258.2
	- <i>Current expenditure</i>	250.6	258.2	258.2	258.2	258.2
	- <i>Capital expenditure</i>	7.9	0.0	0.0	0.0	0.0
	Ministry of Justice	227.7	197.3	197.3	197.3	197.3
	- <i>Current expenditure</i>	219.7	197.3	197.3	197.3	197.3
	- <i>Capital expenditure</i>	7.9	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	20.6	50.6	50.6	50.6	50.6
	- <i>Current expenditure</i>	20.6	50.6	50.6	50.6	50.6
	Ministry of Foreign Affairs	10.3	10.3	10.3	10.3	10.3
	- <i>Current expenditure</i>	10.3	10.3	10.3	10.3	10.3
07.11.08.	State support to publication of Georgia newspaper	10.0	10.0	10.0	10.0	10.0
	- <i>Current expenditure</i>	10.0	10.0	10.0	10.0	10.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Foreign Affairs	10.0	10.0	10.0	10.0	10.0
	New programs, including:	0.0	0.0	60.0	71.0	23.0
	- <i>Current expenditure</i>	0.0	0.0	60.0	71.0	23.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	1. Development of legal terminology	0.0	0.0	14.0	13.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	14.0	13.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Justice	0.0	0.0	14.0	13.0	0.0
	2. Development of Armenian legal information system	0.0	0.0	23.0	23.0	23.0
	- <i>Current expenditure</i>	0.0	0.0	23.0	23.0	23.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Justice	0.0	0.0	23.0	23.0	23.0
	3. Creation and maintenance of Official Announcements web-site	0.0	0.0	23.0	35.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	23.0	35.0	0.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Justice	0.0	0.0	23.0	35.0	0.0
07.12.	Collection of information	52.3	55.8	55.9	55.9	55.9
	- <i>Current expenditure</i>	52.3	55.8	55.9	55.9	55.9
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
07.12.01.	State support to the "ArmenPress" CJSC for collection, maintenance and archiving the information	52.3	55.8	55.9	55.9	55.9
	- <i>Current expenditure</i>	52.3	55.8	55.9	55.9	55.9
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
				<i>MTEF 2007-2009</i>		
	Ministry of Culture and Youth Affairs	52.3	55.8	55.9	55.9	55.9
07.14.	Youth programs, including:	279.6	316.2	342.8	342.8	342.8
	- <i>Current expenditure</i>	279.6	316.2	342.8	342.8	342.8
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
07.14.01.	State support to implementation of youth programs	279.6	316.2	342.8	342.8	342.8
	- <i>Current expenditure</i>	279.6	316.2	342.8	342.8	342.8
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	279.6	316.2	342.8	342.8	342.8
07.15.	Political parties, NGO-s, labour unions, including:	177.8	180.2	180.2	180.2	180.2
	- <i>Current expenditure</i>	130.2	180.2	180.2	180.2	180.2
	- <i>Capital expenditure</i>	47.5	0.0	0.0	0.0	0.0
07.15.01.	State support to national minorities	10.0	10.0	10.0	10.0	10.0
	- <i>Current expenditure</i>	10.0	10.0	10.0	10.0	10.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	Government staff	10.0	10.0	10.0	10.0	10.0
07.15.02.	Material support to the parties and party alliances having gained 3 and more percent of votes at the National Assembly elections	70.2	70.2	70.2	70.2	70.2
	- <i>Current expenditure</i>	70.2	70.2	70.2	70.2	70.2
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	RA Government	70.2	70.2	70.2	70.2	70.2
07.15.03.	Capital renovation of cultural establishments	47.5	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	0.0	0.0
	- <i>Capital expenditure</i>	47.5	0.0	0.0	0.0	0.0
	Ministry of Urban Development	47.5	0.0	0.0	0.0	0.0
07.15.04	State support to NGO-s	50.0	100.0	100.0	100.0	100.0
	- <i>Current expenditure</i>	50.0	100.0	100.0	100.0	100.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	President's staff	50.0	100.0	100.0	100.0	100.0

MTEF 2007-2009 allocations distribution for Ministry of Culture and Youth Affairs programs, classified by programs, within the framework of program budgeting reforms, is presented in Table 4 of the Annex II.

## 10.2 TELEVISION AND RADIO

2007-2009 medium-term expenditure framework allocations for television and radio will be channeled to the implementation of 10 programs through 5 public administration bodies, as presented in Table 10.12, by functional classification subgroups of budgetary expenditure.

### 10.2.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS

Activities in the sphere of production and broadcasting of TV and radio programs are implemented by the Public Television Company and Public Radio Company.

The Public Television Company has produced and broadcast 18-19.5 hours of television programs per day in 2005 in the territory of Armenia; it also has provided 24-hour broadcasting through satellite connections to Europe, Middle East, Northern Africa, and Northern America, as well as 24-hour broadcasting within the decimetric frequency range in the territory of Yerevan City.

The Public Radio Company has produced and broadcast 50 hours of radio programs per day in the territory of Armenia and abroad in 2005.

The Shirak Public Radio Company, engaged in the production and broadcasting of television and radio programs in Shirak Region, has produced and broadcast 0.5 hours of television programs and 0.5 hours of radio programs per day in 2005.

"On the Hard Road to Europe" and "Genocide" TV films were produced under the "State Order for TV Films Production" program in 2005.

Certain works were implemented for the maintenance of the reserve base of radio and television, public opinion surveys, highlighting of the Government's activities, advancement in economic reforms and strategic programs, and ensuring publicity of procurements made by state agencies in 2005, apart from the production and broadcast of television and radio programs.

Over 2005-2006 television and radio programs thematic directions share in total hours of broadcasting is presented in Tables 10.6 and 10.7.

**Table 10.6 Share of Thematic Directions within Total Hours of TV Broadcasting over 2005-2006**

No	Thematic directions of television programs	Share in total hours (percent)	
		2005 Actual	2006 Budgeted
1	Informational-analytical	29.7	29.7
2	Socio-economic, public-political	16.3	16.3
3	Legal	0.9	0.9
4	Scientific-popular, cognitive	5.5	5.5
5	Health care	0.9	0.9
6	Cultural	20.5	20.5
7	Children-juvenile, youth, educational, sports	18.5	18.5
8	Musical	7.5	7.5
9	Spiritual	0.2	0.2

**Table 10.7 Share of Thematic Directions within Total Hours of Radio Broadcasting over 2005-2006**

No	Thematic directions of radio programs	Share in total hours (percent)	
		2005 Actual	2006 Budgeted
1	Radio-informational	8.2	6.8
2	Political-economic	1.2	0.9
3	Cultural	2.1	3.4
4	Youth	1.5	1.6
5	Children's-juvenile	1.5	1.6
6	Spiritual	2.6	1.7
7	Musical	24.9	28.0
8	Stereo-studio	42.0	42.0
9	For You Music-Lovers	5.7	
10	Radio programs for those abroad	10.3	10.3
11	New FM		3.7

State Budget allocations to the Board of the Public Television and Radio Company over 2005-2006 amounted to 3,167.6 and 3,123.9 million drams, respectively, and were distributed as presented in Table 10.8.

**Table 10.8 State Budget Allocations to the Board of the Public Television and Radio Company over 2005-2006 (Million Drams)**

Directions of resource utilization	2005	2006
<b><i>Maintenance of the Board of the Armenian Public Television and Radio</i></b>	60.1	71.4
State order for production of TV films	37.7	38.2
State support to the "Armenian Public Television Company" CJSC for production and broadcasting of television programs	2255.7	2267.5
State support to the "Armenian Public Radio Company" CJSC for production and broadcasting of radio programs	682.9	690.9
State support to the "Shirak Public Television and Radio" CJSC for production and broadcasting of television and radio programs	15.9	16.7
State support to the "Yeter Creativity House" CJSC for maintaining the	5.9	6.2
State support to the "Public Opinion Research Center" CJSC for	5.0	8.1
Europe Broadcasters Union entrance and membership fees (Government reserve fund)	104.4	
Republic of Armenia membership fees to international organizations		24.9
<b>Total</b>	<b>3167.6</b>	<b>3123.9</b>

It is worth mentioning that the share of television and radio program broadcasting in budgetary allocations to the Public Television Company and the Public Radio Company comprise 45.5 percent and 56.7 percent in 2005, and 36.9 percent and 50.6 percent in 2006, respectively. Broadcasting is generally carried out through the companies under the Ministry of Transport and Communications. Distribution of allocations to the production and broadcasting of television and radio programs is presented in Table 10.9.

**Table 10.9 Distribution of Allocations for Production and Broadcasting of Television and Radio Programs over 2005-2006 (Million drams)**

Directions of resource utilization	2005	2006
<b>Total television programs, including:</b>	<b>2255.7</b>	<b>2267.5</b>
Television program broadcasting in the Republic of Armenia	472.5	440.9
Television programs satellite transmission	526.7	378.0

<b>Directions of resource utilization</b>	<b>2005</b>	<b>2006</b>
Servicing of the satellite receiver-transmitter station	27.6	18.7
Production of TV programs and acquisition of broadcasting	1228.9	1201.5
Technical re-equipment of Public Television Company		228.4
<b>Total radio programs, including:</b>	<b>682.9</b>	<b>728.5</b>
Radio programs broadcasting	387.3	341.2
Production of radio programs and acquisition of broadcasting	295.6	387.3

As a result of negotiations with broadcasting organizations and exploitation of new technical means some savings were made in 2006. The Public Television Company will channel these savings to technical re-equipment and raising the employees wage fund by 228.4 thousand drams and 53.1 thousand drams, respectively.

Public Television Company technical capacities were enhanced noticeably as a result of technical re-equipment over the recent years.

The Public Television Company enhances its technical capacities since 2002 to ensure production and broadcasting of programs corresponding to modern needs. State Budget allocations of 343.0 million drams (allocated from broadcasting savings) to Public Television Company charter capital over 2002-2005 were fully spent on technical re-equipment of the company. The Company trade income was also spent on that purpose. These allocations gave an opportunity to purchase new technical means for information block pavilion and partially re-equip other pavilions with cameras. Nevertheless, these investments did not ensure the full re-equipment of deteriorated and obsolete technical equipment of the Public Television Company. At the same time, Public Television and Radio Company became the full member of European Broadcasters Union (EBU) and was incorporated into European Broadcasting Unified Network. European Broadcasters Union member-states exchange TV programs, commit themselves to exchange with important political, sports and other information through satellite communication network. To fulfill these obligations Public Television Company should introduce digital technologies and gradually switch from analogue to digital broadcasting.

Volumes of Public Television Company broadcast programs and films dubbing increased aiming to ensure broadcasting fully in Armenian language in 2006. Particularly, while 830 feature, documentary and animated films and serials were dubbed in 2005 with total length of 736.8 hours, 1,955 feature, documentary and animated films and serials will be dubbed in 2006 with total length of 2,135.8 hours.

As a result of FM network broadening, Public Radio Company was given an opportunity to discard the obsolete technical equipment used before and make savings of 37.6 million drams on broadcasting. The main part of these resources (around 30.0 million drams) will be channeled to the technical re-equipment of the company. The remaining part will be spent on improvement of social conditions of the Public Radio Company employees.

In general, 2006 State Budget allocations to TV and radio programs production and broadcasting increased as compared with 2005 allocations by 0.5 and 1.2 percent, respectively, due to increase of mandatory social security payments basic tariffs.

Highlighting of the Government activities, process of economic reforms and strategic programs is carried out through the "Economic Reforms Analytical-Informative Center" SNCO.

The "Economic Reforms Analytical-Informative Center" SNCO has produced 104 programs within "Dzeragir" (Handwriting) series, with 30 minute length each, which were broadcasted by H-1 TV, completely renovated and updated the Government web-site, published the analytical book on the Government activity over the last 4 years in 3



languages, distributed dozens of analytical materials and programs through the country mass media.

The Center continued to cooperate with UNDP Armenian Office over 2004-2005. 5 issues of "Armenian Social Trends" bulletin and 12 issues of "Glance at Economy" periodical were published jointly, seminars and public awareness campaigns through regional TV stations and newspapers were organized in the RA marzes on PRSP implementation and within the framework of providing information on Millennium Challenges.

### ***10.2.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD***

#### ***10.2.2.1 Objectives***

The main objectives of the TV and radio sector are:

- Ensuring realization of the Armenian citizens' Constitutional right to freely receive political, economic, educational, cultural, children and juvenile, scientific-popular, Armenian language and history related, sporting, entertainment, and other socially important and significant information;
- Providing such programs and series to TV and radio audience that reflect the interests of different regions of the country, of national minorities, as well as of different groups and strata of society;
- Producing programs and news on problems and issues, which concern wide sections of population and need to be elucidated to them;
- Providing the population with impartial, reliable, and efficient information;
- Implementing activities for enhancing the role and significance of television and radio among wide sections of population, enhancing the audience's trust in the information provided through television and radio.

#### ***10.2.2.2 Priorities***

The 2007-2009 medium term expenditure framework of the TV and radio sector is based on the implementation of programs necessary for the activities prescribed by the Law "On Television and Radio" and the Law "On Procurement".

For its activities over 2007-2009, the Public Television and Radio Company will aim to implement the following tasks:

- Ensuring television program production and broadcasting by the Public Television Company for 18 hours per day and radio program production and broadcasting by the Public Radio Company for 50 hours per day, as prescribed by the Law "On Television and Radio";
- Ensuring the diversity of programs produced and broadcast by the Public Television Company, the Public Radio Company, and the Shirak Public Television and Radio Company;
- Replenishing the series of socio-economic programs with those on poverty reduction efforts and on their progress;
- Ensuring the broadcast of programs of the Public Television Company and the Public Radio Company in the whole territory of the country and abroad.

The priority directions of development of the Public Television Company and the Public Radio Company over 2007-2009 will be as follows:

- increasing the share of programs of own and domestic production in Armenian language, comprehensible for vast masses of population, within the total volume of broadcast television and radio programs;
- Ensuring a high quality of broadcasting in the whole territory of the country, through the re-equipment of the company technical base;
- Reducing production costs through the technical re-equipment, and improving social conditions of the employees of the Public Television Company and the Public Radio Company;
- Gradually increasing the broadcast through satellite communications, thus enabling our Diaspora countrymen to be daily informed about the situation in the Homeland;
- Ensuring close cooperation of the Public Television Company with the EBU (European Broadcasting Union) as a full member of the organization;
- Expanding the links with the European Broadcasters Union through introduction of new technologies and satellite communications;
- Expanding the mutual collaboration with European and other countries' television and radio companies.

Allocations to the television and radio sector by MTEF 2006-2008 and the MTEF 2007-2009 are presented in Table 10.10.

**Table 10.10 Budget Allocations to Television and Radio Sector over 2006-2009, by Budget Expenditure Functional Classification Subgroups (Million Drams)**

Group, subgroup	Functional Classification Groups/Subgroups/Programs	2006		2007		2008		2009
		MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
01.03.	Republic of Armenia membership fee to international organizations	0.0	24.9	0.0	26.7	0.0	26.7	26.7
07.01	Public administration	156.0	167.0	168.0	163.9	183.5	165.6	176.5
07.10	TV and radio programs	3.108.9	3.184.5	3.113.0	3.202.6	3.115.5	3.205.2	3.205.2
	<b>TOTAL</b>	<b>3.264.9</b>	<b>3.376.4</b>	<b>3.280.9</b>	<b>3.393.2</b>	<b>3.299.0</b>	<b>3.397.5</b>	<b>3.408.4</b>

There is an increase of 112.3 millions drams and 98.5 millions drams, respectively, when comparing the MTEF 2006-2008 and the MTEF 2007-2009 forecasts for expenditure in 2007 and 2008, which mainly reflects:

- Increase in membership fee of Public Television Company to EBU (European Broadcasters Union) by 26.7 million drams annually;
- Decrease (recalculation) of administration staff maintenance expenditure by 4.1 million drams and 17.9 million drams, respectively;
- Increase in expenditure for television and radio program by 89.7 million drams annually, due to mandatory social payments, increase in tariffs, increase of expenditure for production of programs within "Handwriting" series, publications on the Government activities, increased share of the Republic of Armenia in "Mir" Intergovernmental Television and Radio Company expenditure, increase of expenditure in public opinion study, ensuring publicity of public procurement.

### 10.2.2.3 Expenditure Drivers

Budgetary allocations for television and radio will increase by 32.0 million drams over 2007-2009 due to:

- Increase of Republic of Armenia membership fee to international organizations by 1.8 million drams, as a result of changes in currency exchange rates;
- Increase in television and radio program expenditure by 20.7 million drams, as a result of increase of service tariffs;
- Increase of administration staff maintenance expenditure by 9.5 million drams.

The process of technical re-equipment of the Public Television Company will continue over 2007-2009; 228.4 million drams are envisaged for that purpose.

The re-equipment will enable the Public Television Company to meet the technical requirements of the European Broadcasters Union (EBU) and ensure the high quality broadcasting, which meets the modern requirements, through small investments over the coming years.

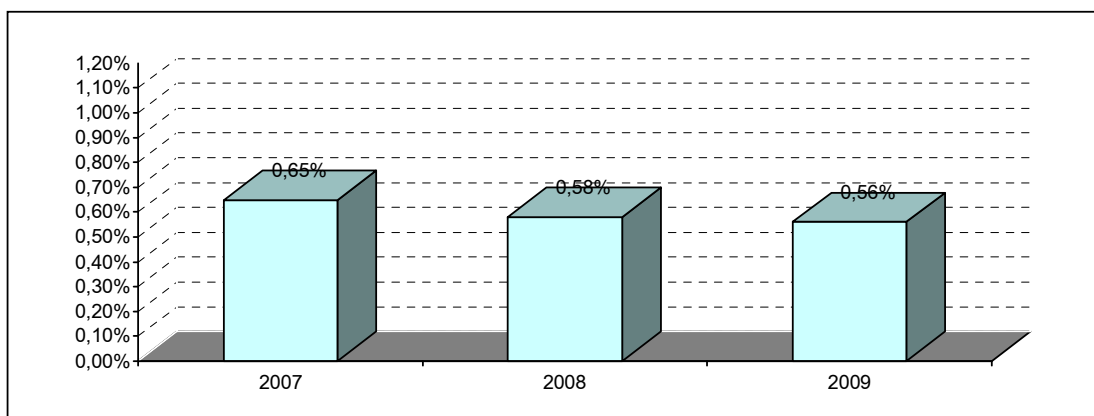
### 10.2.3 EXPENDITURE COMMITMENTS OVER THE MTEF PERIOD

Expenditure in television and radio (including administrative staff maintenance expenses) will amount to 3,393.2 million drams in 2007, to 3,397.5 million drams in 2008, and to 3,408.4 million drams in 2009, according to the 2007-2009 medium-term expenditure framework. The increase in expenditure, as compared with the respective previous year, will be 3.2 percent in 2006 (compared with actual amount in 2005), 0.5 percent in 2007, 0.1 percent in 2008, and 0.3 percent in 2009.

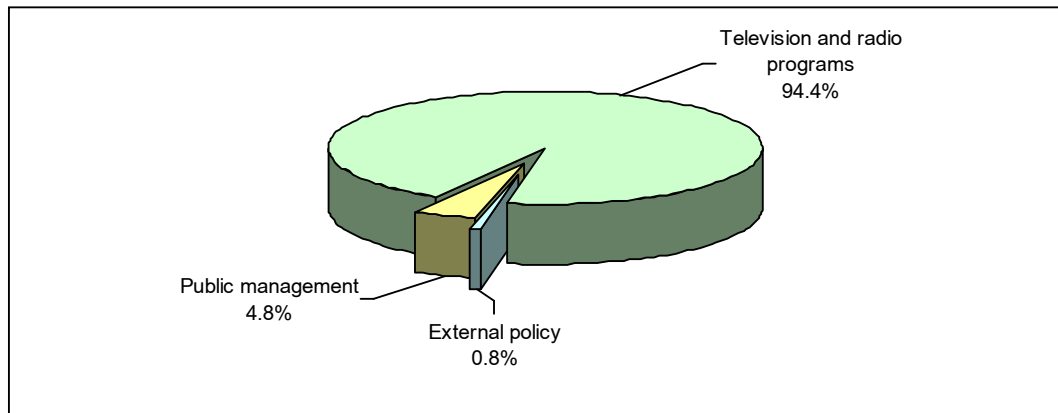
The annual share of spending in television and radio within GDP, as stipulated by the medium-term expenditure framework for 2007-2009, will be 0.13 percent, 0.12 percent, and 0.11 percent, respectively.

The 2007-2009 medium-term expenditure framework provides for the following dynamics of the share of public expenditure in television and radio within the total State Budget expenditure:

**Chart 10.5 State Budget Expenditure in TV and Radio (Percent of Total Budgetary Expenditure)**



Allocations to television and radio in 2007, by subgroups, will be as follows:

**Chart 10.6 Structure of Public Expenditure in Television and Radio in 2007 (Percent)**

Based on the main priorities and objectives in the sphere of television and radio over the MTEF 2007-2009 period, priority will be given to the consistent implementation of works 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 programs (18 hours daily, in 9 thematic directions);
- (iii) Broadcasting of the Public Television Company programs abroad through satellite leasing;
- (iv) Production and broadcasting of the Public Radio Company programs (50 hours daily, in 9 thematic directions) in the territory of Armenia and abroad;
- (v) Production and broadcasting of television and radio programs of the Shirak Public Television and Radio Company (4 and 24 hours daily, respectively);
- (vi) Archiving of programs of cultural and historical value of the Public Television Company and the Public Radio Company;
- (vii) Maintenance of the reserve base of radio and television;
- (viii) Technical re-equipment of the Public Television Company;
- (ix) Production of television films to be broadcast by the Public Television Company (films will be produced by the Public Television Company in contrast to previous years);
- (x) Surveying public opinion on the programs of the Public Television Company and Public Radio Company;
- (xi) Share of the Republic of Armenia in "Mir" Intergovernmental Television and Radio Company expenditure;
- (xii) Ensuring publicity of public procurement.

#### **10.2.4 REVENUES OF PUBLIC SECTOR**

The companies in the sector also provide services of producing and broadcasting of sponsored programs, broadcasting and re-broadcasting of commercial advertisements, and other works in addition to the works implemented through budgetary financing.

The companies in the sector will continue to implement the above-mentioned activities over 2007-2009 and will aim at increasing the revenues.

Revenues generated through provision of paid services are channeled to the technical re-equipment of the companies, as well as to the payment of wages, acquisition of programs broadcasting rights.

The actual and planned expenditures financed from the State Budget and from own revenues, by companies, are provided in the Table 10.11.

**Table 10.11 Actual and Planned Expenditures from State Budget and Own Revenues (from Provision of Paid Services), by Companies (Million Drams)**

Company	2005 Actual		2006		2007		2008		2009	
	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues	State Budget	Own revenues
07.10.01 "Yerevan" Studio CJSC	37.7	0.6	38.2							
<i>Share in total expenditure (percent)</i>	<i>98.4</i>	<i>1.6</i>	<i>100.0</i>							
07.10.02 "Armenian Public Television Company" CJSC	2255.7	207.0	2267.5	461.0	2316.5	340.0	2316.5	400.0	2316.5	400.0
<i>Share in total expenditure (percent)</i>	<i>91.6</i>	<i>8.4</i>	<i>83.1</i>	<i>16.9</i>	<i>87.2</i>	<i>12.8</i>	<i>85.3</i>	<i>14.7</i>	<i>85.3</i>	<i>14.7</i>
07.10.03 "Armenian Public Radio Company" CJSC	682.9	75.6	690.9	79.7	694.5	79.7	694.5	79.7	694.5	79.7
<i>Share in total expenditure (percent)</i>	<i>90.0</i>	<i>10.0</i>	<i>89.7</i>	<i>10.3</i>	<i>89.7</i>	<i>10.3</i>	<i>89.7</i>	<i>10.3</i>	<i>89.7</i>	<i>10.3</i>
07.10.04 "Shirak Public Television and Radio" CJSC	15.9	1.8	16.7	7.6	16.8	7.7	16.8	7.7	16.8	7.7
<i>Share in total expenditure (percent)</i>	<i>89.8</i>	<i>10.2</i>	<i>68.7</i>	<i>31.3</i>	<i>68.6</i>	<i>31.4</i>	<i>68.6</i>	<i>31.4</i>	<i>68.6</i>	<i>31.4</i>
07.10.05 "Yeter" Creativity House" CJSC	5.9	14.9	6.2	12.5	6.3	12.5	6.3	12.5	6.3	12.5
<i>Share in total expenditure (percent)</i>	<i>28.4</i>	<i>71.6</i>	<i>33.2</i>	<i>66.8</i>	<i>33.5</i>	<i>66.5</i>	<i>33.5</i>	<i>66.5</i>	<i>33.5</i>	<i>66.5</i>
07.10.07 "Public Opinion Research Center" CJSC	5.0	10.6	8.1	7.0	8.1	7.0	8.1	7.0	8.1	7.0
<i>Share in total expenditure (percent)</i>	<i>32.1</i>	<i>67.9</i>	<i>53.6</i>	<i>46.4</i>	<i>53.6</i>	<i>46.4</i>	<i>53.6</i>	<i>46.4</i>	<i>53.6</i>	<i>46.4</i>
07.10.08 "Analytical-Informational Center of Economic Reforms" SNCO	21.5	19.0	33.4	5.8	37.2	4.8	39.7	5.2	39.7	5.8
<i>Share in total expenditure (percent)</i>	<i>53.1</i>	<i>46.9</i>	<i>85.2</i>	<i>14.8</i>	<i>88.6</i>	<i>11.4</i>	<i>88.4</i>	<i>11.6</i>	<i>87.3</i>	<i>12.7</i>
<b>TOTAL</b>	<b>3024.6</b>	<b>329.5</b>	<b>3061.0</b>	<b>573.6</b>	<b>3079.4</b>	<b>451.7</b>	<b>3081.9</b>	<b>512.1</b>	<b>3081.9</b>	<b>512.7</b>
<i>Share in total expenditure (percent)</i>	<i>90.2</i>	<i>9.8</i>	<i>84.2</i>	<i>15.8</i>	<i>87.2</i>	<i>12.8</i>	<i>85.8</i>	<i>14.2</i>	<i>85.7</i>	<i>14.3</i>

Budgetary allocations to television and radio for 2005-2009, by subgroups and by current and capital expenditure, are presented in Table 10.12.

**Table 10.12 Budgetary Allocations to Television and Radio over 2005-2009, by Functional Classification Subgroups and by Current and Capital Expenditures (Million Drams)**

N	Subgroups/ Programs/	2005 Actual	2006 Adopted Budget	2007	2008	2009
	<b>TOTAL</b>	<b>3271.2</b>	<b>3376.4</b>	<b>3393.2</b>	<b>3397.5</b>	<b>3408.4</b>
	- Current expenditure	3187.9	3141.3	3162.5	3167.7	3179.6
	- Capital expenditure	83.3	235.1	230.7	229.8	228.8
<b>01.03.05</b>	<b>Republic of Armenia membership fee to international organizations</b>	<b>0.0</b>	<b>24.9</b>	<b>26.7</b>	<b>26.7</b>	<b>26.7</b>
	- Current expenditure	0.0	24.9	26.7	26.7	26.7
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups/ Programs/	2005 Actual	2006 Adopted Budget	2007	2008	2009
<b>07.01.01</b>	<b>Public administration</b>	<b>162.5</b>	<b>167.0</b>	<b>163.9</b>	<b>165.6</b>	<b>176.6</b>
	- Current expenditure	143.6	162.0	163.9	165.6	176.6
	- Capital expenditure	18.9	5.0	0.0	0.0	0.0
	Including					
	Board of the Armenian Public Television and Radio Company	58.8	71.4	71.4	71.4	71.4
	- Current expenditure	58.8	71.4	71.4	71.4	71.4
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	National Commission of Television and Radio	103.6	95.7	92.5	94.2	105.2
	- Current expenditure	84.8	90.7	92.5	94.2	105.2
	- Capital expenditure	18.9	5.0	0.0	0.0	0.0
<b>07.10</b>	<b>Television and radio programs</b>	<b>3108.7</b>	<b>3184.5</b>	<b>3202.6</b>	<b>3205.2</b>	<b>3205.2</b>
	- Current expenditure	3044.3	2954.4	2971.9	2975.4	2976.4
	- Capital expenditure	64.4	230.1	230.7	229.8	228.8
	Including					
07.10.01	State order for the production of television films	37.7	38.2	0.0	0.0	0.0
	- Current expenditure	37.7	38.2	0.0	0.0	0.0
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Board of the Armenian Public Television and Radio Company	37.7	38.2	0.0	0.0	0.0
07.10.02	State support to the "Armenian Public Television Company" CJSC for production and broadcasting of television programs	2255.7	2267.5	2316.5	2316.5	2316.5
	- Current expenditure	2191.3	2039.1	2088.1	2088.1	2088.1
	- Capital expenditure	64.4	228.4	228.4	228.4	228.4
	Board of the Armenian Public Television and Radio Company	2255.7	2267.5	2316.5	2316.5	2316.5
07.10.03	State support to the "Armenian Public Radio Company" CJSC for production and broadcasting of radio programs	682.9	690.9	694.5	694.5	694.5
	- Current expenditure	682.9	690.9	694.5	694.5	694.5
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Board of the Armenian Public Television and Radio Company	682.9	690.9	694.5	694.5	694.5
07.10.04	State support to the "Shirak Public Television and Radio" CJSC for production and broadcasting of television and radio programs	15.9	16.7	16.8	16.8	16.8
	- Current expenditure	15.9	16.7	16.8	16.8	16.8
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Board of the Armenian Public Television and Radio Company	15.9	16.7	16.8	16.8	16.8
07.10.05	State support to the "Yeter" Creativity House" CJSC for maintaining the reserve base	5.9	6.2	6.3	6.3	6.3
	- Current expenditure	5.9	6.2	6.3	6.3	6.3
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Board of the Armenian Public Television and Radio Company	5.9	6.2	6.3	6.3	6.3
07.10.06	Armenia's share in expenditure of "Mir" Intergovernmental Television and Radio Company	48.7	60.7	60.7	60.7	60.7
	- Current expenditure	48.7	60.7	60.7	60.7	60.7

N	Subgroups/ Programs/	2005 Actual	2006 Adopted Budget	2007	2008	2009
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Culture and Youth Affairs	48.7	60.7	60.7	60.7	60.7
07.10.07	State support to the "Public Opinion Research Center" CJSC for surveying public opinion	5.0	8.1	8.1	8.1	8.1
	- Current expenditure	5.0	8.1	8.1	8.1	8.1
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Board of the Armenian Public Television and Radio Company	5.0	8.1	8.1	8.1	8.1
07.10.08	State support to the "Analytical-Informational Center of Economic Reforms" SNCO	21.5	33.4	37.2	39.7	39.7
	- Current expenditure	21.5	31.7	34.8	38.3	39.3
	- Capital expenditure	0.0	1.7	2.4	1.4	0.4
	Government's Staff	21.5	33.4	37.2	39.7	39.7
07.10.09	State order for ensuring publicity of public procurements	35.4	62.7	62.7	62.7	62.7
	- Current expenditure	35.4	62.7	62.7	62.7	62.7
	- Capital expenditure	0.0	0.0	0.0	0.0	0.0
	Ministry of Finance and Economy	35.4	62.7	62.7	62.7	62.7
		<i>Ratio to the total, percent</i>				
01.03.05	Republic of Armenia membership fee to international organizations	0.0	0.7	0.8	0.8	0.8
07.01.01	Public administration	5.0	4.9	4.8	4.9	5.2
07.10	Television and radio programs	95.0	94.3	94.4	94.3	94.0
		<i>Change as compared with previous year, percent</i>				
	Total	0.0	3.2	0.5	0.1	0.3
01.03.05	Republic of Armenia membership fee to international organizations	0.0	0.0	7.1	0.0	0.0
07.01.01	Public administration	0.0	2.8	-1.9	1.0	6.6
07.10	Television and radio programs	0.0	2.4	0.6	0.1	0.0

### 10.3 PHYSICAL TRAINING AND SPORTS

Allocations provided by the 2007-2009 medium-term expenditure framework for physical training and sports will be channeled to the implementation of 24 programs through 3 public administration bodies, as presented in Table 10.14, by functional classification subgroups of budgetary expenditure.

#### 10.3.1 SITUATIONAL OVERVIEW AND MAIN PROBLEMS

The MTEF 2007-2009 envisages solving a number of problems, which are prioritized by the State Committee for Physical Training and Sports under the Government: implementation of physical training-health-improving mass activities on community, regional, marz and national level, conducting national festivals, enhancing physical training-health-improving works within the different groups of the disabled, ensuring participation of country disabled sportsmen in Peking 2008 Para Olympic Games and the World and Europe championships, provision of sports equipment to physical training and sports organizations under the annual program of public assets provision, implementation of comprehensive measures and programs aimed at propagation of physical training and sport and healthy life-style, organization of elaboration of legal acts regulating the sphere, organization of seminars-consultations on national, marz and community level to familiarize the population with European Council projects and problems arising from European Sports Charter

requirements, implementation of actions contributing to continuity of physical training of population, particularly, in educational institutions, and education of youth in the sense of preparedness to protect their homeland.

In 2005, the program for training of the Olympic shift generation and highly qualified sportsmen was aimed at duly preparing and participating in international rating tournaments of the 20<sup>th</sup> Winter Olympic Games in Turin, Italy in 2006, world and European championships.

National Federations of Olympic Sports in collaboration with voluntary sports associations organized 43 championships of Armenia, to which 3,697 sportsmen have participated.

77 sports training and practice assemblies for 1,145 sportsmen included in RA national combined teams were organized to get prepared for the World and European championships, cup competitions, and international tournaments (including the rating ones).

594 sportsmen of different sports included in the national combined teams participated in 77 world and European championships.

The sportsmen of different sports included in the national combined teams won 67 medals (of which 9 golden medals) in world and European championships and cup competitions in 2005. In addition, 22 medals (of which 4 golden medals) were won in 2 kinds of non-Olympic sports (chess and wushu) recognized by International Olympic Committee and sambo (unarmed self-defence wrestling).

5 sportsmen, including 2 skiers, 1 mountain-skier, and a pair of figure skaters, have won a right to participate in the 20<sup>th</sup> Winter Olympic Games in Turin, Italy.

Food and per diem allowances of the sportsmen participating in sports training and practice assemblies and in Armenian tournaments, per diem allowances of referees, as well as amounts for pecuniary prizes for prize-winners of Armenian tournaments and their trainers were increased in 2005.

The prize-winner sportsmen of World and Europe championships in 2005, as well as the 2<sup>nd</sup> trainers and doctors of respective combined teams were awarded with pecuniary prize payments.

Currently, in Armenia 8,700 juveniles are being trained in sports included in the list of non-Olympic kinds (sport dances, wushu, karate, checkers, kokh, billiards). There are 147 sports clubs with 740 trainers. The public administration body deals with the problems in the sector in cooperation with national federations of the above-mentioned kinds of sports; sportsmen of these kinds returned from international official tournaments with 22 golden, silver and bronze medals over the last 2 years. Positive trends are registered in training of highly qualified sportsmen, improvement of financial conditions of their trainers, gradual restoration of traditions of non-Olympic sports due to structural reforms in sports sector and state support. This is proved by the above-mentioned success cases.

The main problems of the non-Olympic kinds of sports are: improving the health of the population, increasing the number of persons engaged in sports, training of highly qualified sportsmen, improving the ratings of Armenian sportsmen abroad, organization of Armenian sports tournaments, artistic and aesthetic development of the youth and juveniles, education of physically and mentally strong youth eligible for called-up into the national army.

The main problems in children's sports are: protection and improvement of health of young generation, enhancement of trainees' personal abilities in chosen sports, preparation of shift generation for Armenian national combined sports teams, ensuring their competitiveness in international competitions.



The main policy priorities for the State Committee for Physical Training and Sports under the Government, for the purpose of dealing with the above-mentioned problems, are: the preservation and development of the system of preparation of sports shift generation, as well as extending the network of sports schools. The number of schools under supervision of the State Committee for Physical Training and Sports under the Government increased by 3 in 2005 and, as a result, 25 children and juvenile sports schools, 2 public sports colleges for Olympic shift generation and the "Erebuni" cycling sport center were operating in Yerevan city and in 5 marzes of Armenia by the beginning of fourth quarter of 2005.

The State Committee for Physical Training and Sports under the Government channels State Budget allocations also to 23 sports schools of non-governmental sports organizations, which are responsible for preparation of shift generation in sports.

Over the recent years, the Government arrangements in physical training and sport sector, particularly in children and juvenile sports, were directed at ensuring the heating system operation and creation of favorable building conditions, improvement of material-technical bases of sports schools.

Sizable resources were allocated by State Budget 2005 and Hayastan Pan-Armenian Fund for capital renovation and construction of sport establishments in Yerevan city and RA marzes. Capital renovation and construction of sport establishments will continue over 2006-2008 as well. At the same time, sizable allocations were envisaged by State Budgets 2005 and 2006 for replenishment of sports institutions with sports equipment to strengthen material-technical bases of sports schools.

Respective legal acts were developed according to the requirements of the Law "On Children-Juvenile Sport": rules of qualification of trainers-pedagogues, order of implementation of physical training-health-improving and sports activities by sports organizations, conditions necessary for children and youth to be engaged in physical training and sports, order of provision of separate educational-sports trainings for children with physical defects and the disabled children.

In spite of the above-mentioned positive changes, unsolved problems still remain. Solving of these problems will contribute to improved efficiency of extracurricular establishments and annual increase in number of children engaged in educational-sports trainings groups.

The Government implement activities to improve buildings conditions of sports schools, although allocations to educational-material-technical basis and heating are still insufficient and do not correspond to real needs. Nutrition calculation norm of students at public sports colleges of Olympic shift generation is low as well.

Professional abilities of trainers-pedagogues need to be improved. Re-trainings for trainers were not organized for years.

### ***Extracurricular Training***

Currently, 30 children-juvenile sports schools or 29.1 percent of the total 165 existing sports schools in the country are acting under the supervision of the State Committee for Physical Training and Sports under the Government or State Budget financed NGO-s. The number of training groups was 1,343 in 2005, as compared with 1,220 training groups in 2004.

Currently, 14,107 students are trained in sports schools financed by the State Committee for Physical Training and Sports under the Government and in "Dynamo" non-governmental sports organization training groups as compared with 13,288 in 2004.

Increase in number of training groups and trainees in those groups by 10.1 percent and 6.2 percent, respectively, is conditioned by regularly organized activities of the State Committee for Physical Training and Sports under the Government in children-juvenile sports sector

over the recent years, which were directed at improving the efficiency of sports schools operation and creation of favorable conditions for trainings, as well as efficient utilization of allocated state financial resources.

Number of sports schools sections increased as a result of opening of 3 new sports schools in 2005. Currently, 105 sections in 28 sports are operating.

The State Committee for Physical Training and Sports under the Government continuously implements the policy of increasing wages at the expense of saved resources, considering the increase in wages of sports schools trainers-pedagogues as a priority problem over the recent years. Particularly, trainers-pedagogues average monthly wage increased by 40 percent up to 28.0 thousand drams over 2004-2005.

At the same time, sports schools trainers-pedagogues, acting as pedagogues of extracurricular establishments, carry out the same volume of educational and pedagogic work like school teachers with 24-36 hours of weekly teaching load. Nevertheless, their wages are significantly lower than those of general educational schools' teachers with 22 hours of weekly teaching load, including the teachers of "Physical Training" (average monthly wage of the teachers of general educational schools have comprised 50.2 thousand drams in 2005).

It is worth mentioning that 1,780 trainers are working in 165 sports schools, including 591 specialists at sports schools financed by the State Committee for Physical Training and Sports under the Government, of which 121 have the rank of honored trainers.

### ***Secondary Vocational Education***

Presently, some 460 and 285 students are enrolled in the specialized Olympic Shift Generation public sport colleges of Yerevan and Gyumri, respectively, as of December 30, 2005. 514 students receive scholarship.

Olympic Shift Generation colleges are secondary vocational education institutes of unique significance, also functioning as boarding schools, aimed at ensuring the training of highly qualified sports professionals and candidates for the national teams.

The education in colleges is free of charge. Teaching works at the colleges are arranged under the specialty Physical Training "0307" of the senior school and secondary vocational programs.

Some 59 teachers and lecturers and 50 trainer-pedagogues, of which 21 have the rank of honored trainers, arrange the teaching process by educational programs and year-round training and practice works in the above-mentioned 2 colleges.

Sport halls of Yerevan college, as well as those for wrestling, boxing, weight-lifting and judo were repaired in 2005 by the "Hayastan" Pan-Armenian fund allocations. Repair of dining-hall and bedroom buildings of the college is envisaged in 2006 by the means of "Hayastan" Pan-Armenian and the Armenian Social Investment funds allocations.

## ***10.3.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD***

### ***10.3.2.1 Objectives***

The 2007-2009 medium-term expenditure framework for physical training and sports stipulates for the following basic objectives to be attained:

- Strengthen the population's health, supporting the harmonious development, improved working ability, and longevity of individuals;

- Ensure the consistency of physical education for different age and social groups of population, availability of enrollment in physical training and sporting activities;
- Ensure the physical fitness of the youth ready to defend their Homeland;
- Train highly qualified sportsmen, ensure successful participation of Armenia's national teams and sportsmen in the Olympic Games, world and European championships to enhance the country's rating in the international area.

### 10.3.2.2 Priorities

The 2007-2009 medium-term expenditure framework for physical training and sports provides for the following main priorities to be realized:

- Training of the Olympic shift generation and of highly qualified sportsmen;
- Physical training of the population.

The allocations provided by the MTEF 2007-2009 will be channeled to the following activities for the purpose of training the Olympic shift generation and highly qualified sportsmen:

- Preparing for and participating in the 29<sup>th</sup> Summer Olympic Games in Peking, China in 2008;
- Ensuring participation in the world and European championships, organization of sports training and practice assemblies to get prepared duly to Olympic Games, world and European championships and international tournaments, assisting Armenian sports federations in organization of national championships;
- Conducting the 4<sup>th</sup> Pan-Armenian Games in 2007;
- Ensuring pecuniary prize payments to prize-winners of the Olympic Games, world and European championships, and cup competitions.

In addition to the above-mentioned, allocations provided by the MTEF 2007-2009 will be channeled to the following activities:

- Arranging mass health and sporting events at republican and regional level;
- State support to the disabled and boat modeling sports;
- Providing sporting equipment to the sports and general education schools, in accordance with the actual demand.

Allocations to physical training and sports as per MTEF 2006-2008 and the MTEF 2007-2009 are presented in Table 10.13:

**Table 10.13 Budget Allocations to Physical Training and Sports over 2006-2009, by Budgetary Expenditure Functional Classification Subgroups (Million Drams)**

N	Functional Classification Groups/Subgroups/ Programs	2006		2007		2008		2009
		MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
07.01.	Public administration	117.9	132.1	136.0	140.6	155.5	144.4	159.0
07.09.	Sporting events	1.082.5	1.175.4	1.097.7	1.314.0	1.086.4	1.269.3	1.199.0
	<b>TOTAL</b>	<b>1.200.4</b>	<b>1.307.4</b>	<b>1.233.7</b>	<b>1.454.6</b>	<b>1.241.9</b>	<b>1.413.7</b>	<b>1.358.0</b>

Increase of expenditure in 2007 and 2008 by 220.9 millions drams and 171.8 millions drams, respectively, when comparing the MTEF 2006-2008 and the MTEF 2007-2009 forecasts, basically reflects the increased financing of sporting events.

### 10.3.2.3 Expenditure Drivers

Allocations to physical training and sports will be increased by 50.6 million drams over 2007-2009 due to:

- Increase of the administrative staff costs by 26.9 million drams;
- Increase in financing of sporting events by 23.7 million drams.

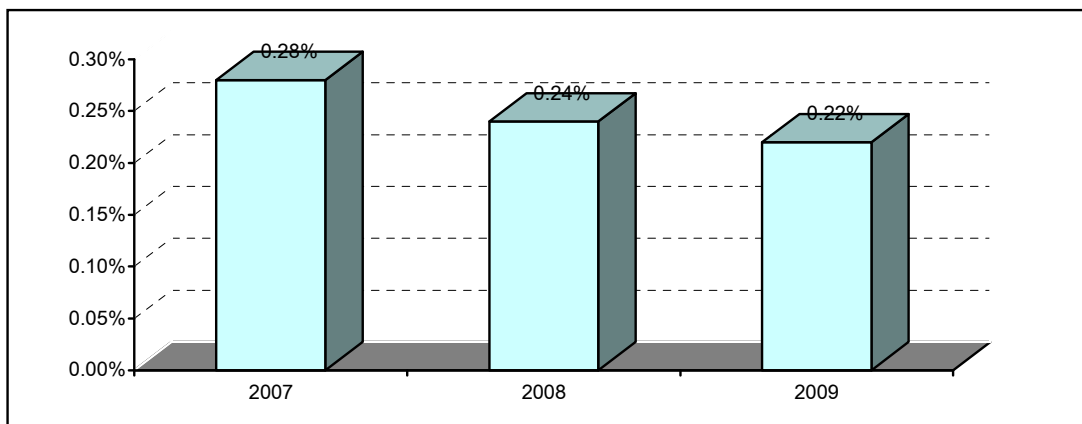
### 10.3.3 EXPENDITURE COMMITMENTS OVER MTEF PERIOD

Public expenditure on physical training and sports (including administrative staff costs) will amount to 1,454.6 million drams in 2007, 1,413.8 million drams in 2008, and 1,358.0 million drams in 2009 according to the 2007-2009 medium-term expenditure framework. The increase of expenditure, as compared with the respective previous year, comprises 10.9 percent in 2006 (as compared with the actual amount in 2005) and 11.3 percent in 2007. The decrease of expenditure, as compared with the respective previous year, comprises 2.8 percent in 2008 and 3.9 percent in 2009.

The share of expenditure in physical training and sports within GDP, as per the 2007-2009 medium-term expenditure framework, will be 0.05 percent annually in 2007 and 2008, and 0.04 percent in 2009.

The share of MTEF 2007-2009 budgetary allocation to physical training and sports within the total budgetary expenditure will be as follow:

**Chart 10.7 Public Expenditure in Physical Training and Sports (Percent of Total Budgetary Expenditure)**



The MTEF 2007-2009 expenditure in physical training and sports will be channeled to the following directions:

- Participation in the 29<sup>th</sup> Summer Olympic Games in Peking in 2008 – 89.0 million drams;
- Arrangement of the 4th Pan-Armenian games in 2007 – 80.0 million drams;
- State support to Armenian sports federations for participation of Armenia’s national teams in world and European championships and international tournaments, arrangement of sports training and practice assemblies and Armenian championships – 764.3 millions drams in 2007, and 729.3 million drams annually in 2008 and 2009;
- Assuring payment of pecuniary prizes to the winners and prize-holders of the Olympic Games, world and European championships, and cup competitions – 50.0 millions drams annually;

- Providing Armenia’s national combined teams with sports assets and clothing – 12.0 million drams annually;
- Implementation of the state program for the development of physical training and sports – 225.0 million drams annually;
- Participation in the World Student Games and student sports games – 23.0, 4.4, and 23.0 million drams respectively;
- State support to the disabled sport – 9.0 million drams annually;
- State support to the boat modeling sport – 5.5 million drams annually;
- State support to “Chess” Chess Academy – 55.1 million drams annually;
- Conducting other sporting events – 90.1 million drams annually.

**Table 10.14 Budgetary Allocations to Physical Training and Sports over 2005-2009, by Functional Classification Subgroups, Programs and Current and Capital Expenditures (Million Drams)**

N	Subgroups/ Programs	2005 Actual	2006 Adopted Budget	2007	2008	2009
	<b>TOTAL</b>	<b>1178.5</b>	<b>1307.4</b>	<b>1454.6</b>	<b>1413.8</b>	<b>1358.0</b>
	- <i>Current expenditure</i>	1157.5	1296.2	1454.6	1413.8	1358.0
	- <i>Capital expenditure</i>	21.0	11.2	0.0	0.0	0.0
07.01.01	Public administration, including:	<b>95.2</b>	<b>132.1</b>	<b>140.6</b>	<b>144.4</b>	<b>159.0</b>
	- <i>Current expenditure</i>	74.2	120.9	140.6	144.4	159.0
	- <i>Capital expenditure</i>	21.0	11.2	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	95.2	132.1	140.6	144.4	159.0
<b>07.09</b>	<b>Sports</b>	<b>1083.3</b>	<b>1175.4</b>	<b>1314.0</b>	<b>1269.3</b>	<b>1199.0</b>
	- <i>Current expenditure</i>	1083.3	1175.4	1314.0	1269.3	1199.0
07.09.01	State support to Armenian sports federations for development of respective kinds of sports					
	- <i>Current expenditure</i>	596.6	684.3	764.3	729.3	729.3
	State Committee for Physical Training and Sports under the Government	596.6	684.3	764.3	729.3	729.3
07.09.02	State support to the “Chess” Chess Academy Foundation					
	- <i>Current expenditure</i>	55.0	55.0	55.1	55.1	55.1
	Government’s Staff	55.0	55.0	55.1	55.1	55.1
07.09.03	State support to the "Sporting Arrangements Center" SNCO for implementation of Physical Training and Sport Development 2007-2009 State Program					
	- <i>Current expenditure</i>	178.9	225.0	225.0	225.0	225.0
	State Committee for Physical Training and Sports under the Government	178.9	225.0	225.0	225.0	225.0
07.09.04	State support to the "Sporting Arrangements Center" SNCO for provision of pecuniary prizes to the winners and prize-holders of Olympic games, world and European championships, and cup competitions					
	- <i>Current expenditure</i>	57.7	50.0	50.0	50.0	50.0
		57.7	50.0	50.0	50.0	50.0

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N	Subgroups/ Programs	2005 Actual	2006 Adopted Budget	2007	2008	2009
	State Committee for Physical Training and Sports under the Government	57.7	50.0	50.0	50.0	50.0
07.09.05	State support to the "Sporting Arrangements Center" SNCO for providing the national teams with sporting equipment and clothing	5.0	12.0	12.0	12.0	12.0
	- <i>Current expenditure</i>	5.0	12.0	12.0	12.0	12.0
	State Committee for Physical Training and Sports under the Government	5.0	12.0	12.0	12.0	12.0
07.09.06	State support to the Armenian Students Sports Federation for organization of students sports games	0.0	2.8	0.0	4.4	0.0
	- <i>Current expenditure</i>	0.0	2.8	0.0	4.4	0.0
	State Committee for Physical Training and Sports under the Government	0.0	2.8	0.0	4.4	0.0
07.09.07	State support to the "Sporting Arrangements Center" SNCO for arrangement of the 5 <sup>th</sup> sports games between among general education schools of Yerevan city	0.0	16.0	16.0	16.0	16.0
	- <i>Current expenditure</i>	0.0	16.0	16.0	16.0	16.0
	State Committee for Physical Training and Sports under the Government	0.0	16.0	16.0	16.0	16.0
07.09.08	State support to the "Sporting Arrangements Center" SNCO for arrangement of National Kinds of Sports disciplines Festival in the RA marzes, Yerevan city and NKR	0.0	6.0	6.0	6.0	6.0
	- <i>Current expenditure</i>	0.0	6.0	6.0	6.0	6.0
	State Committee for Physical Training and Sports under the Government	0.0	6.0	6.0	6.0	6.0
07.09.09	State support to the "Sporting Arrangements Center" SNCO for spreading the scientific-methodological literature, European Council Sports Committee materials, international leading experience	0.0	3.0	3.0	3.0	3.0
	- <i>Current expenditure</i>	0.0	3.0	3.0	3.0	3.0
	State Committee for Physical Training and Sports under the Government	0.0	3.0	3.0	3.0	3.0
07.09.10	State support to the "Sporting Arrangements Center" SNCO for arrangement of National Assembly Cup Tournament between 1-6 grades of general education schools	1.0	1.0	1.0	1.0	1.0
	- <i>Current expenditure</i>	1.0	1.0	1.0	1.0	1.0
	State Committee for Physical Training and Sports under the Government	1.0	1.0	1.0	1.0	1.0
07.09.11	State support to the "Sporting Arrangements Center" SNCO for arrangement of the "Cup of Hope" republican football championship	5.0	5.0	5.0	5.0	5.0
	- <i>Current expenditure</i>	5.0	5.0	5.0	5.0	5.0
	State Committee for Physical Training and Sports under the Government	5.0	5.0	5.0	5.0	5.0
07.09.12	State support to the "Sporting Arrangements Center" SNCO for arrangement of the republican military-sports games for the pre-call-up and call-up aged youth	5.0	5.0	5.0	5.0	5.0

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N	Subgroups/ Programs	2005 Actual	2006 Adopted Budget	2007	2008	2009
	- <i>Current expenditure</i>	5.0	5.0	5.0	5.0	5.0
	State Committee for Physical Training and Sports under the Government	5.0	5.0	5.0	5.0	5.0
07.09.13	State support to the "Sporting Arrangements Center" SNCO for the "Best Sporty Family" competition for the prize established by the President of the Republic of Armenia	16.0	16.0	16.0	16.0	16.0
	- <i>Current expenditure</i>	16.0	16.0	16.0	16.0	16.0
	State Committee for Physical Training and Sports under the Government	16.0	16.0	16.0	16.0	16.0
07.09.14	State support to the "Sporting Arrangements Center" SNCO for organization of consultations, roundtables in republican, regional and marz levels	0.0	2.0	2.0	2.0	2.0
	- <i>Current expenditure</i>	0.0	2.0	2.0	2.0	2.0
	State Committee for Physical Training and Sports under the Government	0.0	2.0	2.0	2.0	2.0
07.09.15	State support to the "Sporting Arrangements Center" SNCO for arrangement of football championship among the RA marzes	0.0	3.0	3.0	3.0	3.0
	- <i>Current expenditure</i>	0.0	3.0	3.0	3.0	3.0
	State Committee for Physical Training and Sports under the Government	0.0	3.0	3.0	3.0	3.0
07.09.16	State support to sports organizations in the area of the disabled sports	0.0	9.0	9.0	9.0	9.0
	- <i>Current expenditure</i>	0.0	9.0	9.0	9.0	9.0
	State Committee for Physical Training and Sports under the Government	0.0	9.0	9.0	9.0	9.0
07.09.17	State support to the "Sporting Arrangements Center" SNCO for ensuring the participation to the 20 <sup>th</sup> Winter Olympic Games in Turin, Italy	0.0	29.3	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	29.3	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	0.0	29.3	0.0	0.0	0.0
07.09.19	State support to Armenian Chess Federation for organization of World Chess Championship among boys and girls under 20 in Armenia	0.0	18.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	0.0	18.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	0.0	18.0	0.0	0.0	0.0
07.09.20	State support to Boat Modeling Sports Federation for development of boat modeling	0.0	5.5	5.5	5.5	5.5
	- <i>Current expenditure</i>	0.0	5.5	5.5	5.5	5.5
	State Committee for Physical Training and Sports under the Government	0.0	5.5	5.5	5.5	5.5
07.09.21	State support to the "Sporting Arrangements Center" SNCO	0.0	10.2	15.8	15.8	15.8
	- <i>Current expenditure</i>	0.0	10.2	15.8	15.8	15.8
	State Committee for Physical Training and Sports under the Government	0.0	10.2	15.8	15.8	15.8

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups/ Programs	2005 Actual	2006 Adopted Budget	2007	2008	2009
07.09.22	State support to the "Armenian National Combined Teams Center" CJSC for remuneration of senior trainers of the national teams and for assignment of pensions to the 8 world champions	17.3	17.3	17.3	17.3	17.3
	- <i>Current expenditure</i>	17.3	17.3	17.3	17.3	17.3
	State Committee for Physical Training and Sports under the Government	17.3	17.3	17.3	17.3	17.3
07.09	State support to the Armenian Football Federation for ensuring the participation of national juvenile football teams to European Championship	50.0	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	50.0	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	50.0	0.0	0.0	0.0	0.0
07.09	State support to the Armenian Students Sports Federation for participation of the student-sportsmen in the World Student Games	22.9	0.0	23.0	0.0	23.0
	- <i>Current expenditure</i>	22.9	0.0	23.0	0.0	23.0
	State Committee for Physical Training and Sports under the Government	22.9	0.0	23.0	0.0	23.0
07.09	State support for ensuring the participation in the winter games of the "Special Olympiads" international organization	2.5	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	2.5	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	2.5	0.0	0.0	0.0	0.0
07.09	State support to the "Sports and Cultural Center after K. Demirchyan" SNCO	19.2	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	19.2	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	19.2	0.0	0.0	0.0	0.0
07.09	State order for provision of the Armenian combined teams with vitamins, medicines, and rehabilitative appliances	8.0	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	8.0	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	8.0	0.0	0.0	0.0	0.0
07.09	State order for conducting a sports festival within the framework of the Republican Sports Games for the Disabled and the program of the "Special Olympiads" international organization	3.8	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	3.8	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	3.8	0.0	0.0	0.0	0.0
07.09	State order for organization of sports games among the RA marzes and Yerevan city general education schools in RA the marzes	39.5	0.0	0.0	0.0	0.0
	- <i>Current expenditure</i>	39.5	0.0	0.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	39.5	0.0	0.0	0.0	0.0
07.09	State support to the "Sporting Arrangements Center" SNCO for	0.0	0.0	80.0	0.0	0.0



2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

N	Subgroups/ Programs	2005 Actual	2006 Adopted Budget	2007	2008	2009
	arrangement of the 4 <sup>th</sup> Pan-Armenian Games					
	- <i>Current expenditure</i>	0.0	0.0	80.0	0.0	0.0
	State Committee for Physical Training and Sports under the Government	0.0	0.0	80.0	0.0	0.0
07.09	State support to the "Sporting Arrangements Center" SNCO for ensuring participation in the 29 <sup>th</sup> Olympic Games in Peking, China	0.0	0.0	0.0	89.0	0.0
	- <i>Current expenditure</i>	0.0	0.0	0.0	89.0	0.0
	State Committee for Physical Training and Sports under the Government	0.0	0.0	0.0	89.0	0.0
<i>Percent of total</i>						
07.01.01	Public administration	8.1	10.1	9.7	10.2	11.7
07.09	Sports	91.9	89.9	90.3	89.8	88.3
<i>Percentage change, as compared with previous year</i>						
	TOTAL	0.0	10.9	11.3	-2.8	-3.9
07.01.01	Public administration	0.0	38.8	6.5	2.7	10.1
07.09	Sports	0.0	8.5	11.8	-3.4	-5.5

## **CHAPTER 11. AGRICULTURE**

### **11.1 SITUATIONAL OVERVIEW**

The agricultural and food production system, which is one of the most important sectors of the country's economy, provides more than 30 percent of the gross domestic product, of which the share of agriculture has been 22.5 percent over the last three years. Presently a market-regulated liberal economic system has been formed in this sector, incorporating more than 338 thousand farming households, as well as a number of private companies engaged in agricultural service, agricultural product realization and processing.

In the agricultural production, the main utilizers of land are the farming households, which manage 76.2 percent of the farming land, 45.1 percent of hayfields, and most part of the perennial planted area.

Over 98 percent of gross agricultural product is produced in the private sector. Plant cultivation comprised 57.3 percent, and cattle breeding comprised 42.7 percent of the gross agricultural product in 2004.

#### ***11.1.1 Agricultural Development Trends***

Based on the specific characteristics of the sector and on the country's food security issues, certain emphasis is placed on the policy of providing state support to agriculture during the transitional period, aimed at the formation of legislative bases in the agrarian sector, creation of favorable conditions for the activities of economic entities in the sector and for investments, development of infrastructures, ensuring food and fare security, etc.

Due to the efficient activities of the farming households and other economic entities engaged in agriculture, and to the state policy conducted in the sector, certain economic growth was observed in agriculture over 2005. Particularly, the gross agricultural product in 2004 amounted to 504.1 billion drams, which is by 14.5 percent more than the previous year level. The gross plant cultivation production totaled to 283.9 billion drams and that of cattle breeding – to 220.2 billion drams, comprising a growth of 20.1 percent and 7.9 percent, respectively. In 2005, the gross agricultural product increased by 10.3 percent over the previous year level, by estimate.

Over the last years, planned support has been provided to economic entities through the implementation of certain works for supplying high-quality seeds (potato, grain), young plants, mineral fertilizers, and plant protection chemicals. As a result, in 2004 the agricultural planted area amounted to 325.2 thousand hectares, as compared with the 314.6 thousand hectares in 2003, and to 329.0 thousand hectares in 2005. The gross plant cultivation product increased mainly owing to intensive factor.

Over the recent years, activity in vineyards and orchards planting was observed due to partially solved problem of realization of grape and other garden-stuff and development of irrigation systems. 1,194 hectares of vineyards and 1,309 hectares of orchards were planted in 2005.

Cattle and pig stock, as well as cattle breeding food production increased in 2005, by estimate, as compared with the previous year level. According to live data the cattle stock and the pig stock increased by 6.0 percent and 17.1 percent, respectively.

Production volumes of the basic cattle breeding food products also increased in 2004, by 5.1 percent for meat, 9.5 percent for milk.

Due to increased capacity of acting processing companies and establishment of new ones in 2005 the opportunity occurred to buy the entire product of fruits, vegetables and grape offered by farming households. The agricultural production processing companies have bought and processed 95.6 thousand tons of grapes in 2005, as compared to 79.5 thousand tons in 2004. The volume of purchased fruits and vegetables also increased, comprising 20.7 and 42.8 thousand tons, respectively, as compared to previous years 4.4 and 35.8 thousand tons.

Due to the establishment of contractual relations between the producers and processors of agricultural product and to the immediate payment for goods provision, the level of replenishment of farming households with working capital has certainly improved.

### ***11.1.2 Basic Tasks in Agriculture***

The basic tasks in agriculture, which derive from the Poverty Reduction Strategic Program and have been incorporated into the Sustainable Agricultural Development Strategy, are the following:

- Further implementation of the agricultural reforms, development of market infrastructures, and improvement of management methods;
- Improvement of the physical and economic availability of food products, ensuring food security and self-supported minimal level of the basic food products;
- Facilitating introduction of a progressive agro-technical system in plant cultivation, efficient implementation of seed production, selection, plant protection, and quarantine activities;
- Development of the bloodstock breeding, and improvement of the veterinary system performance;
- Facilitating development of agricultural product processing, agricultural servicing, and rural social infrastructures.

Dealing with the above-mentioned tasks will enable to create favorable conditions for economic entities in the agricultural sector, enhancing productivity and, therefore, reduce poverty in rural areas, increase the real incomes of farming households, and create new jobs.

## **11.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### ***11.2.1 Objectives***

Over 2007-2009, the policy in the agricultural sector will be targeted at improving the efficiency of agriculture and its servicing sectors. This will provide grounds for the further development of agriculture and for extended reproduction, increasing the real incomes of farming households, enhancing the level of food supply and food security in the country, as well as reducing poverty.

The 2007-2009 medium-term expenditure framework in agriculture will be aimed at the realization of the following clearly defined objectives:

- Maintenance and improvement of soil fertility – assessment of the ameliorative condition of soil, preventing the expansion of soil secondary salinization and alkalization, radical improvement of soil condition, improvement and watering of natural pastures;
- Harvesting high-quality agricultural products without losses – conduction of research on the propagation, development and spreading of pests, reduction and further prevention of their spreading through arrangement of fighting activities;

- Provision of the population with safe food products of vegetarian and animal origin, both imported and locally produced – ensuring quarantine security, preventing penetration of infectious diseases into the country through quarantine organisms and animal products, raw materials, and animals;
- Protection of the population against diseases appearing to be infectious both for humans and animals, improvement of the productivity of agricultural animals – arranging preventive inoculations against infectious animal diseases, and implementing bloodstock breeding works;
- Provision of the farming households with high-quality seeds – protection of the new selective sorts of plants, assessment of the quality of highly productive seeds;
- Increasing the real incomes of the farming households, and the gross domestic agricultural product;
- Improvement of the food security and food safety, establishment of stable inter-state economic links.

### ***11.2.2 Priorities***

The policy to be implemented over 2007-2009 will be aimed at the increased efficiency of the sector and servicing branches activities, and as a result opportunities will be created for further development of the agriculture and organization of increased reproduction, increase in real incomes of farming households, enhancing the level of fare supply and security in the country, reduction of poverty. One of the main activities of the Ministry of Agriculture will be the preservation of forests and implementation of comprehensive measures for their restoration.

The reforms will continue in 2007-2009 aiming at the development of agriculture in main directions: primary seed-breeding, centralized fighting against especially dangerous diseases of plants, bloodstock breeding, veterinary medicine, improving the conditions of natural pastures.

Therefore, over 2007-2009 the State Budget allocations to the sector will be channeled to the implementation of the following primary investment programs:

- Primary seed breeding works, arrangement of the bloodstock breeding business, artificial insemination activities;
- Facilitating centralized actions for fighting against especially dangerous and quarantine diseases of plants;
- Taking veterinary and anti-epidemic actions;
- Furthering the process of numbering and inventory of agricultural animals;
- Improving the ameliorative condition of natural pastures and soil;
- Radical improvement of soil, desalination;
- Strengthening and development of the scientific-educational, informational, and advisory activities;
- Improving situation assessment mechanisms in rural communities, and consequently supporting development of their social infrastructures.

At the same time, improving the level of food security in the country will remain as a basic challenge of the agricultural development policy over 2007-2009.

The recent developments prove that the impact of agricultural growth on reducing poverty has been more sensible than that of the economic growth. Household survey results demonstrated that over 2000-2003 every percentage point of growth observed in agriculture resulted in the reduction of rural poverty up to 0.37 percent.

Therefore, one might conclude that taking actions aimed at the implementation of the above-said objectives and tasks would contribute to the realization of the basic goal of the Poverty Reduction Strategic Program, i.e. reducing poverty in rural areas.

The comparative analysis of expenditure in agriculture, as per MTEF 2006-2008 and the MTEF 2007-2009, is presented in Table 11.1 below.

**Table 11.1 Comparative Presentation of Expenditure in Agriculture, as per MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams)**

Functional Classification Group/Subgroup/ Program	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006- 2008	MTEF 2007- 2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007- 2009
10.01 Public administration in agriculture	369.93	463.22	438.5	515.37	510.7	532.33	593.19
10.02 Soil improvement works	615.10	616.95	564.1	610.89	564.1	711.39	712.03
10.04 Plant protection	468.71	471.37	372.7	389.01	308.7	325.01	325.01
10.05 Veterinary and anti-epidemic activities	1236.76	1441.93	1153.6	1349.70	1153.56	1349.70	1356.99
10.06 Forestry	1093.60	1137.30	1292.7	1342.27	1292.7	1251.37	1353.47
10.07 Bloodstock breeding, seed-cultivation, and other programs	3057.44	4871.33	5173.7	5735.03	2658.42	6056.23	3612.96
<b>TOTAL, AGRICULTURE</b>	6841.54	9002.10	8995.33	9942.27	6488.17	10226.03	7953.65

The MTEF 2007-2009 expenditure, as compared with the MTEF 2006-2008, has increased due to enlarged yearly allocations to soil improvement works, anti-epidemic activities, new credit program budgeted in 2006, but not envisaged by MTEF 2006-2008 (Rural Areas Economic Development program supported by the International Fund for Agricultural Development), as well as increase in wages of administration staff and state non-commercial organizations' employees.

### **11.2.3 Expenditure drivers**

Based on the Government policy, as compared with MTEF 2006-2008, in MTEF 2007-2009 the main expenditure drivers of the implemented programs in the sector are: 20 percent increase in wages of SNCO-s employees, determining the minimal wage rate at 25.0 thousand drams in 2007 and 2008, and 30.0 thousand drams in 2009, as well as increase in staff positions resulting in increase of expenditure by 169,356.6 thousand drams annually in 2007 and 2008, and 179,569.2 thousand drams in 2009, as compared with State Budget 2006.

In view of the development objectives and the main priorities in the agricultural sector, the following activities will be prioritized and consistently implemented over 2007-2009.

### **11.3. EXISTING EXPENDITURE COMMITMENTS IN THE SECTOR**

For the fulfillment of the strategic issues in the sector, the state implements the following functions:

- a) Establishing legislative bases, ensuring free competition;
- b) Monitoring and protection of agricultural land;
- c) Preventing epidemic and quarantine diseases of animals and plants;

- d) Improving operation of the food security system;
- e) Scientific-technical backing of the sector, supporting provision of informational and advisory services;
- f) Adopting development programs and creating necessary conditions for their implementation;
- g) Developing international collaboration and expanding market opportunities.

### ***New Programs***

Over 2007-2009, no new programs are intended.

**Table 11.2 Financing of Existing and New Programs over 2007-2009 (Million Drams)**

	2007	2008	2009
Agriculture	9942.26	10226.03	7953.65
New programs	0.00	0.00	0.00
<i>Share in total expenditure (percent)</i>	0.00	0.00	0.00
Existing programs	9942.26	10226.03	7953.65
<i>Share in total expenditure (percent)</i>	100.00	100.00	100.00

The table below presents the MTEF 2007-2009 envisaged allocations to agriculture, by directions:

**Table 11.3 State Budget Expenditure in Agriculture for 2005-2009, by Subgroups (Million Drams)**

	2005 Actual	2006 Adopted Budget	Percentage change, as compared with previous year	2007	Percentage change, as compared with previous year	2008	Percentage change, as compared with previous year	2009	Percentage change, as compared with previous year
Total expenditure share in GDP (percent)	0.2	0.4	x	0.4	x	0.3	x	0.2	x
Total expenditure share in the State Budget expenditure (percent)	1.0	1.9	x	1.9	x	1.7	x	1.3	x
Agriculture, including:	3921.1	9002.1	129.6	9942.3	10.4	10226.0	2.9	7953.7	-22.2
10.01 Public administration in agriculture	258.6	463.2	79.1	515.4	11.3	532.3	3.3	593.2	11.4
Share in total expenditure (percent)	6.6	5.1	x	5.2	x	5.2	x	7.5	x
10.02 Soil improvement works	230.1	617.0	168.1	610.9	-1.0	711.4	16.5	712.0	0.1
Share in total expenditure (percent)	5.9	6.9	x	6.1	x	7.0	x	9.0	x
10.04 Plant protection	136.9	471.4	244.2	389.0	-17.5	325.0	-16.5	325.0	0.0
Share in total expenditure (percent)	3.5	5.2	x	3.9	x	3.2	x	4.1	x
10.05 Veterinary and anti-epidemic activities	1245.7	1441.9	15.8	1349.7	-6.4	1349.7	0.0	1357.0	0.5
Share in total expenditure (percent)	31.8	16.0	x	13.6	x	13.2	x	17.1	x
10.06 Forestry	458.5	1137.3	148.0	1342.3	18.0	1251.4	-6.8	1353.5	8.2
Share in total expenditure (percent)	11.7	12.6	x	13.5	x	12.2	x	17.0	x
10.07 Bloodstock breeding, seed-farming, and other programs	1591.3	4871.3	206.1	5735.0	17.7	6056.2	5.6	3613.0	-40.3
Share in total expenditure (percent)	40.6	54.1	x	57.7	x	59.2	x	45.4	x

The MTEF 2007-2009 stipulates for financing implementation of the following programs in agriculture:

### ***I. SOIL REFINEMENT WORKS***

#### ***Agro-Chemical Examination and Soil Fertility Improvement Works***

The main objective of the program is to preserve soil fertility, to ensure economical, efficient, and ecologically safe usage of fertilizers.

Due to program implementation, in each year of the MTEF period it is envisaged to obtain:

1. Agro-chemical maps of the 174 communities in the country, depicting the saturation with nutrients and the need for fertilizers;
2. Scientifically substantiated and compiled assurance letters for plant fertilization.

For attaining the above-stated objectives, the following actions will be taken:

- Agro-chemical field examination of 52.1 thousand hectares of agricultural land, sampling of 22.1 thousand items of soil;
- 104.2 thousand expert examinations and assessments of soil samples and fertilizers;
- Compilation and provision of agro-chemical maps to 174 communities;
- Compilation and provision of scientifically substantiated and compiled assurance letters for plant fertilization to 174 communities.

The program activities are of on-going nature and should be carried out once in every five years for each community, since the composition of the nutrients conditioning the soil fertility substantially changes within that period.

Timely examinations will help to prevent the deterioration of soil fertility. To the end of 2009, the number of communities, which have purchased agricultural-chemical schemes paying 50 percent of the price (share of communities in general number of examined communities) in 2006, 55 percent in 2007, 70 percent in 2008, and 85 percent in 2009, will be the indicators for program implementation results.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

#### ***Improvement and Watering of Natural Pastures***

Over the last decade, an extremely unfavorable situation has been established in terms of the usage of natural pastures. In particular, due to the failure in improving and watering distant pastures, these practically remain unused. At the same time, pastures located near to the inhabited localities have been overburdened, resulting in the weakening of herbage and in intensive soil erosion, thus extremely reducing pasture utilization efficiency. If no remedial actions are taken, the pastures located near to the inhabited localities will become unusable, whereas the distant pastures will undergo negative phenomena such as lumping of soil, depletion of herbage, and mass expansion of useless, toxic, and harmful plants. Therefore, implementation of activities to improve and irrigate these pastures has become an urgent issue.

Over 2007-2009, works amounting to 300.0 million drams will be implemented each year. Particularly, the following disbursement will be made, by years:

In 2007:

*Gegharquniq Region* – 55.0 million drams, including:

- Restoration of around 16 kilometers of watering system in Spitakasar (Gavar Area) – 30.0 million drams; Restoration of around 13 kilometers of watering system between Tsovinar and Artsvanist (Martuni Area) – 25.0 million drams;

*Aragatsotn Region* - 20.0 million drams, including:

- Restoration of around 30 kilometers of watering system in Ashtarak – 20.0 million drams;

*Tavush region* – 40.0 million drams:

- Restoration of around 4 kilometers of watering system in Ijevan – 20.0 million drams;
- Restoration of around 3 kilometers of watering system in Berd – 10.0 million drams;
- Restoration of around 3 kilometers of watering system in Noyemberyan – 10.0 million drams;

*Lori Region\** – 80.0 million drams (restoration of around 9 kilometers of watering system);

*Vayots Dzor Region\** – 60.0 million drams (restoration of around 8 kilometers of watering system);

*Ararat region\** - 45.0 million drams (restoration of around 8 kilometers of watering system);

In 2008:

*Gegharquniq Region* – 25.0 million drams;

*Aragatsotn Region* – 25.0 million drams;

*Shirak Region* – 90.0 million drams;

*Kotayk Region* – 80.0 million drams;

*Syunik Region* – 80.0 million drams;

In 2009:

*Shirak Region* – 50.0 million drams;

*Lori Region* – 50.0 million drams;

*Tavush Region* – 50.0 million drams;

*Kotayk Region* – 50.0 million drams;

*Syunik Region* – 50.0 million drams;

*Vayots Dzor Region* – 50.0 million drams.

Preparation of planning/projecting and estimate documentation for works to be done in 2008 (which will specify the volumes and value of the works) will be implemented at the expense of allocations envisaged by State Budget 2007 for the program, before considering the 2008 budget financing submission.

Implementation of the program will result in the enhanced productivity of natural pastures, and the increased real incomes, thus contributing to poverty reduction.

Watered pastures area, which will constitute 11 percent of total pasture area in 2007, 16 percent in 2008, and 20 percent in 2009, will be the indicators for the program results to the end of 2009.

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\* Restoration areas in Lori, Vayots Dzor and Ararat regions will be verified in 2006.



The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

***Radical Improvement of Repeatedly Salted Irrigated Land in the Ararat Plain***

The program was approved by the Government Decree No 1115-N dated July 25, 2002.

In the Ararat Plain, 35.0 out of 80.9 thousand hectares of irrigated land is saline and alkalized to different levels, which is a strong signal about the desertification of the Ararat Plain. Losses of yield amount to 20-80 percent, depending on the quantity of salt contained in the soil.

While desalination of the saline and alkalized soil is a rather expensive process, its implementation on the whole territory of the Ararat Plain would require huge recourses. Radical improvement of the irrigated secondary saline lands in this area is a long-term program to be started and, in parallel with searching out the potential sources of financing, consistently realized.

Pursuant to the Technology for the Melioration of Saline and Alkalized Soil developed by the Edaphology, Agro-Chemistry, and Melioration Research Center, desalination of the saline and alkalized soil will be feasible only in the presence of an efficiently operating drainage network.

The program aims to recover the currently clogged and non-operating drainage system, so as to ensure free flow of underground water in these areas.

Due to program implementation, the level of underground waters will be regulated, the processes of secondary salinity will be prevented, the social and economic conditions of the population will be improved, and the sustainable productivity of agricultural plants will be ensured on land plots, thus contributing to the reduction of poverty.

For attaining the above-stated objectives over 2007-2009, it is planned to implement land plots improvement activities at the cost of 268.6 million drams in 2007, and 369.1 million drams annually in 2008 and 2009.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

***II. PLANT PROTECTION***

***Implementation of Preventive and Diagnostic Services on the Basis of Monitoring Laboratory Expert Examination of Plants Quarantine and Vegetative-Sanitary Status of Agricultural Plants***

Based on research and observations, the program aims to forecast, diagnose, and alarm about geographic area, reproduction and development of pests. It aims at elaborating state programs for plant protection and supervising their implementation, as well as controlling the quality of pesticides imported and used in the country.

As a result of program implementation examined pesticides will be used in the country, samples of agricultural land areas monitored for noxious organisms and their forecast and plants protection activities implementation programs for the coming years will be available.

For that purpose, around 243.0 thousand hectares of land will be monitored annually, and 4,500 samples of pesticides will be examined in laboratories for the detection of the active agent over the MTEF period.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

***Plant Protection Activities***

The program aims at taking measures for the protection of plants against the most widespread and hazardous organisms.

The program has three components:

**1. Fighting against mouse-like rodents** – This component stipulates for centralized procurement of pesticides and their distribution to rural communities. In this case, plant protection activities will be undertaken by the farming households, while the respective subdivisions of the Ministry of Agriculture will provide the necessary consultation and will supervise the process. Over the MTEF period, plant protection activities will cover 160.0 thousand hectares of land in 2007, 84.8 thousand hectares in 2008 and 84.8 thousand hectares in 2009. Allocations to be made for that purpose will amount to 70.0 million drams, 37.1 million drams, and 37.1 million drams, respectively.

**2. Fighting against locusts and crickets** – This service will be provided in a centralized way by aviation, both in agricultural plantations and in hayfields, pastures, and other plots. Over the MTEF period plant protection activities will cover annually 5.0 thousand hectares of land, with 58.5 million drams of financing.

**3. Fighting against organisms harmful for forests** – This service will be provided in a centralized way in forests by aviation. Over the MTEF period, plant protection activities will cover 14.6 thousand hectares in 2007, 12.0 thousand hectares in 2008 and 12.0 thousand hectares in 2009. Allocations to be made for that purpose will amount to 171.5 million drams, 140.4 million drams, and 140.4 million drams, respectively.

Thus, over 2007-2009 the activities include control over:

1. 179,600 hectares of land at the cost of 300.0 million drams in 2007;
2. 101,800 hectares of land at the cost of 236.0 million drams in 2008;
3. 101,800 hectares of land at the cost of 236.0 million drams in 2009.

The selection criteria for the areas included in plant protection activities are as follows:

1. Areas infected by the most harmful organisms selected as a result of a monitoring conducted by the "Plants Protection Service" SNCO;
2. Areas with a larger share of socially vulnerable population;
3. Areas engaged in cultivation of basic crops.

Implementation of the program activities will help to prevent the spread of harmful organisms and to minimize their habitat areas, thus providing prerequisites for harvesting without losses, significant improvement of the vegetative-sanitary condition of agricultural plots, and around 60-80 percent reduction of the damage caused by harmful organisms.

Implementation of the program will ensure collection of additional yield, which will result in the increased real incomes of the farmers, and contribute to the reduction of poverty.

By the end of 2009 the indicators for the program results will be:

1. Areas infected with the mouse-like rodent (hectares) – 180,000 in 2007, 110,000 in 2008, and 110,000 in 2009;
2. Areas infected with locusts (hectares) – 10,000 in 2007, 8,000 in 2008, and 8,000 in 2009;
3. Forest areas infected with pests and diseases (hectares) – 11,000 in 2007, 11,000 in 2008, and 11,000 in 2009.

The program goal is to undertake plants protection measures against the most widespread and dangerous organisms.

### ***III. VETERINARY AND ANTI-EPIDEMIC ACTIVITIES***

#### ***State Order for Laboratory Diagnosis of Agricultural Animal Diseases and Expert Examination of Stuff and Materials of Animal Origin***

The program aims to improve the epidemic situation with the animal infectious diseases, to protect the population against diseases commonly infectious for humans and animals.

Implementation of the program will improve the infection-resistance (immunity) of vaccinated animals, and will enable the diagnosis of agricultural animals through laboratory methods.

For attaining the above-stated objectives, the following actions will be taken:

- Vaccination monitoring (sero-monitoring) after taking anti-epidemic actions, so as to assess the results of preventive vaccinations against certain diseases;
- Establishment of a computerized database for the assessment of vaccination outcomes, as a basis for identifying changes to be made in the anti-epidemic activities;
- Assessment of the vaccine compatibility to the types of diseases of agricultural animals;
- Preservation of vaccines and disinfectant agents in accordance with the determined norms;
- Diagnosis of and conclusions on the test samples submitted by the state veterinary inspectors and by the frontier check-points;
- Implementation of anti-epidemic monitoring activities and collection of information on the anti-epidemic situation in the neighboring countries.

Over the MTEF period allocation of 154.3 million drams in 2007, 154.3 million drams in 2008, and 161.6 million drams in 2009 is envisaged.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

#### ***Acquisition of Vaccines and other Accessories for Vaccination and for Other Anti-Epidemic Actions***

Mandatory anti-epidemic actions are undertaken on an annual basis in the country pursuant to the Law "On Veterinary" and to the instructions for fighting against animal diseases, for the purpose of ensuring a stable veterinary anti-epidemic situation and preventing infectious diseases of humans and animals.

In the medium run, anti-epidemic activities in the form of vaccinations against infectious diseases of agricultural animals will cover the following nine diseases appearing to be most hazardous to humans and animals:

1. Brucellosis – cattle, small cattle, pigs, horses;
2. Tuberculosis – cattle;
3. Anthrax – cattle, small cattle, pigs, horses;
4. Foot-and-mouth disease – cattle;
5. Gangrene – cattle;

6. Pasteurellosis – cattle;
7. Plague – pigs;
8. Birds newcastle – poultry;
9. Bee varatoz – bee-family.

Prevention and eradication of quarantine and especially infectious diseases includes simultaneous and consequent implementation of the following complex activities:

- a) Acquisition of accessories for vaccination and for other anti-epidemic actions;
- b) Anti-epidemic vaccinations and diagnostic examinations.

Due to program implementation, the anti-epidemic activities in each year of the MTEF period will cover some 640 thousands of cattle, 730 thousands of small cattle, 320 thousands of pigs, 15 thousands of horses, 2.8 millions of poultry, and 130.0 thousands of bee-families.

Implementation of the program will facilitate stabilizing the situation with infectious diseases of animals in the country, assuring production of high-quality – in terms of veterinary and sanitary standards – animal foodstuff and semi-products, protecting the population against diseases commonly infectious for humans and animals, as well as establishing stable inter-state economic links.

By the end of 2009, the target indicators of the program implementation will be the following:

- Animal infectiousness with anthrax (percent of the general stock) – below 0.003, 0.001 and 0.001 percent, respectively;
- Animal infectiousness with brucellosis (percent of the general stock) – below 0.4, 0.3, and 0.2 percent, respectively;
- Animal infectiousness with tuberculosis (percent of the general stock) – below 0.4, 0.3, and 0.2 percent, respectively;
- Pig infectiousness with plague (percent of the pig stock) – below 0.4, 0.3, and 0.2 percent, respectively;
- Animal infectiousness foot-and-mouth disease (percent of the general stock) – below 1.0, 0.9, and 0.5 percent, respectively;
- Cattle infectiousness with rustling gangrene (percent of the general stock) – below 0.003, 0.001 and 0.001 percent, respectively.

The above-mentioned indicators will be revised based on the 2006 annual report data of the national system of animal diseases control.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

***Financing Implementation of the Powers Vested by the State in Community Leaders for Arranging Veterinary Service, Anti-Epidemic Activities, and Animal Disease Prevention Works***

The state has vested implementation of anti-epidemic, animal disease prevention, diagnosis, and other veterinary services in community leaders; some 800 contracts have been concluded with the communities and veterinaries, and 384.0 million drams will be provided annually over 2007-2009 ( $800 \times 12 \times 40.0 = 384.0$  million drams).

***Implementation of Quarantine Restrictions by the Veterinary Police Platoon of the Police under the Government***

The program envisages quarantine restrictions by the special police platoon established in the Police under the Government to localize agricultural animals' diseases in nidus of infection, prevent the further spreading, as well as enforce the implementation of quarantine requirements by legal entities and natural persons.

***IV. FORESTRY******Implementation of Forest Preservation, Forest Protection, and Reforestation Works***

Pursuant to the Government Decree No 7-N dated January 15, 2004, the Ministry of Agriculture was assigned with responsibility for the management of forest preservation, protection, reproduction, and utilization.

At the same time, certain changes were made in the state policy in forestry: by the Government decree No. 38-A, dated September 30, 2004, the "Forests National Policy and Strategy" was adopted, by the Government decree No. 1232-N, dated July 21, 2005, the "Forests National Program" was adopted, and the new Forests Code was adopted in 2005. As a result, the volumes of deforestation reduced, simultaneously the volumes of forestation increased, which resulted in the increased State Budget expenditure in the program implementation. Allocations of 1,289.7 million drams in 2007, 1,198.8 million drams in 2008, and 1,300.9 million drams in 2009 are envisaged over the MTEF period.

The program will be implemented through three components – forest preservation, forestation, and reforestation.

**1. Forest Preservation** – The total area of the state forest reserve placed under the disposal of the "Hayantar" SNCO is more than 360.0 thousand hectares (78 percent of the total); there are 22 forestry entities operating in that area. In order to preserve forest areas, in accordance with the forestation plans, 92 forest wardens segments have been established with 529 forester units, entrusted to an identical number of forest wardens and foresters bearing corporeal liability. An average of around 680.5 hectares of forest area is entrusted per forester.

697.0 million drams are envisaged for the payment of wages of the "Hayantar" SNCO and social security allocation payments (970 employees x 47.7 thousand drams x 12 months = 555.2 million drams; social security allocations – 128.9 million drams) and 12.9 million drams for construction of mining layers (60 km), construction of fire-prevention roads (50 km), and renovation of fire-prevention roads (50 km) in this component.

**2. Reforestation** – Over the last 10-12 years, forests in Armenia have significantly suffered due to the energy crisis. Unlawful deforestations, to various extents, have been observed on around 40 thousand hectares. Moreover, one third of forests, which comprises more than 100 thousand hectares, have already lost their capacity for self-recovery. Therefore, expanding the coverage and enhancing the quality of forestation and reforestation works becomes crucial for improving the present condition of forests; these works were stipulated by the RA National Forest Policy and Strategy, approved by the Government's Decree No 38 dated December 30, 2004.

The allocation for implementing the program is 542.7 million drams in 2007, 442.6 million drams in 2008, and 542.7 million drams in 2009.

The expected outcomes of the project are as follows:

- Improvement of forest protection in the country; reduction of unlawful utilization;

- Reduction of pests and diseases in forests;
- Expansion of forested areas;
- Availability of forestation plans;
- Efficient forest administration;
- Reduction of poverty in next-to-forest areas.

By the end of 2009, the following will be the indicators for program results:

1. Reduction of unlawful deforestations as compared with the 2006 indicator – by 5 percent, 10 percent, and 15 percent, respectively;
2. Forestation and reforestation – 4,500 hectares, 5,000 hectares, and 5,000 hectares, respectively;
3. Production of forest sowing material – 2,000 units, 3,500 units, and 4,500 units, respectively;
4. Forest area included in forestation plans – 49,800 hectares, 49,600 hectares, and 48,100 hectares, respectively.

**3. Forestation** – Since 1993, no forestation projects have been implemented on the state forest reserve area, except the forestry entities of Lalvar and Noyemberyan. Presently, under the World Bank-financed Natural Resource Management and Poverty Reduction Program, forestation projects for forestry enterprises of Ijevan and Sevqar are being developed. Over 2007-2009, the state forest reserve in forestry entities of Kapan, Goris, Meghri, Stepanavan, Gugark, Hrazdan, Yeghegis, Jermuk, Lalvar, Jiliza, and Dsegh will be inventoried and registered, as well as forestation plans will be yearly developed for 50 thousand hectares of forests, at a total cost of 50.0 million drams annually (1,000 drams per hectare).

### **State Monitoring of Forests**

The program was not included in the MTEF 2006-2008. "Forests State Monitoring Center" SNCO was established by the Government decree No. 1152-N on "Introduction of Forests State Monitoring System", dated July 28, 2005. State Budget 2006 allocations in the form of the grant to the above-mentioned organization constitute 21.6 million drams to be spent on researches on forests state monitoring and unlawful deforestations, prevention of wood transportation, realization and other unfavorable activities.

The aim of the program is to contribute to prevention of unlawful deforestations in Armenia through forests monitoring. Inspections, researches and forests state monitoring are envisaged in order to prevent the unlawful deforestations, wood transportation, realization and other harmful activities.

The main problems of forests state monitoring in Armenia over 2007-2009 are:

- Collection and analysis of necessary information according to the rules of collection of data for forests state monitoring;
- Establishment of information exchange working network between the "Forests State Monitoring Center" SNCO and local (marzes) levels;
- Monitoring in forested areas to verify the received information;
- Ensuring the transparency of works against the unlawful deforestations, wood transportation, realization and other harmful activities.

The following is envisaged to solve the above-mentioned problems:

a) Implement forests monitoring in forested area of Armenia (including specially protected areas) based on the developed methodology and the monitoring criteria for unlawful deforestations and wood removed from forests;

b) Establish forests state monitoring branches in marzes to receive information at the local level and ensure efficient exchange of the information;

c) Analyze the reports received from public bodies, organizations, as well as legal entities and natural persons, on forest management, utilization, violations, wood transportation and realization;

d) Submit short and medium term forecasts and suggestions to the Forests State Monitoring Council based on the monitoring results and comparison of data received from other corresponding sources;

e) Ensure the transparency of fighting against unlawful deforestations, wood transportation, realization and other harmful activities in Armenia through publication of bulletins and application of other information means.

52.588 million drams annually are envisaged by the MTEF 2007-2009 for the program.

## ***V. LIVESTOCK BREEDING, SEED-FARMING, AND OTHER PROGRAMS***

### ***Implementation of Special Activities***

According to the Law "On Protection of the Population in Emergency Situations" and the Letter No. 425 of the Department of Emergency Situations under the Government dated July 15, 1999, preparation activities in the state of emergency on protection and ensuring the functioning of the Ministry of Agriculture staff will be implemented at the expense of allocations for special activities (remuneration of the servicing staff of the out-of-town reserve management center, acquisition of public utility and other services, medicaments and other first-necessity materials). 1.0 million drams annually are envisaged by the MTEF 2007-2009 for this program.

### ***Seed Quality Examination and State Sort-Expertise***

Organization of new sorts expertise and introduction of the best sorts into production based on its outcomes is one of the most important activities for the stable development of plant cultivation. These activities are continuous and ensure solving of the problems of utilization of productive sorts produced by national and international selection centers and legal protection of these achievements.

Implementation of this program prevents the utilization of low-quality seeds and sowing material, and assures reproduction of conditioned seeds. Proposed activities include:

- Implementation of sort identification works;
- Sampling from seed batches;
- Laboratory experimenting with sample seeds;
- Approbation of high-grade seed plants;
- Seed quality examination and documentation that provides for the minimum works to be implemented pursuant to the Law "On the Protection of Customer Interests".

28.3 million drams in 2007, 28.3 million drams in 2008, and 28.6 million drams in 2009 are envisaged by MTEF 2007-2009 for the program.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

***State Order for Hydro Meteorological Activities***

The program is expected to facilitate dealing with the following issues:

- Prevent yield losses, by means of early warning about frostbite;
- Contribute to the establishment of effective irrigation practices, through the assessment of water resources in rivers, lakes, water basins, and other water surfaces, as well as through the forecast of high-water factors in spring;
- Enable arrangement of preventative actions, through forecasting hazardous and extremely hazardous hydro-meteorological phenomena.

2.2 million drams annually are envisaged by the MTEF 2007-2009 for the program.

***Artificial Insemination Activities***

The program includes three components:

**1. Sperm storage through deep-freezing method:** Under this component, some 49.3 thousand doses of deep-frozen sperm warehoused in Ararat, Gegharquniq, Tavush, Lori, and Syunik Regions will be stored at a temperature of  $-196^{\circ}\text{C}$  (in a liquid nitrogen environment), which enables to preserve biological characteristics and genetic stability of sperm, allowing artificial insemination of cattle in the coming years. Decrease in expenditures over the MTEF period has resulted from the decrease of the volumes of stored sperm due to its utilization.

**2. Artificial insemination of cattle in different regions of the country,** by using the sperm of highly productive sorts of cattle stored in bloodstock nursery stations. Artificial insemination of 15,400 head of cattle annually is envisaged over the MTEF period.

The target is to ensure 90-95 percent pregnancy of the artificially inseminated livestock.

It is envisaged to gradually increase the volumes of artificial insemination of the cattle.

Implementation of the project is expected to increase milk productivity of cattle bred through artificial insemination by 15-20 percent.

**3. Artificial insemination of sows** by using the sperm of highly productive sorts of boars.

Artificial insemination of 3,830 sows in 2007, 4,000 sows in 2008, and 4,160 sows in 2009 is envisaged over the MTEF period.

As a result, the contagious diseases transmitted during pairing will decrease by 50-60 percent and barrenness of sows by 10-15 percent.

The growth intensity of pigs bred through artificial insemination during the first year will increase by 20-30 percent.

The program is a direct assistance to rural and farming households with respect to the poverty reduction.

41.5 million drams annually are envisaged by the MTEF 2007-2009 for the program.

***Supporting Collection of Agriculture Data***

The program aims at collecting data on rural communities and various branches of the agrarian sector, arranging their computerized processing, storage, and analysis, which will enable to establish an initial base for elaborating recommendations, programs, and other relevant documents on improving the sector performance.

Based on the study of the said information, recommendations facilitating improvements in rural communities, plant cultivation, branches of cattle breeding, agricultural cooperation,



food security, and other areas will be defined, and information technologies will be introduced in the agrarian and food production sector.

The program has been incorporated into the activities to be taken under the Sustainable Agricultural Development Strategy.

30.0 million drams annually are envisaged by the MTEF 2007-2009 for the program.

***Financing of ASDC-s (Agricultural Support District Center) and ASRC-s (Agricultural Support Republican Center) for Provision of Rural Advisory Services***

According to Clauses “3a” and “3b” of the Annex 4 of the "Rural Enterprises and Small Trade Agriculture Development" agreement between the Republic of Armenia and World Bank International Development Company, signed on July 20, 2005 (credit No. 4095-AM), preconditions are determined stating: the Debtor should “(a) ensure the provision of budget allocations for advisory expenses of the part B1 of the Project (rural advisory services)” and “(b) present to the Company data on Budget allocations, envisaged for the next year for rural advisory services of the Debtor's Ministry of Agriculture, annually before November 1”.

The above-mentioned was secured also by the Letter No. 6/1-3336-7082 of the Minister of Finance and Economy to the Prime-Minister, dated July 2, 2005.

The above-mentioned component of the Program should be implemented in 4 years.

The State Budget allocation (as separate budget targeted line) will comprise US\$ 711,530 in dram equivalent.

The program was not included in MTEF 2006-2008. Nevertheless, State Budget 2006 envisaged a separate targeted budget program on "Financing of ASDC-s and ASRC-s for Provision of Rural Advisory Services" with allocation of 46,361.2 thousand drams to ensure fulfillment of the preconditions defined by the Agreement. Allocations of 44.024 million drams in 2007 and 107.595 million drams annually in 2008 and 2009 are envisaged by MTEF 2007-2009 for the program.

***Rural Economic Development Project (IFAD)***

The credit agreement for the Rural Economic Development Project was concluded between the Republic of Armenia and the International Fund for Agricultural Development on January 28, 2005. The total cost of the project is US\$ 28.72 million, to be disbursed in four years. The project aims to increase stable incomes of the rural population in 7 poorest mountainous regions of the country, and to facilitate sustainable growth of agriculture-related activities within the project area.

Over 2007-2009, the following activities will be implemented under the project:

- Financing entrepreneurship in rural areas, to promote rural economic activities through provision of available funding for medium and small producers and entrepreneurs within the Rural Economic Development Project area.
- Establishing rural intermediate business services, to develop a network of organizations providing certified business services within the Rural Economic Development Project area for helping borrowers to compile business plans.
- Ensuring availability of economically substantiated infrastructures, to improve efficiency of the supply-value chain through eliminating deficiencies in the basic infrastructures.

***Rural Enterprises and Small Trade Farming Development Program Implemented by the Assistance of the World Bank***

Aim of the project is to contribute to the development of the Armenian small and medium rural enterprises through making accessible the markets for farmers and rural entrepreneurs and promotion of market oriented and public investments in rural areas.

To this effect, improved information and financial services (particularly, through provision of credits) are provided to small and medium farmers and agricultural enterprises and private entrepreneurs included in the program, and more acceptable proposals of qualified raw materials and improved technologies, as well as marketing support are provided since 2006.

**Table 11.4 Expenditure in Agriculture over 2005-2009 (Million Drams)**

Program	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
<i>TOTAL, program for agricultural activities, including:</i>	3,921.11	9,002.11	9,942.26	10,226.04	7,953.65
- Current expenditure	2,820.66	3,522.30	4,001.61	3,893.42	3,838.62
- Capital expenditure	1,100.45	4,208.62	3,897.66	4,190.62	2,891.93
- <u>Borrowing minus repayment</u>	0.00	1,271.20	2,043.00	2,142.00	1,223.10
10.01.01. Maintenance of executive authorities, republican and territorial units of public administration	258.61	463.22	515.37	532.33	593.19
- Current expenditure	258.61	463.22	515.37	532.33	593.19
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
10.02. Soil improvement works, including:	230.13	616.95	610.89	711.39	712.03
- Current expenditure	72.28	87.85	42.29	42.29	42.93
- Capital expenditure	157.85	529.10	568.60	669.10	669.10
1. Agro-chemical examination and soil fertility improvement works	34.54	36.85	42.29	42.29	42.93
- Current expenditure	34.54	36.85	42.29	42.29	42.93
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
2. Adjustment of agricultural plant irrigation norms and modes, including:	19.26	51.00	0.00	0.00	0.00
- Current expenditure	19.26	51.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
3. Salt extraction from irrigated land in Ararat plain, including:	18.48	0.00	0.00	0.00	0.00
- Current expenditure	18.48	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
4. Improvement of irrigated land in Ararat plain by implementation of anti-flood activities		369.10	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	369.10	0.00	0.00	0.00
5. Radical improvement of repeatedly salinated irrigated secondary land in Ararat plain, including:		0.00	268.60	369.10	369.10
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	268.60	369.10	369.10
6. Improvement and watering of natural pastures, including:	157.85	160.00	300.00	300.00	300.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	157.85	160.00	300.00	300.00	300.00
10.04 Plant protection, including:	136.93	471.37	389.01	325.01	325.01
- Current expenditure	136.93	471.37	389.01	325.01	325.01

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Program	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
1. Preventive and diagnostic services provided on the basis of monitoring and laboratory expert examination of plants quarantine and phyto-sanitary status of agricultural plants	55.00	75.37	89.01	89.01	89.01
- Current expenditure	55.00	75.37	89.01	89.01	89.01
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
2. Plant protection activities, including:	81.93	396.00	300.00	236.00	236.00
- Current expenditure	81.93	396.00	300.00	236.00	236.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
10.05. Veterinary and anti-epidemic activities, including:	1,245.67	1,441.93	1,349.70	1,349.70	1,356.99
- Current expenditure	1,052.36	1,228.73	1,349.70	1,349.70	1,356.99
- Capital expenditure	193.31	213.20	0.00	0.00	0.00
1. Laboratory diagnosis of agricultural animal diseases and expert examination of stuff and materials of animal origin	142.08	137.04	154.33	154.33	161.61
- Current expenditure	142.08	137.04	154.33	154.33	161.61
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
2. Acquisition of vaccines and accessories for vaccination and for other anti-epidemic activities, including:	666.50	797.37	797.37	797.37	797.37
- Current expenditure	666.50	797.37	797.37	797.37	797.37
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
3. Realization of quarantine restrictions by the police platoon of the Police at the Government	14.00	14.00	14.00	14.00	14.00
- Current expenditure	14.00	14.00	14.00	14.00	14.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
4. Financing for implementation of the powers vested by the state in community leaders for arranging veterinary service, anti-epidemic activities, and animal disease prevention works	229.78	280.32	384.00	384.00	384.00
- Current expenditure	229.78	280.32	384.00	384.00	384.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
5. Construction of frontier check-points		63.20	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	63.20	0.00	0.00	0.00
6. Capital renovation of other agricultural establishments, including:	193.31	150.00	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	193.31	150.00	0.00	0.00	0.00
10.06. Forestry	458.52	1,137.30	1,342.27	1,251.37	1,353.47
- Current expenditure	458.52	743.70	749.57	758.81	760.77
- Capital expenditure	0.00	393.60	592.70	492.57	592.70
1. Implementation of forest preservation, forest protection, and reforestation works, including:	458.52	1,115.66	1,289.68	1,198.78	1,300.88
- Current expenditure	458.52	722.06	696.98	706.22	708.18
- Capital expenditure	0.00	393.60	592.70	492.57	592.70
2. Public monitoring of forests		21.65	52.59	52.59	52.59
- Current expenditure	0.00	21.65	52.59	52.59	52.59
- Capital expenditure	0.00	0.00	0.00	0.00	0.00

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Program	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
10.07. Bloodstock breeding, seed-farming, and other programs, including	1,591.25	4,871.33	5,735.03	6,056.23	3,612.96
- Current expenditure	841.96	527.42	955.67	885.28	759.73
- Capital expenditure	749.28	3,072.72	2,736.36	3,028.95	1,630.13
- Borrowing minus repayment	0.00	1,271.20	2,043.00	2,142.00	1,223.10
1. Implementation of special activities, including:	0.91	1.00	1.00	1.00	1.00
- Current expenditure	0.91	1.00	1.00	1.00	1.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
2. Implementation of seed quality examination and state sort-expertise	21.31	25.00	28.30	28.30	28.62
- Current expenditure	21.31	25.00	28.30	28.30	28.62
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
3. State order for hydro-meteorological activities	2.20	2.20	2.20	2.20	2.20
- Current expenditure	2.20	2.20	2.20	2.20	2.20
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
4. Artificial insemination activities, including:	40.91	41.50	41.50	41.50	41.50
- Current expenditure	40.91	41.50	41.50	41.50	41.50
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
5. Supporting collection of agricultural data, including:	26.47	30.00	30.00	30.00	30.00
- Current expenditure	26.47	30.00	30.00	30.00	30.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
6. Meeting Government's commitments with regard to procurement of hail control equipment	73.17				
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	73.17	0.00	0.00	0.00	0.00
7. Flood control measures financed from the partnership fund formed under the Food Production Growth program of the Government of Japan	252.01	214.10	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	252.01	214.10	0.00	0.00	0.00
8. Reforestation measures financed from the partnership fund formed under the Food Production Growth program of the Government of Japan	209.33	399.75	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	209.33	399.75	0.00	0.00	0.00
9. Financing of ASDC-s and ASRC-s for provision of rural advisory services		46.36	44.02	107.60	107.60
- Current expenditure	0.00	46.36	44.02	107.60	107.60
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
10. Numbering and inventory of agricultural animals in the Republic of Armenia	0.00	0.00	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
11. Agricultural Reform Support Project assisted by the World Bank, including:	380.17				
- Current expenditure	352.19	0.00	0.00	0.00	0.00
- Capital expenditure	27.98	0.00	0.00	0.00	0.00
12. Rural Economic Development Project assisted by the International Fund for Agricultural Development	160.56	2,538.09	2,736.00	2,808.00	810.00
- Current expenditure	68.08	46.86	171.00	171.00	90.00

2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Program	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
- Capital expenditure	92.48	1,596.68	1,170.00	1,260.00	270.00
- Borrowing minus repayment	0	894.55	1,395.00	1,377.00	450.00
13. Rural Enterprises and Small Trade Farming Development Japan Grant Program assisted by the World Bank	316.71	247.22	236.34	159.71	111.56
- Current expenditure	316.71	247.22	236.34	159.71	111.56
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
- Borrowing minus repayment	0	0.00	0.00	0.00	0.00
14. Rural Enterprises and Small Trade Farming Development Program assisted by the World Bank		1,326.11	2,615.67	2,877.93	2,480.49
- Current expenditure	0.00	87.28	401.31	343.98	347.27
- Capital expenditure	0.00	862.18	1,566.36	1,768.95	1,360.13
- Borrowing minus repayment	0	376.65	648.00	765.00	773.10
15. Agricultural Services Program assisted by the International Fund for Agricultural Development	107.49				
- Current expenditure	13.18	0.00	0.00	0.00	0.00
- Capital expenditure	94.31	0.00	0.00	0.00	0.00
- Borrowing minus repayment	0	0.00	0.00	0.00	0.00

## **CHAPTER 12.**

### **NATURAL ENVIRONMENT PROTECTION**

#### **12.1 SITUATIONAL OVERVIEW**

Natural environment protection issues directly relate to the basic problems of the country's economic and social development.

Any economic activity has an impact on the natural environment. The challenge of natural environment protection is to achieve a maximal reduction of the harmful impact of economic activities on the environment – on atmosphere, water, soil, the earth entrails, plant life, and animal life, assuring preservation of the environment and human health.

In recent years, the sector has been developing within the scope of opportunities provided by the budgetary allocations and by the grants from the international financial/environmental organizations. Its activities have been aimed at:

- Prevention and/or reduction of further environmental pollution;
- Preservation of bio-diversity;
- Assuring the required reproduction volumes of recoverable resources;
- Assuring reasonable and efficient utilization of non-recoverable resources.

The sector has been developing in line with the country's economy and in consistency with the reforms implemented in almost all sectors of the economy.

The following remarkable achievements have been made in natural environment protection over recent years:

1. Since 1999, termination of water discharge from Lake Sevan for energy generation purposes;
2. Stable trends in (continuously) rising of the level of Lake Sevan (44 centimeters in 2002, 48 centimeters in 2003, 41 centimeters in 2004, 41 centimeters in 2005);
3. Since 2002, prohibition of the production, usage, and import of ethylated gasoline;
4. Prohibition of the production and usage of a number of substances considered to be persistent organic pollutants;
5. Limitations on the emission of green-house gases, sulfur, nitrogen oxides, ammonia, and vaporizing organic compounds;
6. Establishment of the Natural Environment Protection Fund;
7. Armenia's ratification of a number of important environmental international treaties and conventions, including:
  - The Kyoto Protocol annexed to the United Nation Framework Convention on "Climate Change", which will enable Armenia's participation in the bilateral international collaboration mechanisms defined by the Protocol, with the purpose of implementing investment projects aimed at the economic development of the country;
  - As a result of the initiatives undertaken within the framework of the Vienna Convention "On Protection of the Ozone Layer" and the Montreal Protocol "On Substances that Deplete the Ozone Layer", by resolution of the regular conference held by the parties to the Convention and the Protocol in November 2002, Armenia has been categorized as a country pertaining to Article 5 of the Convention; this will enable the country to make use of

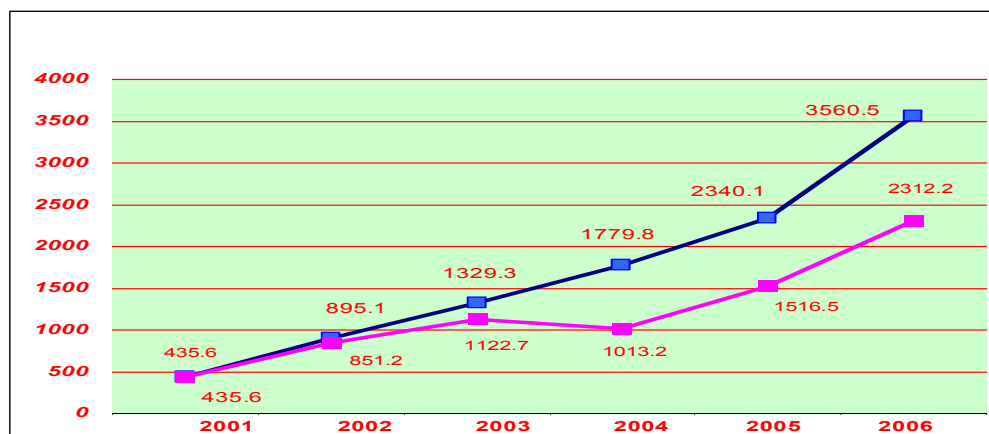
the bilateral fund under the Montreal Protocol, for the purpose of introducing ozone-friendly technologies in Armenia;

- The Rotterdam Convention "On the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade";
- The Stockholm Convention "On the Persistent Organic Pollutants";
- The Copenhagen and London Amendments to the Montreal Protocol "On Substances that Deplete the Ozone Layer".

8. Development and extension of legislative framework regulating this sector, including:

- Adoption of the Law "On Environmental Supervision" which is a new era for conducting policy regarding environmental protection in the Republic of Armenia.
- Several changes and amendments made in the RA Law "On Environmental Fees and Nature User's Charges" and in sub-legislative acts, ensuring application of the Law, contributed to improvement of efficiency of observance of the volumes of nature utilization and quality of inspectorial works, resulting in constant and substantial increase of State Budget receipts from environmental protection and natural resources utilization fees (increased by more than eight times as compared to 1998 level), which, in its turn, allows to gradually and tangibly increase allocations to this sector from the State Budget directed to implementation of environmental protection activities.

**Chart 12.1 Budget Allocations to Environment Protection (Million Drams)**



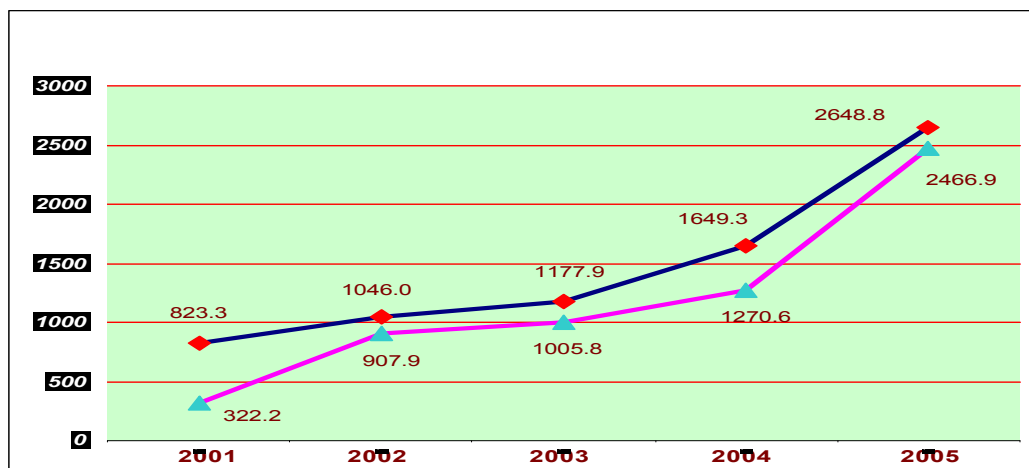
■ Total allocations (including credits)

■ Total allocations (excluding credits)

- Adoption of the Law "On Compensation Tariffs for the Loss Caused to Flora and Fauna in the Result of Violations Against Natural Environment Protection", as well as the Government's approval of regulations for evaluation of negative impacts of economic activities affecting water resources, land resources, and atmosphere, allow environmental protection controlling bodies to calculate the compensation rates for damaging the environment more effectively and productively;
- Adoption of the Law "On Changes and Amendments to the Law "On Atmosphere Protection"" in 2005, allowing introduction of a system for controlling rates of hazardous emissions of transportation means, polluting atmosphere in Armenia in 2006;
- Development of licensing regulations in the sphere of atomic energy utilization, according to the Law "On Licensing", and their approval by the Government;

- Substantial increase of State Budget receipts from natural resources utilization fees (increased by 60.6 percent or 999.5 million drams as compared to 2004) due to improved efficiency of environmental protection inspection activities;
- Around 90 percent of water consumption in the country has been brought into the legislative framework through the WUA-s formed in accordance with the new Water Code;
- Adoption of a number of strategically important documents;
- Adoption of the Law "On Fundamental Provisions of the National Water Policy";
- The program of Activities Directed at Reduction of Hazardous Vehicle Emissions;
- The list of activities over 2005-2010 under the National Program for Implementing the Stockholm Convention "On Persistent Organic Pollutants";
- The list of activities regarding the intersecting problems following the Conventions on Biodiversity, Climatic Changes, Struggle against Desertification.

**Chart 12.2 Dynamics of Natural Resource Utilization Fees Over 2001-2005 (Million Drams)**



- Total natural resource utilization fees
- Earth entrails utilization fees

Over the last two years (2003-2005), the following basic indicators have characterized this sector:

1. Within the framework of the 2003-2005 annual action plan for restoration, preservation, reproduction and utilization of the ecological system of Lake Sevan, the following actions have been taken:

As of December 31, 2005, the water level was 1898.06 meters which corresponds to the lake's level in 1991. Over the last four years the water level increased by 174 cm which is a proof of constant increasing tendency;

Within the framework of accomplishing a basic problem of re-growth of trout and its varieties endemic to Lake Sevan, financial support from different sources (such as, the State Budget, Environmental Protection Target Fund (off-budget source), ""Sevan" National Park" SNCO- financial means raised from entrepreneurial activities) enabled to let out more fry (young fish) into the lake as compared to 2004;

Due to water level increase, within the framework of a basic task of assessment (inventory) and stocktaking of lands in the surrounding of Lake Sevan, the RA Government



has allocated 52,251.4 thousand drams from the reserve funds to stub about 92 hectares of tree-covered lands;

2. Through the WUA-s formed in accordance with the new Water Code, around 90 percent of water consumption in the country has been brought into the legislative framework.

3. The "Environmental Impact Monitoring Center" SNCO has implemented the following environmental pollution studies:

- Atmosphere. 11 atmosphere pollutants were defined (sulfur dioxides, nitric oxides, nitric dioxides, dust, bensol, toluol, ksilol, ethyl benzol, chloroprene, and carbon oxides) through the atmosphere observatories located in 6 towns (Yerevan - 5, Vanadzor - 3, Alaverdi - 2, Gyumri - 1, Ararat - 1, Hrazdan - 1);

- Water pollution. Through 104 observatories of 36 water establishments on Pambak, Debed, Martziget, Dzoraget, Akhtala, Hrazdan, Marmarik, Getar, Sevjur, Qasakh, Araks, Azat, Vedi, Arpa, Meghriget, Voghji, Geghi, Vorotan, Gorisget, Sisian, Artsvanik, Gavaraget, Tsakqar, Argichi, Marmuni, Vardenis, Kartchaghbur, Sotq, Dzknaget, Masrik, Aghstev, Getik rivers, Arpa-Sevan tunnel, Kechut water reservoir, Lake Yerevanyan, and Lake Sevan.

4. Due to regular operation of the system of Armenian Hydro-Meteorological Service, the population of the country, its authorities, various interested organizations and enterprises have been provided with information on the actual and forecast weather, with references on hydro-meteorological, helio-geophysical, and background-gamma radiation situation, and with consultations and warnings about hazardous and disastrous hydro-meteorological phenomena, including meteorological service of air flights.

## **12.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### ***12.2.1 Objectives***

For the period of 2007-2009, the priority directions of the sectoral development, which would provide the basis for formulating objectives for the coming three years, have been defined pursuant to the provisions of certain documents/programs approved by the Government over the last years, including:

- National Action Plan for Natural Environment Protection (1998);
- Program for Restoration of the Ecological Balance of Lake Sevan (1998);
- National Action Plan for Fighting Against Desertification in Armenia (2002);
- Program of the State Strategy and National Actions for the Development of Specially Protected Natural Areas (2002);
- Poverty Reduction Strategic Program (2003).

The key development objectives over 2007-2009 include:

a) Prevention or reduction of the harmful influence on the natural environment in the country: the atmosphere, water, soil, earth entrails, plant life, and animal life, including specially preserved natural areas;

b) Ensuring the protection of the atmosphere, water, soil, earth entrails, plant life, and animal life, including specially preserved natural areas;

c) Conduction of observations, examinations, and forecasts of the natural environment and hydro-meteorological phenomena;

d) Preservation and efficient utilization of earth entrails.

### 12.2.2 Priorities

In the medium run, budgetary allocations will be channeled to deal with the urgent problems defined by the National Program of the Actions for Natural Environment Protection, and by the Poverty Reduction Strategic Program, such as:

- The basic problems of Lake Sevan;
- Preservation of the bio- and landscape diversity;
- Struggle against desertification.

The priorities in the sector over the MTEF 2007-2009 period include:

a) Public administration in protection of the natural environment; that is, of the atmosphere, water, soil, earth entrails, plant life, and animal life, including specially protected natural areas; as well as in reasonable utilization and reproduction of natural resources;

b) Conduction of observations of the natural environment and hydro-meteorological phenomena;

c) Exploration and protection of earth entrails.

The comparative presentation of expenditure in natural environment protection as per MTEF 2006-2008 and MTEF 2007-2009 is presented in the table below.

**Table 12.1 Comparative Presentation of Expenditure, as per MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams):**

Functional Classification Group/ Subgroup	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
11.01 Public administration in natural environment protection	651.6	788.7	765.0	911.5	890.9	931.0	1,032.3
10.03 Fishery, water economy	14.0	14.0	14.0	14.0	14.0	14.0	14.0
11.02 Mining and geology	23.0	44.1	40.0	49.1	41.5	43.0	23.8
11.05 Specially protected natural areas	206.1	511.7	218.8	482.4	246.8	467.2	414.9
11.06 Other environmental activities	1,192.1	1,632.3	1,815.4	1,989.9	4,032.3	2,019.0	179.1
13.05 Other general services	454.1	521.3	321.2	430.0	287.6	425.0	403.4
Total	2,540.9	3,512.1	3,174.4	3,876.9	5,513.1	3,899.2	2,067.5

When comparing the MTEF 2006-2008 and the MTEF 2007-2009 forecasts, there is an increase in expenditure for 2007 caused by increase of wages of SNCO employees, increased financing of the Natural Resource Management and Poverty Reduction Project assisted by the World Bank, introduction of a new program on review of the RA Animals and Plants Red Book, as well as increase in expenditure for administration staff maintenance. When comparing the MTEF 2006-2008 and the MTEF 2007-2009 forecasts, there is a decrease in expenditure for 2008 caused by decrease in financing of the Natural Resource Management and Poverty Reduction Project assisted by the World Bank (program ends in 2008), as well as by changes in volumes of some programs.

### **12.2.3 Expenditure Drivers**

According to the Government strategy, main expenditure drivers for the programs implemented in this sector (excluding credit programs and administration staff expenses) over the MTEF 2007-2009 period as compared with MTEF 2006-2008 are: the increase of wages of SNCO employees by 20 percent and determining the minimal wage at 20.0 thousand drams in 2007, 25.0 thousand drams in 2008, and 30.0 thousand drams in 2009. As a result, the expenditure over 2007-2009 as compared with State Budget 2006 will increase by 98.2 million drams in 2007, 129.3 million drams in 2008, and 145.8 million drams in 2009.

Priority programs in the protection of natural environment; that is, of the atmosphere, water, soil, earth entrails, plant life, and animal life, including specially protected natural areas; as well as in reasonable utilization and reproduction of natural resources, are presented below:

## **12.3 EXISTING EXPENDITURE COMMITMENTS**

Over the MTEF 2007-2009 period, the implementation of the following programs will be continued by sub-sectors, within the framework of the key objectives of sectoral development:

### **I. IMPLEMENTATION OF THE RA LAW "ON LAKE SEVAN"**

This program stipulates for the implementation of activities and program components envisaged within the framework of the complex program for Lake Sevan, including:

- a) Reproduction of the valuable and rare sorts of fish in Lake Sevan, for which a total of 30.0 million drams, or 10.0 million drams annually, will be allocated over 2007-2009;
- b) Implementation of the program "Inventory of Fish and Crawfish Resources in Lake Sevan" aimed at inventorying wild plant and animal resources of the drainage basin of Lake Sevan, for which a total of 12.0 million drams, or 4.0 million drams annually, will be allocated over 2007-2009;
- c) 41.7 million drams will be allocated in 2007 to stub about 125 hectares of forest plantations covered by the water in the surrounding of the Lake Sevan.

### **II. WATER RESOURCES PROTECTION**

1. Works envisaged by the Water National Program;
2. Activities envisaged by the Water State Cadastre Technical Implementation program.

Over the MTEF 2007-2009 period, allocations from the State Budget will comprise 98.3 million drams in 2007, 62.6 million drams in 2008, and 64.9 million drams in 2009.

### **III. BIODIVERSITY AND SOIL PRESERVATION**

Over the MTEF period, along with the existing five priority programs (those for the preservation of specially protected natural areas, to be allocated a total of 844.2 million drams over 2007-2009, including 401.6 million drams in 2007, 402.2 million drams in 2008, and 403.7 million drams in 2009) the following activities will be implemented:

- (i) Works for the revision of areas, adjustment of borders, mapping, and draft zoning of specially protected natural areas included into the RA SPNA State Strategy and the National Action Plan;
- (ii) Technical support and provision of equipment to Erebuni Preserve and settlement of a monitoring and research station in "Preserve-Park Complex" SNCO.

Over the MTEF 2007-2009 period, State Budget allocations to this sector will amount to 430.1 million drams in 2007, 457.2 million drams in 2008, and 403.7 million drams in 2009.

#### **IV. HYDRO-METEOROLOGICAL AND ENVIRONMENTAL MONITORING**

1. Expenditure in hydrometeorology under the program "State Support to the Armenian State Service for Hydro-Meteorology and Monitoring" SNCO will be channeled to:

- Conduction of hydro-meteorological, agro-meteorological, hydrological, radio-locating, actinometrical, ozonometrical, and aerological observations;
- Examination of climatic changes, and climate monitoring;
- Conduction of radiation monitoring in the territory of the country;
- Conduction of climatic change examinations,
- Collection of hydro-meteorological data, compilation of forecasts and warnings about disasters;
- Provision of hydro-meteorological, radiation and helio-geophysical information to the authorities, defense forces, aviation, economic entities, agricultural, energy, and transport sector, other interested organizations.

Total allocations to this program over 2007-2009 will amount to 1130.28 million drams, including 351.9 million drams in 2007, 382.0 million drams in 2008 and 396.4 million drams in 2009.

2. The Environmental Monitoring Mid-Term Program (for the 2007-2009 period) will become a constituent part of the RA 2007-2015 State Environmental Monitoring Long-Term Strategic Program as a combination of steps directed to provide environmental safety and based on the RA state concept on environmental monitoring and information provision. It will monitor the pollution level of the atmosphere, surface waters, and land by hazardous chemicals, evaluate results, pollution processes, and tendencies of their influences to disclose the relations in "pollution sources - quality of the natural environment - outcomes of pollution" system, forecast the dynamics, economic evaluation of the pollution outcomes, as well as provide the environmental quality administration system with necessary information.

Allocations to these works will amount to 97.8 million drams in 2007, and to a 98.2 million drams in 2008, and 98.7 million drams in 2009.

To achieve the hydrometeorology and environmental monitoring sphere development goals the following is envisaged during the MTEF 2007-2009 period:

- provision of technical support to the of "Environmental Impacts Monitoring Center" SNCO (91.4 million drams in 2007 and 100.0 million drams in 2008 are envisaged for this purpose);
- "Technical Re-equipment of Hydro-Meteorological Stations" Program (71.1 million drams in 2007 and 36.0 million drams in 2008 are envisaged for the program).

#### **V. EXPLORATION AND PRESERVATION OF EARTH ENTRAILS**

Over the considered period:

a) *With regard to the geological explorations*, the works under the program "Geological Prospecting Works" will be focused on the implementation of geological, hydro-geological, geo-physical, and geo-chemical studies and mapping aiming at discovering new mineral deposits and clarification of a number of geological problems;

b) *With regard to the preservation of Earth entrails:*

- Works on inventorying of reserved deposits will be continued;

• Under the program "State Support to the Republican Geological Fund" SNCO, the works for improving the efficiency of its activities will be continued, aiming at the implementation of its basic functions, including:

- Running the balances of mines, mineral deposits cadastres, and mineral reserves;
- Collection and storage of the information on geological explorations, mines, their reserves, as well as of other information on Earth entrails.

For implementation of the above-mentioned works, allocations from the State Budget will amount to 49.1 million drams in 2007, 43.0 million drams in 2008, and to 23.8 million drams in 2009.

## V. ANALYTICAL AND INFORMATIONAL WORKS IN NATURAL ENVIRONMENT PROTECTION

Through the program on the "State Support for Analytical and Informational Works in Natural Environment Protection, Maintenance and Development of the Computer Network", certain works will be implemented to the end of meeting Armenia's commitments under the Orhus Convention.

For this purpose total allocations over 2007-2009 will amount to 25.8 million drams (8.6 million drams annually).

## VI. EXTERNALLY FINANCED PROGRAMS

The credit agreement for the "Natural Resource Management and Poverty Reduction" Project was concluded between the Republic of Armenia and the International Development Association on July 1, 2002, effectuated on December 27, 2002, and is expected to complete on December 27, 2008. The project cost is SDR 6.7 million (US\$ 10.0 million).

The project aims to enroot the practice of natural resource sustainable management, and to consequently reduce rural poverty in Tavush and Gegharquniq marzes. The Government has prioritized these regions in terms of program implementation, since Tavush marz has the largest forest reserves in the country, and the strategically important Lake Sevan is located in Gegharquniq marz. At the same time, both marzes have higher poverty indicators than the national average.

Over 2007-2009, the following activities will be implemented under the project:

- Community-based management of drainage basins;
- Management of the state forest reserves;
- Protected area management, and bio-diversity preservation;
- Project coordination and management.

### 12.4. NEW PROGRAMS

To attain the most important objectives in the sector over 2007-2009, "Revision of the RA Red Book of Animals and Plants" program is envisaged. The allocations to this program from the State Budget will amount to 10.6 million drams in 2007, 10.0 million drams in 2008, and to 11.1 million drams in 2009.

**Table 12.2 Financing of Existing and New Programs over 2007-2009 (Million Drams)**

Expenditure	2007	2008	2009
Natural environment protection	3,876.9	3,899.2	2,067.5
New programs	10.6	10.0	11.1

Expenditure	2007	2008	2009
Share in expenditure in the sector (percent)	0.3	0.3	0.5
Existing programs	3,866.3	3,889.2	2,056.4
Share in expenditure in the sector (percent)	99.7	99.7	99.5

**Table 12.3 Current and Capital Expenditure in Natural Environment Protection over 2007-2009 (Million Drams)**

Expenditure	2007	2008	2009
<i>A. Current expenditure</i>	2,096.4	2,061.8	2,048.5
Maintenance of administrative staff	911.5	931.0	1,032.3
Natural environment protection programs	1,184.9	1,040.6	100.5
<i>B. Capital expenditure</i>	1,780.5	1,837.4	19.0
Natural environment protection programs	1,780.5	1,837.4	19.0
<b>TOTAL</b>	<b>3,876.9</b>	<b>3,899.2</b>	<b>2,067.5</b>

**Table 12.4 Expenditure in Natural Environment Protection over 2005-2009, by Subgroups (Million Drams)**

Functional Classification Subgroup	2005 Actual	2006 Adopted Budget	Percentage change, as compared with previous year	2007	Percentage change, as compared with previous year	2008	Percentage change, as compared with previous year	2009	Percentage change, as compared with previous year
Share in GDP (percent)	0.09	0.15	x	0.14	x	0.13	x	0.06	X
Share in the State Budget expenditure (percent)	0.5	0.73	x	0.74	x	0.66	x	0.34	X
Natural environment protection, including	2,100.5	3,512.1	67.2	3,876.9	10.4	3,899.2	0.6	2,067.5	-47.0
11.01 Public administration in natural environment protection	477.3	788.7	65.2	911.5	15.6	931.0	2.1	1,032.3	10.9
Share in total expenditure (percent)	47.2	25.0	x	25.6	x	24.1	x	16.2	X
11.02 Mining and geology	27.0	44.1	63.3	49.1	11.3	43.0	-12.4	23.8	-44.7
Share in total expenditure (percent)	1.3	1.3	x	1.3	x	1.1	x	1.2	X
10.03 Fishery, water economy	13.4	14.0	4.5	14.0	0.0	14.0	0.0	14.0	0.0
Share in total expenditure (percent)	0.6	0.47	x	0.4	x	0.4	x	0.7	X
11.05 Specially protected natural areas	236.5	511.7	116.4	482.4	-5.7	467.2	-3.2	414.9	-11.2
Share in total expenditure (percent)	11.3	14.6	x	12.4	x	12.0	x	20.1	X
11. Other environmental activities	1,096.2	1,632.3	48.9	1,989.9	21.9	2,019.0	1.5	179.1	-91.1
Share in total expenditure (percent)	52.2	46.5	x	51.3	x	51.8	x	8.7	X
13.05 Other general services	250.1	521.3	108.4	430.0	-17.5	425.0	-1.2	403.4	-5.1
Share in total expenditure (percent)	11.9	14.8	x	11.1	x	10.9	x	19.5	X

Expenditure of the Ministry of Natural Environment Protection over 2007-2009, by directions, is presented below:

**Table 12.5 Expenditure in Natural Environment Protection over 2005-2009, by Programs (Million Drams)**

Functional Classification Group/ Subgroup/ Program	2005 Actual	2006 Adopted Budget	2007	2008	2009
<b>Total expenditure, including:</b>	2,100.52	3,512.10	3,876.88	3,899.23	2,067.47
- Current expenditure	1,118.38	1,892.66	2,069.40	2,061.81	2,048.47
- Capital expenditure	982.13	1,619.44	1,780.48	1,837.42	19.00
<b>11.01 Public administration in natural environment protection</b>	477.34	788.71	911.45	931.02	1,032.33
- Current expenditure	477.34	788.71	911.45	931.02	1,032.33
- Capital expenditure	0.00	30.00	0.00	0.00	0.00
<b>10.03 Total for Fishery, water economy, including</b>	13.36	14.00	14.00	14.00	14.00
- Current expenditure	13.36	14.00	14.00	14.00	14.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for replenishment of fish reserves	10.00	10.00	10.00	10.00	10.00
- Current expenditure	10.00	10.00	10.00	10.00	10.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Inventory of fish and crawfish reserves in Lake Sevan	3.36	4.00	4.00	4.00	4.00
- Current expenditure	3.36	4.00	4.00	4.00	4.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
<b>11.02. Total for mining and geological works, including:</b>	27.00	44.09	49.07	42.99	23.80
- Current expenditure	7.00	25.09	30.07	23.99	4.80
- Capital expenditure	20.00	19.00	19.00	19.00	19.00
Geological works	20.00	19.00	19.00	19.00	19.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State support to the "Republican Geological Fund" SNCO	4.00	4.19	4.80	4.80	4.80
- Current expenditure	4.00	4.19	4.80	4.80	4.80
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Inventory of reserve mines	3.00	20.90	25.27	19.19	0.0
- Current expenditure	3.00	20.90	25.27	19.19	0.0
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
<b>11.05 Total for specially protected natural areas, including:</b>	236.49	511.72	482.43	467.18	414.86
- Current expenditure	199.58	450.75	453.37	412.18	414.86
- Capital expenditure	36.91	60.97	29.06	55.00	0.00
State order for elaborating programs for the establishment of new specially protected areas	4.40	1.00	0.00	0.00	0.00
- Current expenditure	4.40	1.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for protection of the "Sevan" National Park, conducting scientific research and forestry works	78.40	151.61	166.41	166.41	166.80
- Current expenditure	78.40	151.61	166.41	166.41	166.80
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for protection of the "Dilijan" National Park, conducting scientific research and forestry works	27.17	66.47	72.93	73.41	73.48
- Current expenditure	27.17	66.47	72.93	73.41	73.48
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order to "Preserve-Park Complex"	31.16	59.62	65.62	66.62	66.51

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Functional Classification Group/ Subgroup/ Program	2005 Actual	2006 Adopted Budget	2007	2008	2009
SNCO for protection of the specially protected natural areas under its supervision, conducting scientific research and forestry works in those areas					
- Current expenditure	31.16	59.62	65.62	66.62	66.51
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for protection of the "Shikahogh" state preserve, conducting scientific research and forestry works	8.98	22.58	24.84	24.90	25.10
- Current expenditure	8.98	22.58	24.84	24.90	25.10
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for protection of the Khosrov Forest State Preserve and conducting scientific research	42.12	66.91	71.85	71.85	71.85
- Current expenditure	42.12	66.91	71.85	71.85	71.85
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Establishment of the Cadastre for Specially Protected Natural Areas	2.34	2.70	0.00	0.00	0.00
- Current expenditure	1.35	1.35	0.00	0.00	0.00
- Capital expenditure	0.99	1.35	0.00	0.00	0.00
Technical assistance to the Khosrov Forest and Shikahogh State Preserves	21.04	5.00	0.00	0.00	0.00
- Current expenditure	21.04	5.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State order for elaboration of the project for inventory, certification, and approval of the list of monuments of nature	6.00	6.34	0.00	0.00	0.00
- Current expenditure	6.00	6.34	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Works for revision of area, adjustment of borders, and mapping of specially protected natural areas	14.88	1.00	23.45	55.00	00.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	14.88	1.00	23.45	55.00	00.00
Repair of the administrative building of the "Preserve-Park Complex" SNCO	0.00	15.98	0.00	0.00	0.00
- Current expenditure	14.88	1.00	23.45	55.00	00.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Repair of the administrative building of the Khosrov Forest SNCO	0.00	37.65	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	37.65	0.00	0.00	0.00
Development of administration plan for the Khosrov Forest	0.00	5.55	0.00	0.00	0.00
- Current expenditure	0.00	5.55	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Lake Sevan's water covered forest plantations stubbing program	0.00	69.03	41.73	0.00	0.00
- Current expenditure	0.00	69.03	41.73	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Technical assistance and equipments provision to Erebuni Preserve and settlement of a monitoring and research station in the "Preserve-Park Complex" SNCO	0.00	0.00	5.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	5.00	0.00	0.00



Functional Classification Group/ Subgroup/ Program	2005 Actual	2006 Adopted Budget	2007	2008	2009
Review of the RA Red Book of Animals and Plants	0.00	0.00	10.6	10.00	11.1
- Current expenditure	0.00	0.00	10.6	10.00	11.1
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
<b>11.06 Other Environmental Protection works</b>	1,096.24	1,632.25	1,989.93	2,019.06	179.09
- Current expenditure	171.02	319.05	328.60	291.64	179.09
- Capital expenditure	925.22	1,313.17	1,661.33	1,727.24	0.00
State order for elaboration of technical regulations in natural environment protection	2.65	2.60	0.00	0.00	0.00
- Current expenditure	2.65	2.60	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Mapping of sources and quantities of hazardous emissions	8.90	0.00	0.00	0.00	0.00
- Current expenditure	8.90	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State support for implementation of informational-analytical works in natural environment protection, maintenance and development of the computer network	5.75	9.35	8.58	8.58	8.58
- Current expenditure	4.04	7.45	8.58	8.58	8.58
- Capital expenditure	1.70	1.90	0.00	0.00	0.00
State support for monitoring of water and air basin pollution	37.90	82.25	91.86	92.32	92.80
- Current expenditure	37.90	82.25	91.86	92.32	92.80
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Elaboration of a mechanism for introduction of technological and territorial norm-setting on harmful emissions from stationary sources of pollution	0.90	5.54	0.00	0.00	0.00
- Current expenditure	0.90	5.54	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State Water Cadastre Technical Implementation program	22.45	37.07	16.13	16.13	16.13
- Current expenditure	9.12	16.13	16.13	16.13	16.13
- Capital expenditure	13.33	20.94	0.00	0.00	0.00
Elaboration of the National Water Program	24.80	107.85	82.18	46.47	48.73
- Current expenditure	24.80	107.85	82.18	46.47	48.73
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
State support for "Wastes Research Center" SNCO	0.00	6.14	7.00	7.00	7.00
- Current expenditure	0.00	6.14	7.00	7.00	7.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Elaboration of a normative document on Wastes' categorization based on their danger rate	0.00	4.41	0.00	0.00	0.00
- Current expenditure	0.00	3.70	0.00	0.00	0.00
- Capital expenditure	0.0	3.70	0.00	0.00	0.00
Elaboration of a normative document ensuring the implementation of the Law "On Wastes"	0.00	3.95	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Establishment and maintenance of a station for monitoring of Tsaxhkadzor air basin	0.00	31.75	5.85	5.85	5.85

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Functional Classification Group/ Subgroup/ Program	2005 Actual	2006 Adopted Budget	2007	2008	2009
- Current expenditure	0.00	5.85	5.85	5.85	5.85
- Capital expenditure	0.00	25.00	0.00	0.00	0.00
Re-equipment of "Environmental Impact Monitoring Center" SNCO	0.00	0.00	91.45	100.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	91.45	100.00	0.00
Natural Resource Management and Poverty Reduction Program assisted by the World Bank	628.30	976.36	1,056.88	851.13	0.00
- Current expenditure	39.35	20.70	45.00	35.15	0.00
- Capital expenditure	588.94	955.61	1,011.88	815.98	0.00
Natural Resource Management and Poverty Reduction Grant Program assisted by the World Bank	364.59	364.98	630.00	891.59	0.00
- Current expenditure	52.25	56.87	72.00	80.15	0.00
- Capital expenditure	312.34	308.11	558.00	811.44	0.00
<b>13.05 Total for other general technical services, including:</b>	250.10	521.33	430.00	424.99	403.40
- Current expenditure	250.10	325.03	358.90	388.99	403.40
- Capital expenditure	0.00	196.30	71.10	36.00	0.00
State support to the "Armenian State Service for Hydro-Meteorology and Monitoring" SNCO	250.10	300.00	351.90	381.99	396.40
- Current expenditure	250.10	300.00	351.90	381.99	396.40
- Capital expenditure	0.00	0.00	0.00	0.00	0.00
Capital renovation of buildings and facilities of hydro-meteorological stations	0.00	24.20	0.00	0.00	0.00
- Current expenditure	0.00	0.00	0.00	0.00	0.00
- Capital expenditure	0.00	24.20	0.00	0.00	0.00
Hydro-meteorological works according to the "Tsakhkadzor as the Tourism Center with International Standards" target program activities schedule	0.00	17.30	3.40	3.40	3.40
- Current expenditure	0.00	3.40	3.40	3.40	3.40
- Capital expenditure	0.00	13.90	0.00	0.00	0.00
Technical re-equipment of hydro- meteorological stations	0.00	0.00	71.10	36.00	0.00
- Current expenditure	0.00	13.90	0.00	0.00	0.00
- Capital expenditure	0.00	0.00	71.10	36.00	0.00
Program for hydro-meteorological monitoring in Lake Sevan and its basin	0.00	181.60	3.60	3.60	3.60
- Current expenditure	0.00	21.60	3.60	3.60	3.60
- Capital expenditure	0.00	160.00	0.00	0.00	0.00

## **CHAPTER 13.**

### **TRANSPORT AND COMMUNICATIONS**

#### **13.1 SITUATIONAL OVERVIEW**

The main focus of the 2007-2009 medium-term expenditure framework for the transport and communications sector is on the road network.

Over the last years, significant works were completed in the road sector. Due to financial allocations from the 2005 State Budget, the quality and safety of interstate and republican importance roads significantly improved. Particularly, construction and maintenance works were implemented, with total financing of 16,697.8 million drams. The following programs were implemented at the expense of the above-mentioned sum: Maintenance and Utilization of the Republican Importance Roads program (4,439.5 million drams), including winter maintenance (1,324.3 km of interstate importance roads, and 1,495.8 km republican importance roads) costing 720.1 million drams; exploitation of the Pushkin Tunnel (49.0 million drams), Spitak Tunnel (25.0 million drams), and Dilijan Tunnel (85.6 million drams). Maintenance and exploitation of bridges in Meghri (7.9 million drams), Eghvard (11.0 million drams), Ashtarak (12.8 million drams), Jermuk (10.8 million drams), and over the river Dzoraget M-3 Margara – Vanadzor – Tashir –Georgian border (11.3 million drams) were implemented. Current pit-repair (hole-patching) and maintenance of the republican importance roads were implemented, at the total cost of 3,325.2 million drams. Due to the investments, the basic road network has essentially improved, thus significantly reducing the annual vehicle maintenance costs incurred by road users.

Investments in the road network resulted in almost double reduction of transportation costs, and the transportation time also decreased due to a higher average traffic velocity.

34 bridges were repaired under the "Capital Renovation of Transportation Infrastructures" program (788.2 million drams). 38 road sections of about 110 km length were repaired under the "Capital Repair of Republican Importance Roads" program (10,457.6 million drams), including strategically important Kapan -Tsav - Shvani Dzor - Meghri road (5,999.6 million drams).

Out of the total 7,800 kilometers of general usage roads in the country, some 3,360 kilometers (of which 1,560 kilometers of inter-state importance, and 1,800 kilometers of republican importance) are under the competence of the Ministry of Transport and Communications and the other 4,440 kilometers of local and community importance roads are under the competence of local self-governance bodies and regional governments.

For the road network to be in good order, coordinated works have to be carried out on regular basis for their renovation and maintenance. Previously, such works were almost completely neglected. Time limits for normative repair of the road network elapsed long ago, and current road maintenance works were implemented only on the highways; however, even these works were carried out incompletely, resulting in mass destruction of roads. Traffic safety deteriorated, and technical design of the roads degraded.

Road destruction also reflects the unprecedented increase in heavy vehicle traffic, which dynamically drives the roads with partially lost bearing capacity to final destruction. Thus, road efficiency has sharply decreased, since on many segments traffic velocity has dropped to low rates almost identical to impassible conditions.

## **13.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### ***13.2.1 Objectives***

In the transportation sector, the policy for 2007-2009 will be focused on fully ensuring transportation needs in Armenia through the efficient utilization of the existing road network (railway, motor roads). For this purpose, during 2007-2009, the construction, capital repair, reconstruction, and maintenance of the roads of vital and strategic importance for the country will be furthered at the expense of State Budget allocations. Capital repair of the inter-state and republican importance roads will be implemented in the road sections, which have been destroyed after long years of exploitation, having become difficult-to-traverse and even dangerous for vehicles. Current pit-repair of roads and winter maintenance works will make the traffic smoother, faster and safer.

Republican importance roads maintenance, exploitation, capital repair, as well as a capital repair of transportation infrastructures is envisaged by the MTEF 2007-2009.

Rehabilitation of 1000 kilometers of roads sections is envisaged by **Maintenance, Operation and Capital Repair of State Importance Motor Roads program** over 2007-2009. Particularly, state importance motor roads and artificial (man-made) constructions on them will be rehabilitated, and repair works on motor roads will be implemented. Thus, in 2007, 40 kilometers of inter-state and 250 kilometers of republican importance roads will be repaired; in 2008, 45 kilometers of inter-state and 300 kilometers of republican importance roads will be repaired; in 2009, 45 kilometers of inter-state and 250 kilometers of republican importance roads will be repaired. In addition, repair and capital renovation of 60 kilometers intra-regional importance roads in 2007, 70 kilometers in 2007, and 80 kilometers in 2008 are envisaged.

Also, over the 2007-2009 MTEF period works will be implemented for the detailed examination of 50 damaged bridges across state importance motor roads (including 15 bridges across inter-state and republican importance motor roads) and of railway bridges to be repaired over 2007-2009, along with the preparation of the design and estimation documents..

The capital repair of the metallic railway bridge of Zamarlu will be continued over 2007-2008.

Republic of Armenia will have reliable artificial constructions and will ensure smooth, safe, and regular traffic for both state and transit cargos and passengers as the main result of the program's implementation. The country will have artificial constructions within the road network meeting the current normative standards for technical criteria.

### ***13.2.2 Priorities***

The basic priorities of the expenditure policy in the transport and communications sector over 2007-2009 will be the following:

- Implementation of maintenance, operation, and capital repair works on state importance motor roads;
- Capital renovation of the transportation infrastructure;
- Arrangement of the regular activities of the Yerevan Metro and electro-transport.

### ***13.2.3 Expenditure Drivers***

The following drivers are influencing the programs envisaged over 2007-2009 in the sector:

- Decrease in allocations for the *Capital Repair of State Importance Motor Roads* program as compared with State Budget 2006 allocations is caused by completion of strategically important Kapan -Tsav - Shvani Dzor - Meghri road construction works in 2006, as well as decrease in quantity of the road sections that have to be repaired and completion of works on renovation of some transportation infrastructures;
- Decrease in allocations envisaged for the *Maintenance and Operation of State Importance Motor Roads* program is caused by decrease in one-off allocations from the State Budget 2006 (for pit-repair works on Akhouryan – Jrarat intra-regional road – 10.0 million drams; for equipping the republican and inter-state and intra-regional importance roads – 250.0 million drams and 100 million drams, respectively);
- Decrease in allocations for the *Capital Renovation of the Transportation Infrastructure* program as compared with State Budget 2006 allocations is caused by the fact that capital repair works of the metallic railway bridge of Zamarlu are also included in the program (total cost is 2,362,776.7 thousand drams). Repair works of the bridge for 1,000,000.0 thousand drams are planned in 2006. The works will continue over 2007-2008.

### 13.3 EXPENDITURE COMMITMENTS

The MTEF 2007-2009 provision for the program *Capital Repair of State Importance Motor Roads* amounts to 11,000.0 million drams in 2007, to 11,000.0 million drams in 2008, and to 13,000.0 million drams in 2009.

Over 2007-2009 allocations for the program *Maintenance and Operation of State Importance Motor Roads* will be 4,694.7 million drams annually.

Allocations to the program *Winter Maintenance, Maintenance and Operation of Local (Regional) Importance Motor Roads* will amount to 469.4 million drams yearly over the MTEF period.

Under the *Capital Renovation of the Transportation Infrastructure* program, it is planned to implement capital repair of the damaged road bridge constructions which need emergency repair, as approved by the Government Decree No 591 dated July 02, 2001. The MTEF 2007-2009 provision for this program amounts to 1,181.4 million drams in 2007, to 681.4 million drams in 2008, and to 500.0 million drams in 2009. Capital repair works of the metallic railway bridge of Zamarlu will be continued and completed over 2007-2008.

Expenditure for the program on *"Maintenance of the Broadcast National Center" SNCO* is approved by the Government Decree No 1807 dated October 6, 2005 and will amount to 470 million drams annually over the MTEF 2007-2009 period.

Subsidies provided under the program *"Subsidizing Yerevan Metro" SCJSC* will help to finance its operating budget deficit. In view of the special importance of the Metro and its inflexibility as a transportation means, its operations are not expected to be profitable in the medium run and need to be subsidized.

The MTEF 2007-2009 allocations for this program will amount to 870.4 million drams annually.

Subsidies provided under the program *"Subsidizing Yerevan Electrical Transport" CJSC* will help to finance its operating budget deficit. The Yerevan electrical ground transportation is an urban transportation and is the only means for conveyance for a substantial part of the urban population. In view of its inflexibility as a transportation means, its operations are not expected to be profitable in the medium run and need to be subsidized.

The MTEF 2007-2009 allocations for this program will amount to 276.0 million drams annually.

**Table 13.1 Comparative Presentation of Expenditure in Transport and Communications, as per MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams)**

	Functional Classification Subgroup	2006		2007		2008		2009
		MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
12.01	Public administration in transportation and communications	234.3	278.7	279.2	283.6	329.5	291.5	323.7
12.02	01. Subsidizing of the "Yerevan Metro" SCJSC	697.0	870.4	697.0	870.4	697.0	870.4	870.4
12.02	02. Subsidizing of the "Yerevan Electro Transport" SCJSC	0.0	276.0	0.0	276.0	0.0	276.0	276.0
12.07	01. Capital repair of state importance motor roads	9,267.4	1,2617.4	6,000.0	11,000.0	7,000.0	11,000.0	13,000.0
12.07	02. Maintenance and operation of state importance motor roads	3,938.3	5,054.7	3,938.3	4,694.7	3,938.3	4,694.7	4,694.7
12.07	03. Maintenance and operation (including winter maintenance) of local (regional) importance motor roads	940.2	469.4	940.2	469.4	940.2	469.4	469.4
12.07	04. Capital renovation of transportation infrastructure	1,530.4	1,553.4	1,211.8	1,181.4	1,281.4	681.4	500.0
12.08	"National Broadcasting Center" SNCO maintenance expenses	0.0	0.0	0.0	470.0	0.0	470.0	470.00

**Table 13.2 State Budget Expenditure in Transport and Communications Over 2005-2009 (Million Drams)**

Functional Classification Subgroup	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
Share in GDP (percent)	0.8	0.9	x	0.7	x	0.6	x	0.6	X
Share in State Budget expenditure (percent)	4.6	4.4	x	3.7	x	3.2	x	3.4	x
Transport and communications, including	18,135.3	21,304.5	17.5	19,245.5	-9.7	18,753.4	-2.6	20,604.2	9.9
Public administration in transport and communications	241.3	278.8	15.5	283.6	1.8	291.5	2.8	323.7	11.0
Share in total expenditure (percent)	1.3	1.3	x	1.5	x	1.6	x	1.6	X
Subsidizing of the "Yerevan Metro" SCJSC	697.0	870.4	0.0	870.4	0.0	870.4	0.0	870.4	0.0
Share in total expenditure (percent)	3.8	4.1	x	4.5	x	4.6	x	4.2	X
Subsidizing of the "Yerevan Electro Transport" SCJSC	0.0	276.0	0.0	276.0	0.0	276.0	0.0	276.0	0.0
Share in total expenditure (percent)	0.0	1.3	x	1.4	x	1.5	x	1.3	x
Capital repair of state importance motor roads	10,457.6	12,617.4	20.7	11,000.0	-12.8	11,000.0	0.0	13,000.0	18.2
Share in total expenditure (percent)	57.7	59.2	x	57.2	x	58.7	x	63.1	X
Maintenance and operation of state importance motor roads	4,439.5	5,054.7	13.9	4,694.7	-7.1	4,694.7	0.0	4,694.7	0.0
Share in total expenditure (percent)	24.5	23.7	x	24.4	x	25.0	x	22.8	X
Maintenance and operation	1,036.8	469.4	-54.7	469.4	0.0	940.2	0.0	940.2	0.0

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Functional Classification Subgroup	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
(including winter maintenance) of local (regional) importance motor roads									
Share in total expenditure (percent)	5.7	2.2	x	2.4	x	2.5	x	2.3	X
Capital renovation of transportation infrastructure	788.2	1,553.4	97.1	1,181.4	-23.9	681.4	-42.3	500.0	0.0
Share in total expenditure (percent)	4.3	7.3	x	6.1	x	3.6	x	2.4	x
"Broadcasting National Center" SNCO maintenance costs	0.0	0.0	0.0	470.0	0.0	470.0	0.0	470.0	0.0
Share in total expenditure (percent)	0.0	0.0	x	2.4	x	2.5	x	2.3	x
Provision of subventions to communities for maintenance and operation of community importance motor roads	305.1	0.0	-100	0.0	0.0	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	1.7	0.0	x	0.0	x	0.0	x	0.0	x
Subsidizing the repair works of elevators and the lines of the "Yerevan Metro after Karen Demirchyan" CJSC	145.0	0.0	-100	0.0	0.0	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	0.8	0.0	x	0.0	X	0.0	x	0.0	x
Provision of subventions for capital repair of the Proshian community motor roads (Kotayk marz)	0.0	20.0	0.0	0.0	-100.00	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	0.0	0.1	x	0.0	x	0.0	x	0.0	x
Provision of subventions for road construction to the Maralik community (Shirak marz)	0.0	15.0	0.0	0.0	-100.00	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	0.0	0.1	x	0.0	X	0.0	x	0.0	x
Actions for ensuring broadcasting of the program of the Public Radio of Armenia	0.0	149.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	0.0	0.7	x	0.0	x	0.0	x	0.0	x
Transportation Project assisted by the World Bank	24.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share in total expenditure (percent)	0.1	0.0	x	0.0	x	0.0	x	0.0	x

## CHAPTER 14. WATER ECONOMY

### 14.1 SITUATIONAL OVERVIEW

Water economy of the Republic of Armenia consists of the irrigation and potable water systems. Around 70 percent of water consumption goes to the irrigation system, and the other 30 percent – to the potable water system.

Before June 1, 2006, the sector's potable water supply and sewerage disposal has been conducted by the Yerevan "Water and Sewerage" CJSC, after June 1, 2006 it is conducted by "Yerevan Water" CJSC, as well as by "Armenian Water and Sewerage" CJSC, "Nor Akunk" CJSC, "Lori Water and Sewerage" CJSC, and the "Shirak Water and Sewerage" CJSC. Operation and maintenance of the irrigation systems are implemented through "Sevan - Hradzan Water Supply" CJSC, "Akhuryan – Araks Water Supply" CJSC, "Debet - Aghstev Water Supply" CJSC, "Vorotan – Arpa Water Supply" CJSC, as well as through 53 water user associations established in accordance with the Law "On Water User Associations and Water User Associations Unions". For implementation of some credit programs, two public organizations operate within the framework of the sector: "Office for Management of Community Development Programs" and "Water Economy Development and Reform Programs Implementation Unit". The "Vorotan – Arpa – Sevan Tunnel Department" under supervision of the State Committee for Water Economy controls over the exploitation of the Vorotan – Arpa – Sevan Tunnel. The powers for managing state-owned stocks of the "Melioration" CJSC have been vested in the State Committee for Water Economy (from the Ministry of Agriculture) since January 1, 2005. The "Melioration" CJSC functions are: controlling the collectors–drainage systems cleaning and repair works and conducting observations of underground water levels. "Irrigation" CJSC and "Water and Sewerage" CJSC (to which "Irrigation-Water Supply" CJSC and the Yerevan "Water and Sewerage" CJSC will join, respectively) conduct operations on collection of receivables and paying off the payables at the expense of funds received from property alienation process.

"Yerevan Water" CJSC provides water supply and sewerage disposal services to Yerevan and 32 neighboring settlements, as well as conducts works on operation and maintenance of the water supply and sewerage network. The system includes 8 headquarter pump stations (located at water sources), 90 capture basins, 29 wells, 23 daily local regulation basins, 2,645 kilometers of water supply and 1,120 kilometers of sewerage network.

"Armenian Water and Sewerage" CJSC provides water supply and sewerage disposal services to the Republic's 40 towns and around 300 rural settlements. The company also exploits the intra-community water supply distribution networks in accordance to agreements with local self-government authorities, on the basis of the Government Decree No. 33 dated January 21, 1999 and Decree No. 149 dated March 13, 1999. "Armenian Water and Sewerage" CJSC operates through four local branches. The technical system consists of 441 capture basins, 78 deep-laid (artesian) wells, 76 disinfection stations, 42 general pumps, 12 potable water-purification stations operating on the basis of river water, 322 daily local regulation-reservoir basins (with a total capacity of 225.45 thousand cubic meters), 3,848.4 km of high-way water-supply pipes, 4,345.4 km of potable water networks, and 141 intra-community pumps. The sewerage disposal system includes 10 sewage cleaning stations, general collectors with a total length of 600.5 km, and 1,369.4 km of sewerage network.

"Lori Water and Sewerage" CJSC conducts operation and maintenance of water supply and sewerage disposal system in Vanadzor and 16 settlements of Lori marz. "Lori Water and Sewerage" CJSC water supply technical system includes 77 capture basins, 6 disinfection stations, 9 general pumps, 1 river water-purification station, 14 daily local regulation basins



(with a total capacity of 23.5 thousand cubic meters), 176 km of high-way water-supply pipes, 285 km of water-supply networks, and 22 pump stations. The sewerage disposal system includes 1 sewage cleaning station with 58km of general collectors, and 175 km of sewerage network.

The "Shirak Water and Sewerage" CJSC conducts operation and maintenance of water supply and sewerage disposal system of Gyumri and Maralik towns and of about 33 settlements which are within the service zone of the main water-supply pipe. Water is supplied from water sources of Ghazanchi, Zuigaghbyur, Krasar, and Vardbagh. The length of intra-community water supply network is 350 km and the sewerage disposal system is 286 km. It includes 9 daily local regulation basins, 78 intra-community pumps, and 5 chlorination stations.

"Nor Akunk" CJSC conducts operation and maintenance of water supply and sewerage disposal system of Armavir and Metsamor towns and of other 10 settlements, through 1 capture basin, 14 deep-laid wells, 14 general pump stations, 8 daily local regulation basins, and 5 water-pressure towers.

Sevan-Hradzan Water Supply" CJSC, "Akhuryan – Araks Water Supply" CJSC, "Vorotan–Arpa Water Supply" CJSC currently exploit 23 reservoirs, 5 main high-way water channels (with the total length of 272 km, and 2,623 hydro-technical constructions on them), 53 pump stations, and 3 deep-laid wells.

53 water user associations, currently operating in Armenia, exploit 1,901.2 km of water channels of units inter-economizing importance, 13,451.5 km of third-category water channels with their hydro-technical constructions, 254 pump stations with 645 pump aggregates, 724 deep-laid wells, 1,900 water measurement observation posts, 45 reservoirs of community importance.

The Arpa-Sevan Channel is 48.35 km long and consists of two tunnels which are connected via the aqueduct built over the river Yeghegis. The tunnel # 1 is 18.45 km long and the tunnel #2 is 29.65 km long. Projected water throughput is 22 cubic meters per second and real water throughput (keeping in mind the technical conditions of the tunnels) is 18.0 cubic meters per second which causes 4.0 cubic meters per second reduction of the water flow. As a result, Lake Sevan gets 90.0 million cubic meters less water annually.

The "Melioration" CJSC. The collector-drainage network of irrigated lands in Armenia covers 30.4 thousand hectares, out of which 26.3 thousand hectares are of open horizontal drainage (1,030 km) and 7.7 thousand hectares are of closed horizontal drainage (641 km). The total length is 1,671 km.

The State Committee for Water Economy operates based on the provisions of the Water Code and the Government decrees, priorities, and measures enhancing the water sector through structural reforms and confirming the system's principal directions.

The following works have been completed by the State Committee for Water Economy of the Ministry of Territorial Administration:

1. Organization of a tender to lease the Yerevan "Water and Sewerage" CJSC. As a result, an agreement was signed with the French "General Deseau" organization, the "Yerevan Water" CJSC was established and started to operate since June 1, 2006. The World Bank credit project started, which is directed at assistance to customers of Yerevan water and waste water sector based on results.

2. The agreement to manage the "Armenian Water and Sewerage" CJSC by the French SAUR company and the credit project assisted by the World Bank started;

3. In Lori and Shirak marzes the process of preliminary assessment of preconditions and starting of the German KfW Bank's credit program is completed. Establishment and further regular operation of the newly created "Lori Water and Sewerage" CJSC and the "Shirak Water and Sewerage" CJSC are ensured;

4. Tariffs for drinking water supply and wastewater disposal were raised to ensure the transition to self cost-recovery system;

5. Property rights and obligations between water providing companies were specified;

6. Dynamic growth of the collection of receivables is ensured;

7. Electricity consumption reduced;

8. Reduction of arrears accumulated over previous years and non-accumulation of new debts is ensured;

9. Continuous process of the KfW Bank's program on assistance to "Nor Akunk" CJSC for reconstruction of its cleaning station is ensured;

10. Organization of the OECD ministerial conference in Yerevan in cooperation with OECD was realized, development of the national program on financial strategy of the water-supply and wastewater disposal system began, development of a program on improvement of the water sector companies' financial planning and financing of water supply and drainage systems in rural communities is intended;

11. Works directed at solving the problems of ensuring at least minimal water supply to rural communities, as well as specification of property rights and obligations in the water sector and study of issues caused by this specification, were implemented;

12. Preliminary activities related to the investment program on sewage cleaning stations in the basin of Lake Sevan and five settlements were implemented, assisted by the European Bank for Reconstruction and Development (EBRD);

13. Elaboration of the draft Law "On Drinkable Water" began. The works will be completed in 2006;

14. Record-keeping system is continuously improving; the most realistic and acceptable norms for consumers who do not have water meters installed were defined;

15. Respective legal acts were adopted, and water companies were acquitted of some previously accumulated tax, social, and environmental arrears, penalties, and fines; privileges for some taxes and payments were established, and payment deadlines were postponed;

16. The process for establishment of "Arzni Shamiram" water users associations union started;

17. Assistance in elaboration of the Millennium Challenges Program was provided;

18. Complex measures targeted at improving the efficiency of financial and institutional reforms in the irrigation system, within the framework of the World Bank investment programs were worked out;

19. The program financed by the Government of Japan aimed at restoring the water-supply and drainage system of about 600 communities out of water companies' service coverage was considered effective;

20. Works on involvement of the Abu-Dhabi credit project aimed to ensure uninterrupted and safe operation of the Arpa-Sevan tunnel and for improving its technical conditions continued;

21. Works on improvement of the water systems of Hrazdan, Artashat, and Kapan towns within the frameworks of USAID financing continued;

22. Increase of the level of Lake Sevan by 41 cm compared to 2004 level was ensured;

23. Numerous activities were conducted to ensure successful implementation of investment programs;

24. Collector-drainage network cleaning and repair works, as well as observations of the underground water level were conducted.

Analysis of basic activities of the companies involved in the water system show that approved programs are in the process of implementation and there is a positive shift. At that, receivables collected in 2005 amounted to 11.3 billion drams as compared with 9.3 billion drams in 2004. Positive outcomes of some companies' activities are obvious. For example, Yerevan "Water and Sewerage" CJSC collected 5,405.9 million drams in 2005 which exceeded the 2004 level by 902 million drams (without 307.4 million drams collected as a result of application of the Law "On Receivables Decreasing Privileges"). Since May 1, 2005 a new tariff of 125.1 drams was defined for the Yerevan "Water and Sewerage" CJSC for potable water and wastewater which exceeds the tariff of 2004 by 38.7 percent. It should be mentioned that the general tariff for "Yerevan Water" CJSC clients' drinking water supply and wastewater disposal services will be at 172.8 drams since July 1, 2006. The total number of clients of Yerevan "Water and Sewerage" CJSC was about 320.2 thousand in 2005, of which 285.6 thousand (or 89.2 percent) had water meters installed. About 76 percent of the clients have around-the-clock water supply in 2005.

"Armenian Water and Sewerage" CJSC collected 1,923.4 million drams in 2005, which significantly exceeds the level of collection in 2004. Since May 1, 2005 the new tariff of 140 drams was defined for the "Armenian Water and Sewerage" CJSC for drinking water supply and sewerage which exceeds the 2004 tariff (100.4 drams) by 39.5 percent. As of 2005, the total number of clients of the "Armenian Water and Sewerage" CJSC amounted to about 262.3 thousand, of which 122.7 thousand (or 46.8 percent) have water meters installed.

In 2005 "Nor Akunk" CJSC collected 193.4 million drams which exceeds the level of collection in 2004 by 51.2 million drams. The tariff of the company has not changed in 2005. The total number of clients of "Nor Akunk" CJSC amounted to about 14,951 in 2005, of which 12,616 (or 84.4 percent) had water meters installed.

In 2005 the "Lori Water and Sewerage" CJSC and "Shirak Water and Sewerage" CJSC collected 232.5 million drams and 428.1 million drams, respectively. Since March 1, 2005 new tariffs were defined for these companies which exceeded the previous tariffs by about 20 percent. The total number of clients of the "Lori Water and Sewerage" CJSC and "Shirak Water and Sewerage" CJSC amounted to 39,451 and 63,860, respectively, of which 27,640 (or 70.1 percent) and 15,921 (or 24.9 percent) had water meters installed.

3,067.6 million drams were collected in the irrigation sector in 2005 (including 91.9 million drams by "Irrigation-Water Supply" CJSC and "Irrigation" CJSC), exceeding the level of collection in 2004 by 506.3 million drams. Over that period, the water tariff for irrigation was about 8 drams. In 2005, normal and uninterrupted water supply was ensured in the sector.

In 2005, 143.99 million cubic meters of water were let out from Lake Sevan as compared to previous year level of 149.9 million cubic meters (planned level was 150.0 million cubic meters). Lake Sevan has got 252.87 million cubic meters of water. As of December 31, 2005, the Lake's level was 1,898.07 meters which exceeds the previous year level by 41 centimeters.

In 2005, "Melioration" CJSC conducted works of determining the level and quality of underground water with total cost of 74.5 million drams; contracting companies conducted collector-drainage network cleaning, repair and planning documents development works with total cost of about 321 million drams.

Extensive amount of construction works were completed within the frameworks of investment projects of the system, such as repair of main and auxiliary buildings, water reservoirs' construction, cleaning, and repair works, zoning of water-supply networks, construction and reconstruction of water and sewerage pipeline networks, construction of daily local regulation basins, renovation of pump stations and administrative buildings, and asphalt works. Also, within the frameworks of the projects, consulting, projection, procurement, technical control, assistance, and other types of works and services have been implemented.

### ***Main Problems in the Sector***

In the water economy, importance is attached to the arrangement of the on-going process of reforms initiated over the past years and to the solution of basic problems proceeding from the sector's development strategy. The following activities should be conducted to implement measures defined by the RA Water Economy Administration Reforms program:

1. Arrange a smooth transfer of a private leasehold of the water system and other property used by the "Yerevan Water and Sewerage" CJSC and ensure implementation of efficient works during the transition period;
2. Ensure and control efficient operation of the water companies;
3. Ensure effective implementation of the investment program "Improvement of Water and Wastewater Systems in Lori (Vanadzor) and Shirak (Gyumri) Regions", within the framework of a financial collaboration between the Governments of the Republic of Armenia and the German Federative Republic;
4. Facilitate to further development of water user associations, as well as establishment of unions of water user associations;
5. Improve the record-keeping system;
6. Encourage economizing of water and electricity usage;
7. Pursuant to the credit program, arrange uninterrupted water supply of Yerevan City and support gradual intensification of the similar process in the service areas of the "Armenian Water and Sewerage" CJSC, the "Lori Water and Sewerage" CJSC, the "Shirak Water and Sewerage" CJSC, and "Nor Akunk" CJSC;
8. Assist to the development of rural communities' infrastructure in the spheres of improvement of water, wastewater, and irrigation systems;
9. Undertake measures for reconstruction and operation of cleaning stations, including:
  - Implement investment program for construction of sewage cleaning stations in the basin of Lake Sevan and five settlements in collaboration with the European Bank for Reconstruction and Development (EBRD);
  - Negotiate, in cooperation with JBIC, for restoration of the Yerevan "Aeration" sewage cleaning station, to realize preliminary examination by the Japanese International Development Institute;
  - Ensure implementation of the investment project on sewage cleaning stations in several communities of Armavir marz with assistance of the German Bank for Development Credits (KfW);

10. Assist in implementation of the Millennium Challenges Program;
11. Ensure preparation (preliminary works) of a new investment program on irrigation systems within the framework of assistance from the World Bank;
12. Fulfill financial and structural reforms of irrigation systems;
13. Ensure uninterrupted and safe operation of the Arpa-Sevan tunnel and involve finances for improving its technical conditions;
14. Further improve of the legislative and normative frameworks of the water system, including development of the Draft Law "On Water";
15. Develop operative mechanisms for collection of receivables, including through Court Decisions Enforcement Service;
16. Ensure repayment of arrears accumulated for years;
17. Supervise prevention of illegal activities in the water supply and sewerage disposal systems;
18. Implement preliminary works with JICA on a project of restoration of water-supply and drainage systems of about 600 communities out of water companies' service coverage;
19. Start negotiations with the Asian bank regarding its involvement in investment programs in the water supply and sewerage disposal systems.

In general, the target is to ensure implementation of the long-term program for reforms in the potable and irrigation water systems, mainly aiming to improve their operational reliability and efficiency, reduce water loss, as well as improve quality of water and wastewater services. At the same time, it is necessary to continue works for fortification and repair of the most important hydro-technical constructions, including the dams, which will assure their safe and uninterrupted operation.

## **14.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF**

### ***14.2.1 Objectives***

The main objectives of the State Committee for Water Economy are the following:

- Development and implementation of investment policies in the water systems, as well as conduction of expert examination of investment programs;
- Realization of private administration and private administrators, as well as combined and extended types of management pursuant to the Water Code;
- Improvement of the management of the system companies; enhancing their financial viability through reducing operational and maintenance expenditures, reducing the level of water loss and enhancing collection performance.

### ***14.2.2 Priorities***

Priorities of the sector are:

1. Improving the quality of supplied water, ensuring water supply stability, reducing the water loss, as well as a gradual switching to round-the-clock supply;
2. Implementing works related to capital repair of water systems and their technical re-equipment, as well as rehabilitating inter-economic networks.

### 14.2.3 Expenditure drivers

The main drivers influencing the 2007-2009 medium-term expenditure frameworks for the water economy are the following:

- Tariffs for drinking and irrigation water; volumes of collected fees for provided services, levels of water loss. Decrease in State Budgets subsidies over 2007-2009 relate to these factors. Volume of subsidies to be provided to water companies in 2007 decreased by 13.73 percent as compared to 2006 level, in 2008 it will further decrease by 14.51 percent as compared to 2007 level, and by 37.25 percent in 2009 as compared to 2008 level.

### 14.3 EXPENDITURE COMMITMENTS

Expenditure in water economy, as stipulated by the medium-term expenditure framework, is summarized in Table 14.1.

**Table 14.1 Comparative Presentation of Expenditure in Water Economy, as per MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams)**

Functional Classification Subgroup	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Maintenance of the central apparatus of the State Committee for Water Economy	101.52	111.03	113.34	112.18	126.45	113.81	124.75
Maintenance, of the "Vorotan - Arpa – Sevan SOE", exploitation of Vorotan - Arpa – Sevan water system, technical improvement and renovation	320.60	1320.70	376.61	311.79	465.73	367.83	454.95
Maintenance of incomplete construction objects	45.50	0.00	0.00	0.00	0.00	0.00	0.00
Guarding service of water reservoirs	17.10	0.00	0.00	0.00	0.00	0.00	0.00
Maintenance and operation of collector-drainage network, state order for determining the level and quality of underground water	82.80	87.00	82.80	87.00	82.80	87.00	87.00
Cleaning and repair of collector-drainage network	337.20	333.00	337.20	333.00	337.20	333.00	333.00
Replenishment of statutory capital of the "Lori Water and Sewerage" CJSC	19.89	19.89	0.00	0.00	0.00	0.00	0.00
Replenishment of statutory capital of the "Shirak Water and Sewerage" CJSC	18.87	18.87	0.00	0.00	0.00	0.00	0.00
Maintenance of the Water System Utilization and Maintenance Technical Commission	0.00	20.00	0.00	14.00	0.00	14.00	14.00
Subsidizing of irrigation system and drinking water companies, including:	5091.60	5353.66	3878.70	4601.26	3326.60	3933.53	2468.32
Subsidizing of the "Armenian Water and Sewerage" CJSC	1371.50	1381.26	949.40	1381.26	949.40	1213.53	248.32
Subsidizing of the "Yerevan Water and Sewerage" CJSC	0.00	252.30	0.00	0.00	0.00	0.00	0.00
Subsidizing of irrigation systems	3720.10	3720.10	2929.30	3220.00	2377.20	2720.00	2220.00

2007–2009 MEDIUM–TERM PUBLIC EXPENDITURE FRAMEWORK

Functional Classification Subgroup	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Program for rehabilitation of water and wastewater systems in several localities of Armavir Region, assisted by the German Bank for Development Credits	66.15	785.81	57.20	0.00	0.00	0.00	0.00
Program for rehabilitation of water and wastewater systems in several localities of Armavir Region, assisted by the German Bank for Development Credits (new program)	0.00	0.00	0.00	680.02	0.00	659.29	0.00
Dam Safety Project assisted by the World Bank	2350.24	2077.00	2190.24	1135.83	1035.10	172.50	127.65
Dam Safety Project II assisted by the World Bank	1420.50	1021.71	1137.16	1132.68	420.45	968.30	716.54
Irrigation System Development Project assisted by the World Bank	1925.28	1678.61	1595.08	1414.43	792.08	848.66	628.01
Municipal Water and Wastewater Project assisted by the World Bank	2362.32	1279.71	3796.90	1917.49	2470	2647.29	1958.99
Project Preparation Facility for the Yerevan Water and Wastewater Project assisted by the World Bank	0.00	416.59	0.00	0.00	0.00	0.00	0.00
Yerevan Water and Wastewater Project assisted by the World Bank	1993.71	967.74	3510.54	2518.43	960.34	2100.36	715.50
Communities Development Project assisted by the World Bank	0.00	13.44	0.00	0.00	0.00	0.00	0.00
Social Investments Fund 2 <sup>nd</sup> Program assisted by the World Bank	96.11	64.39	0.00	0.00	0.00	0.00	0.00
Social Investments Fund 3 <sup>rd</sup> Program assisted by the World Bank	0.00	0.00	0.00	171.41	0.00	286.07	286.07
Program for rehabilitation of water and wastewater systems in Lori Region, assisted by the German Bank for Development Credits	3482.50	1061.97	750.00	1621.21	0.00	1197.62	0.00
Program for rehabilitation of water and wastewater systems in Shirak Region, assisted by the German Bank for Development Credits	4941.70	1325.46	850.00	2380.00	0.00	1243.36	0.00
Grant Program water supply and wastewater systems in Lori Region assisted by the German Bank for Development Credits	0.00	911.23	0.00	435.02	0.00	623.97	0.00
Grant Program water supply and wastewater systems in Shirak Region, assisted by the German Bank for Development Credits	0.00	1135.85	0.00	419.36	0.00	969.25	0.00
Program for preparation of specialists and training for the "Lori Water and Sewerage" CJSC assisted by the German Bank for Development Credits	0.00	148.30	0.00	82.19	0.00	0.00	0.00

Functional Classification Subgroup	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Program for preparation of specialists and training for the "Shirak Water and Sewerage" CJSC, assisted by the German Bank for Development Credits	0.00	148.30	0.00	82.19	0.00	0.00	0.00
Millennium Challenges Program	0.00	0.00	0.00	2808.00	0.00	15990.00	14850.00

### 1. Exploitation of Vorotan-Arpa-Sevan Tunnels, Exploitation, Technical Improvement and Renovation of Vorotan-Arpa-Sevan water system.

The 2007-2009 medium-term expenditure framework has been developed according to the Government Decrees No 865-N dated July 10, 2003 and No 189-N dated January 16, 2003 which are aimed to enhance uninterrupted and safe exploitation of the tunnels. The program is based on the official conclusion of the "Commission for Assessing Technical Conditions of the Arpa-Sevan Tunnel" and on the "Technical and Economic Justification of the Investment Program for the Rehabilitation of Complex Constructions of the Arpa-Sevan Channel", jointly elaborated by the "Center for Audits, Consultancy, Information, and Analysis" CJSC and the "Tunnel" CJSC.

Exploitation and maintenance of the Vorotan-Arpa-Sevan waterworks facility, restarting the 3<sup>rd</sup> and 4<sup>th</sup> shafts of the tunnel, as well as repairing and reconstruction of around 5 kilometers of mostly damaged segments of the tunnels No 3, 5, 6, 7, 8, 9, 10, and 11 are envisaged by MTEF 2007-2009.

Complete implementation of the program will enable the safe and uninterrupted operation of the Vorotan-Arpa-Sevan waterworks facility, ensure transfer of the planned volume of 450 million cubic meters of water annually to Lake Sevan.

It is forecasted that the projected activities will increase the level of Lake Sevan by about 5-6 meters; main ecological problems of the lake will be solved; reliability of energy units of the Sevan - Hrazdan system will increase; irrigation of the Ararat Plain's 30,000 thousand ameliorative lands will be conducted through gravity-type irrigation systems; the water stock of Lake Sevan (which is a massive source for drinking water) will grow.

### 2. Subsidizing the Yerevan "Water and Sewerage" CJSC

Subsidies are not envisaged for Yerevan "Water and Sewerage" CJSC over 2007-2009, due to the fact that the drinking water and wastewater system utilization rights of the Yerevan "Water and Sewerage" CJSC serviced area will be transferred to the "Yerevan Water" CJSC for ten years by leasing agreement concluded as a result of a tender.

### 3. Subsidizing the "Armenian Water and Sewerage" CJSC

Subsidies from the State Budget 2006 will allow to cover the financial gap (budget deficit) resulted from current activities of the company. The amount of state subsidies will be 1,381.26 million drams.

Subsidies from the State Budget will amount to 1,381.26 million drams in 2007, 1,213.5 million drams in 2008, and 248.3 million drams in 2009, which will ensure uninterrupted financial-economic activities of the company and financing the necessary spending by covering the financial gap.

Besides, expenditures from environmental fees for 2006-2008 (which are not included in 2007-2008 total expenditures) will be included in 2009 expenditure calculations.



Hence, either subsidies from the State Budget will be necessary to cover financial gaps of 2009, or there will be a need to make amendments in current legislation and postpone deadlines for privileged conditions for the above-mentioned tax and environmental fees arrears.

#### 4. Subsidizing the Irrigation Section

One of the most substantial results of structural and legislative reforms in the irrigation sector since 2002 is introduction of the participatory management of irrigation by water users, formation and further development of water users' association institution. The Law "On Water Users' Associations and Water Users' Associations Unions" is adopted within the frameworks of reforms. Due to its adoption a new organizational-legislative status - the Water Users' Association (WUA) - is established, which is an organization established by water users according to the mentioned law.

Currently, there are two types of organizational-legislative companies operating in the Republic of Armenia in the irrigation sector: "Sevan–Hradzan-Water Supply", "Akhuryan–Araks-Water Supply", "Debet-Aghstev Water Supply" and "Vorotan–Arpa-Water Supply" closed joint-stock companies and 53 water users' associations.

The Water Users' Associations and Water Users' Associations Unions Activities Regulating Council is the body regulating the activities of water users' associations. These associations are established by water users according to the Council's decisions based on public interests and on voluntary basis.

The basic objective of subsidizing is to ensure technical and financial capability and financial stability of associations through compensation of water user associations' losses. This, in its turn, will allow the associations to provide irrigation water and meet all terms of contracts signed with water users through use of their technical and professional capacities.

The basic priorities of the sector are: planning the most realistic and acceptable financial-technical indicators of associations; subsidizing policies and procedures; introduction of modern management concepts and models in associations; associations' financial stability; and exploitation and maintenance of the irrigation systems according to norms through introduction of modern record-keeping computer systems, non-cash collection systems.

#### 5. Cleaning and Repair of the Collector-Drainage Network

Due to the program implementation, every year over MTEF the collector-drainage networks in the country will be maintained and operated, 460.0 kilometers of network will be cleaned and repaired which will enable to keep underground water level of not more than 19 thousand hectares of the Ararat Plain's lands on the permissible depth.

It is necessary to compile design and estimation documents for the collector-drainage network cleaning and repair works; the collector-drainage network cleaning and repair works; technical control over the quality of the collector-drainage network cleaning and repair works, and proper technical maintenance and exploitation of the collector-drainage network systems to achieve the above-mentioned objectives.

#### 6. State Order for Cleaning and Repair of the Collector-Drainage Network and Determining the Level and Quality of Underground Water

In order to improve the ameliorative condition of irrigated land, the following actions will be taken:

- 14,400 simultaneous stationary 10-day observations of the level of underground water in 400 observation boreholes in the Ararat Plain;
- 950 chemical analyses of underground water;

- 140 chemical analyses of drainage and irrigation water;
- 400 linear meters of hole-boring up to 10 meters of depth, for recovering observation boreholes;
- Water out-pumping through airlifting, for cleaning observation boreholes.

#### 7. Maintenance Expenses for the Technical Commission of Water System Utilization and Maintenance

The Technical Commission of Water System Utilization and Maintenance is a permanent body established to examine hydro-technical structure of the water systems, ensure their security; examine efficient utilization and maintenance programs, as well as provide expert examinations of the projects implemented in the sector. The Technical Commission of Water System Utilization and Maintenance is established and operates on the basis of the Article 86 of the Water Code and the Government Decrees No 686 "On Approval of Safety Control and Examination Procedure for Hydro-Technical Constructions", dated May 8, 2003. Certain allocations are envisaged by State Budget 2006 to ensure the Committee's regular activities. In addition, financial resources will be provided over 2007-2009 for future efficient activities and efficient implementation of authorities vested by laws.

### **EXTERNALLY FINANCED PROGRAMS**

Investments and credit programs have their own role and significance in the programs for reforming and rehabilitating the water economy.

#### **1. Implementation of "Yerevan Water and Wastewater Services" Project Assisted by the World Bank**

The Government approved the transfer (by a tender) of water system utilization rights of Yerevan "Water and Sewerage" CJSC by leasing agreement to the French "General Deseau" company and to the "Yerevan Water" CJSC established by it, for ten years, according to the Government Decree No 1361-A, dated September 23, 2004, for further implementation of the Community Development first credit program and preservation of its achievements.

The "Yerevan Water and Wastewater Services" Project assisted by the World Bank consists of two components: "Yerevan Water and Wastewater Services Fund" and "Technical Support". The total program cost is US\$ 22 million, including the Government share at US\$ 2 million. The project will over on February 28, 2011.

#### **2. "Community Water and Wastewater" Project Assisted by the World Bank**

"Community Water and Wastewater" credit project is aimed to solve a number of technical, financial-economic, and other problems in water supply and wastewater systems throughout the country. Objectives of the project are the following:

- Preventing further deterioration of the system and its further improvement;
- Enhancing management efficiency of water supply and sewerage companies through structural reforms;
- Meeting the population's increasing demand in potable water;
- Arranging water usage record-keeping;
- Reducing electricity consumption;
- Ensuring financial rehabilitation of the system and creating more attractive conditions for private investors;
- Preparing the process for further privatization of the system.

### **3. "Irrigation System Development" Project Assisted by the World Bank**

The project is to be implemented in two phases. Implementation of the first phase started in December, 2001, and the second phase started in 2004.

The "Irrigation System Development" Project aims to enhance the efficiency of irrigated farming activities through the structural reforms in irrigation and drainage system management, to increase the system manageability, to enhance its financial viability and attractiveness to investors, and to involve water users into the process of system management through step-by-step privatization of the system operation and maintenance.

For the realization of the above-stated objectives, the following tasks are to be dealt with:

- Reduce the cost of water through construction of gravity-type irrigation systems, ensure reliable water supply, and improve water security;
- Ensure reliable water supply, reduce water loss and system operation expenses through technical improvement of the systems;
- Enhance the efficiency of irrigated farming through additional water retention;
- Create conditions for the privatization of the system operation and management through supporting and strengthening water users' consumer co-operatives and federations;
- Ensure efficient management of the systems through structural reforms, transparency of the tariff policy, and cost-recovery in the system by the end of the project.

### **4. "Dam Safety Program" Assisted by the World Bank**

The main objectives of the Dam Safety Program are to ensure safety of around 360.000 of population, to increase water supply to the irrigation systems, to ensure reliable operation of the dams, to restore the dams mainly used for irrigation purposes, and to take actions for enhancing dam safety.

The project aims to attaining the following objectives:

- Restoration of the 20 most risky dams, and taking safety actions;
- Examination of the other 60 dams, disclosure and elimination of emergency conditions;
- Technical equipment of the dam operating companies.

For realization of the above-stated objectives, the following works are implemented:

- Repair and reconstruction of the systems in accordance with the modern standards, zoning of the distribution networks;
- Construction of gravity-type systems and reduction of electricity consumption;
- Disclosure and elimination of leakages;
- Arrangement of water usage record-keeping;
- Increasing the number of consumers provided with stable and uninterrupted water supply;
- Reducing the time for reacting to the emergency repair requests, and the number of emergency cases;
- Mapping of the water supply and sewerage pipelines;
- Improving collection performance;

- Training on consumers' servicing, public relations, elaboration of emergency plans, etc.

#### 5. "Irrigation Dam Safety" Project Assisted by the World Bank (2<sup>nd</sup> Phase)

The project components include restoration of 47 dams, design and supervision of works, rehabilitation activities, sustainable dam safety, on-site installation of dam safety equipment, strengthening the "Irrigation-Water Supply" CJSC, improvement of the approach roads for taking safety actions, project management, technical assistance and audit and project operational expenses.

#### 6. Project for "Rehabilitation of Water and Wastewater System in Several Settlements of Lori Region" Assisted by the German Bank for Development Credits (KfW)

The project is implemented pursuant to the credit agreements concluded between the German Bank for Development Credits, the Republic of Armenia in the person of the Ministry of Finance and Economy, and the "Lori Water and Sewerage" CJSC. The project cost includes EUR 6.84 million of credit proceeds and EUR 1.1 million of the Government's counterpart financing. Besides that, EUR 3.44 million grant has been involved for the implementation of the project.

It is envisaged, that the project will be completed in 2008. The main objectives of the project are to take the company's service area water and waste water system out of the present difficult situation, to ensure its independency, financial management of the working capital, maintenance and development of the company, as well as to provide the population with high quality and 24-hour supply of potable water.

#### 7. Project for "Rehabilitation of Water and Wastewater System in Several Settlements of Shirak Region" Assisted by the German Bank for Development Credits (KfW)

The project is implemented pursuant to the credit agreements concluded between the German Bank for Development Credits, the Republic of Armenia in the person of the Ministry of Finance and Economy, and the "Shirak Water and Sewerage" CJSC. The project cost includes EUR 8.71 million of credit proceeds and EUR 1.5 million of the Government's counterpart financing. Besides that, EUR 4.38 million grant has been involved for the implementation of the project.

It is envisaged, that the project will be completed in 2008. The main objectives of the project are to take the company's service area water and wastewater system out of the present difficult situation, to ensure its independency, financial management of the working capital, maintenance and development of the company, as well as to provide the population with high quality and 24-hour supply of potable water.

**Table 14.2 State Budget Expenditure in Water Economy Over 2006-2009, by Subgroups (Million Drams)**

	2006	2007	Change, percent	2008	Change, percent	2009	Change, percent
Total expenditure share in GDP (percent)	0.85	0.83	*	1.11	*	0.71	*
Total expenditure share in the State Budget expenditure (percent)	4.21	4.25	*	5.53	*	3.75	*
Water economy, including:	20300.20	22257.50	9.64	32556.32	46.27	22764.77	-30.08
08.04 Residential – Public utilities	9931.09	11688.59	17.70	10940.72	-6.40	3208.88	-70.67
Share in total expenditure (percent)	48.92	52.52	*	33.61	*	14.10	*

## 2007–2009 MEDIUM–TERM PUBLIC EXPENDITURE FRAMEWORK

	2006	2007	Change, percent	2008	Change, percent	2009	Change, percent
10.01 Maintenance of the central apparatus of the State Committee for Water Economy	111.03	112.18	1.04	113.81	1.45	124.75	9.61
<i>Share in total expenditure (percent)</i>	0.55	0.50	*	0.35	*	0.55	*
10.02 Land improvement works	420.00	420.00	0.00	420.00	0.00	420.00	0.00
<i>Share in total expenditure (percent)</i>	2.07	1.89	*	1.29	*	1.84	*
10.03. Fishery, water economy	4419.37	2580.30	-41.61	1508.63	-81.35	1299.14	-28.32
<i>Share in total expenditure (percent)</i>	21.77	11.59	*	4.63	*	5.71	*
10.07. Stock–breeding, seed–breeding and other programs	5418.71	7456.43	37.61	19572.66	-55.53	17712.01	-44.38
<i>Share in total expenditure (percent)</i>	26.69	33.50	*	60.12	*	77.80	*

**Table 14.3 State Budget Planned Expenditure in Water Economy Over 2007-2009 (Million Drams)**

	2005 Actual	2006 Adopted Budget	2007			2008			2009		
			Total	Current expend.	Capital expend	Total	Current expend.	Capital expend	Total	Current expend	Capital expend
Water Economy Programs, including:	19263.7	20300.27	22257.5	7351.79	14905.76	32556.2	7293.69	25262.57	22764.7	4861.82	17902.8
Maintenance of the central apparatus of the State Committee for Water Economy	70.30	111.03	112.18	112.18	0.00	113.81	113.81	0.00	124.75	124.75	0.00
Maintenance, technical improvement, and renovation of the "Vorotan - Arpa - Sevan SOE"	307.33	1320.70	311.80	311.80	0.00	367.80	367.80	0.00	454.90	454.90	0.00
Maintenance and operation of collector-drainage network, state order for determining the level and quality of underground water	74.50	87.00	87.00	87.00	0.00	87.00	87.00	0.00	87.00	87.00	0.00
Cleaning and repair of collector-drainage network	320.87	333.00	333.00	0.00	333.00	333.00	0.00	333.00	333.00	0.00	333.00
Replenishment of statutory capital of the "Lori Water and Sewerage" CJSC	25.50	19.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Replenishment of statutory capital of the "Shirak Water and Sewerage" CJSC	25.50	18.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Maintenance of the Technical Commission of Water System Utilization and Maintenance	0.00	20.00	14.00	14.00	0.00	14.00	14.00	0.00	14.00	14.00	0.00
Subsidizing of irrigation system and	8137.61	5353.70	4601.30	4601.30	0.00	3933.50	3933.50	0.00	2468.30	2468.30	0.00

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

	2005 Actual	2006 Adopted Budget	2007			2008			2009		
			Total	Current expend.	Capital expend	Total	Current expend.	Capital expend	Total	Current expend	Capital expend
drinking water companies, including:											
Subsidizing of the "Armenian Water and Sewerage" CJSC	1366.49	1381.30	1381.30	1381.30	0.00	1213.50	1213.50	0.00	248.30	248.30	0.00
Subsidizing of the Yerevan "Water and Sewerage" CJSC	1202.32	252.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subsidizing irrigation systems	5568.80	3720.10	3220.00	3220.00	0.00	2720.00	2720.00	0.00	2220.00	2220.00	0.00
Program for rehabilitation of water and wastewater systems in several settlements of Armavir Region assisted by the German Bank for Development Credits	3391.15	785.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Program for rehabilitation of water and wastewater systems in several settlements of Armavir Region, assisted by the German Bank for Development Credits (new program)	0.00	0.00	680.02	311.69	368.34	659.25	228.96	430.33	0.00	0.00	0.00
Dam Safety Project assisted by the World Bank	299.56	2076.97	1135.80	37.50	1098.32	172.50	145.71	26.79	127.65	107.83	19.82
Dam Safety Project II assisted by the World Bank	332.13	1021.71	1132.60	69.86	1062.82	968.30	71.92	896.39	716.54	53.22	663.33
Irrigation System Development Project assisted by the World Bank	2232.15	1678.61	1414.40	192.88	1221.55	848.60	115.73	732.93	628.01	85.64	542.37
Municipal Water and Wastewater Project assisted by the World Bank	1641.86	1279.71	1917.40	513.35	1404.14	2647.29	1293.51	1353.78	1958.99	957.20	1001.80
Project Preparation Facility for the Yerevan Water and Wastewater Project assisted by the World Bank	398.13	416.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yerevan Water and Wastewater Project assisted by the World Bank	0.00	967.74	2518.40	102.36	2416.07	2100.36	102.36	1998.00	715.50	90.50	625.00
Community Development Project assisted by the World Bank	1662.32	13.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Social Investments Fund 2 <sup>nd</sup> Project assisted by the World Bank	290.65	64.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Social Investments Fund 3 <sup>rd</sup> Project assisted by the World Bank	0.00	0.00	171.41	0.00	171.41	286.07	0.00	286.07	286.07	0.00	286.07

2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

	2005 Actual	2006 Adopted Budget	2007			2008			2009		
			Total	Current expend.	Capital expend	Total	Current expend.	Capital expend	Total	Current expend	Capital expend
Bank											
Program for rehabilitation of water and wastewater systems in Lori Region, assisted by the German Bank for Development Credits	24.68	1061.97	1621.2	83.70	1537.51	1197.62	64.91	1132.71	0.00	0.00	0.00
Program for rehabilitation of water and wastewater systems in Shirak Region, assisted by the German Bank for Development Credits	29.47	1325.46	2380.0	226.80	2153.20	1243.36	140.40	1102.96	0.00	0.00	0.00
Grant program for preparation of specialists and training for the "Lori Water and Sewerage" CJSC assisted by the German Bank for Development Credits	0.00	148.30	82.19	82.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grant Program for water and wastewater systems in Lori Region assisted by the German Bank for Development Credits	0.00	911.23	435.02	41.58	393.44	623.97	50.22	573.75	0.00	0.00	0.00
Grant program for preparation of specialists and training for the "Shirak Water and Sewerage" CJSC, assisted by the German Bank for Development Credits	0.00	148.30	82.19	82.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grant Program for water and wastewater systems in Shirak Region assisted by the German Bank for Development Credits	0.00	1135.85	419.36	62.91	356.45	969.23	145.37	823.88	0.00	0.00	0.00
Expenditures through Millennium Challenges Program	0.00	0.00	2808.0	418.50	2389.50	15990.5	418.50	15572.00	14850.0	418.50	14431.5

## **CHAPTER 15. ENERGY**

### **15.1 SITUATIONAL OVERVIEW**

#### ***15.1.1. General Description of the System***

Energy has a strategic importance for the country's independence, security, and sustainable development of economy. Development of the energy sector is important not only for Armenia's industry, transportation, and social-economic development of the country in general, but also for realization of the Poverty Reduction Strategic Program. Expensive and unreliable energy provision is an enough dangerous factor for improvement of country's economy and living standards of the population. Hence, the main problem for the energy sector's strategy is the stimulation of development of energy system with minimal expenses by using modern energy equipments and meeting safety, energy provision reliability, and environmental protection requirements.

The energy system consists of the electrical energy sector, gas supply and heat supply systems. It comprises power stations with a total capacity of 3,200 megawatts, electricity transmission lines with different voltage and with a total length of around 35,000 kilometers, more than 9,000 electric power substations, underground reservoirs for natural gas with a capacity of about 220.0 million cubic meters, 2,000 km of gas main pipeline and more than 9,260km gas-distribution networks; 1,788 gas-regulating units, and a number of other units, equipment and devices, majority of which have expired their service term or are physically and morally depreciated.

Most part of the heat supply system is collapsed. Only heating systems of the Yerevan Thermal Power Plant, Hrazdan Thermal Power Plant, and the Gyumri boiler-house are still partially operational. Massive repairing and modernization activities are necessary in this sphere, as well.

Hence, production capacities modernization problems are of urgent importance. Loans from foreign countries and international financial institutions are attracted to solve these problems.

Presently the investment policy conducted in the energy sector is aimed to reduce state participation, conditioned by privatization of certain infrastructures of the sector and attraction of financial resources from foreign countries and international financial institutions.

#### ***15.1.2. Development Tendencies over the Last Two Years***

Over the last years, basic problems of the energy sector policy are: enhancing the financial stability of the energy system, development and implementation of programs directed to ensuring the energetic security and self-dependence, technical re-equipment and development and implementation of improvement projects.

In 2005 the Energy Sector Development Strategy within the Framework of Economic Development of the Republic of Armenia was developed and approved by the Government. The Strategy defines basic objectives and development trends of the energy sector until 2025-2030.

Substantial improvement is observed in energy system technical re-equipment and development programs.



Works on re-equipment of eight sub-stations with the capacity of 220 kW voltage each by the means of loans from the World Bank, as well as modernization of speed regulators of the Tatev Hydro-Electric Power Plant through TACIS program, are completed. The first wind-power station built with the technical support of the Islamic Republic of Iran on the Pushkin Pass with 2.6 Megawatt output was put into operation and began to produce electrical energy by the end of 2005.

Construction of the Iran–Armenia gas pipe-line is ahead of schedule. Works on reconstruction of the Alaverdi-2 substation and construction of a new energy block with combined steam-gas cycle in the territory of the Yerevan Thermal Power Plant have started.

Due to flexible fiscal policy, private investors continue to be involved in construction of small hydro-electric power plants; interest of private investors in building wind-power stations also remains high. Negotiations with the World Bank are in progress and positive results are envisaged in terms of conducting research and preliminary works for utilization of Armenia's earth-thermal resources.

Energy Saving and Renewable Energy Fund was established in accordance with the strategic objectives of energy sector development and is directed at promotion of their realization.

The number of consumers of natural gas increased to 364,115 people as a result of large-scale gasification works over the recent years. Activities in the sector are conducted within the frameworks of the "Gasification and Gas Supply Restoration Program". The State Budget 2006 subventions at 105,200.0 thousand drams were provided to Gladzor and Vernashen communities (Vayots Dzor marz) for implementation of gas supply works. Establishment of a gas furnace and gas boilers testing laboratory is envisaged according to the RA Prime Minister's Decree N 308-A, dated May 6, 2005, to ensure the safe utilization of household gas equipment.

Year of 2005 was crucial for public companies operating in the electric power system, as the activities envisaged by companies' financial recovery program, defined by the Government Decree N 1694-N, dated November 6, 2003, were completed. The radical reforms in energy sector (including step-by-step regulation of structural, legislative, and financial problems), adopted and implemented by the Government over the recent years, resulted in completely bringing the sector into the market relations field, as far as the burden of arrears accumulated during the previous years so far did not hinder the future development of energy sector companies, and organization of their on-going operation and problems of development could be regulated due to firmly established legislative-normative framework. The financial flows current balance of the public companies of the energy sector was positive and amounted to 4.0 billion drams in 2005 by estimate (as compared to 3.2 billion drams in 2004 and 0.7 billion drams in 2003), which is another proof of a complete financial recovery of the companies, and of the fact that their activities are regulated by market principals.

### ***15.1.3 Main Problems of the Energy Sector***

The energy sector will have to deal with the problems of working out sector development, investment, financial, and other programs; efficient utilization of current loans on urgent restoration and modernization of some morally and physically depreciated units and constructions, and possible involvement of new loans; maximal utilization of own restorable energy resources and productive capacities; further improvement of institutional reforms; constant liberalization of energy market; and enhancement of integration processes into the regional energy systems.

Gas supply restoration and gasification problem, as well as problems of ensuring the safety of domestic gas equipment exploitation are also prioritized.

Another priority of the energy sector is the rehabilitation of heating–supply system, which will result in introducing energy saving and efficiency measures in the country, and will contribute to social-economic development of Armenia.

## **15.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

### ***15.2.1 Objectives and Priorities***

The policy conducted in the energy sector has been basically aimed at ensuring the energy self-dependence and increasing the level of safety, which in their turn appear to be among the key drivers of sustainable economic development. The basic objectives of the energy sector over 2007-2009 will be the development and reconstruction of energy system. In this regard, the increase of energy system reliability, maximal utilization of own energy resources, and balancing of the financial-economic activities of the system are prioritized in the sector over the planned period. The MTEF 2007-2009 programs, as well as other programs directed at development of the energy system, will contribute to implementation of the above-mentioned priorities.

### ***15.2.2 Expenditure Drivers***

The main expenditure drivers of the programs in energy system over 2007-2009 are: increasing the official base wage rates of civil servants (Article 7 of the Law "On Remuneration of Civil Servants"), as well as changes of prices and tariffs for goods, services, and works.

## **15.3 EXPENDITURE COMMITMENTS OVER MTEF PERIOD**

### **15.3.1 Existing Expenditure Programs**

Implementation of four programs is envisaged in energy sector by MTEF 2007-2009:

#### **1. "Electric Power Lines and Electrical Distribution Network Rehabilitation" Credit Project (Japanese Bank for International Collaboration (JBIC))**

Re-equipment of 110 kW voltage substations with basic equipment, acquisition of equipment necessary for high-voltage substations, as well as provision and installation of equipment necessary for the first phase of implementation of the new SCADA/Communication system in the energy sector are envisaged by the project. The tender is planned to be held in the first quarter of 2006.

#### **2. "Electricity Transmission Sector Reconstruction" Credit Project (German Bank for Development Credits (KfW))**

Complete restoration and re-equipment of "Alaverdi-2" Substation is envisaged by the project. The credit program within the framework of the Caucasus Initiative will last until 2008 inclusive. "Vanadzor-2" and "Kamo" substations have been completely reconstructed in 2003 within the framework of this program.

#### **3. Project on Construction of the Energy Block with Combined Steam–Gas Cycle in the Territory of Yerevan Thermal Power Plant (Japanese Bank for International Collaboration (JBIC))**

The Loan provision agreement was concluded between the Government of the Republic of Armenia and the Japanese Bank for International Collaboration on March 29, 2005. Construction of a new energy block with combined steam–gas cycle in the territory of Yerevan Thermal Power Plant is envisaged by the project.

The project is aimed to reduce the fuel consumption, other servicing expenses of the Plant, and, consequently, the prime cost and tariffs of the product, through application of new technologies in electric and thermal energy production.

#### 4. Project on Design, Substantiation of Safety, and Construction of a Reservoir for Dry-Type Storage of Nuclear Fuel Utilized at the "Armenian Nuclear Power Station" CJSC (RA State Budget)

Works for design, substantiation of safety, and construction of the reservoir for dry-type storage of nuclear fuel utilized in the territory of the Armenian Nuclear Power Station are being conducted within the framework of the Project, in order to ensure future safe exploitation of the 2<sup>nd</sup> power-generating unit of Armenian Nuclear Power Station. And the construction project will be referred to during the 2007 State Budget discussions.

Provision of subventions are envisaged by the 2006 State Budget to Gladzor and Vernashen communities (Vayots Dzor marz) for implementation of gasification works, and for the maintenance expenses of Hrazdan Thermal Power Plant 5<sup>th</sup> Energy Block. No financing is envisaged during the MTEF period.

#### 5. Programs Implemented by Credits and Grants Received through State Budget Means from International Sources

Receipt of credit resources through State Budget channels from international sources continue for implementation of programs on reconstruction and re-equipment of the energy sector: from German Bank for Development Credits for complete reconstruction of the "Alaverdi-2" Substation, from Japanese Bank for International Collaboration for the electric power lines and electrical distribution networks rehabilitation and for the construction of the energy block with combined steam–gas cycle in the territory of the Yerevan Thermal Power Plant.

**Table 15.1 Comparative Presentation of Expenditure in Energy, as per MTEF 2006-2008 and MTEF 2007-2009, by Subgroups (Million Drams)**

Programs	2006		2007		2008		2008
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Public administration in energy sector	170,80	210,70	201,00	222,00	234,00	228,75	253,14
Electric Power Lines and Electrical Distribution Networks Rehabilitation Project assisted by the Japanese Bank for International Collaboration	3198.50	368,2	13526.9	x	0.0	x	x
Construction of the Energy Block with Combined Steam–Gas Cycle Project assisted by the Japanese Bank for International Collaboration	0.0	805,6	0.0	13304.99	0.0	41815.32	20251.93
Electricity Transmission Sector Reconstruction Project assisted by the German Bank for Development Credits	2318.0	2056.53	1540.3	871.29	2596.4	230.40	0.0
Construction of the Reservoir for Dry-Type Storage of Nuclear Fuel Utilized at the "Armenian Nuclear Power Station" CJSC	0.0	854.8	0.0	0.0	0.0	0.0	0.0

**Table 15.2 State Budget Expenditure in Energy Sector over 2007-2009 (Million Drams)**

<b>Program</b>	<b>2005 Actual</b>	<b>2006 Budgeted</b>	<b>Change, percent</b>	<b>2007</b>	<b>Change, percent</b>	<b>2008</b>	<b>Change, percent</b>	<b>2009</b>	<b>Change, percent</b>
Total expenditure share in GDP (percent)	0,08	0,16	x	0,61	x	1,60	x	0,90	X
<i>Share in the total State Budget expenditure (percent)</i>	0,4	0,8	x	3,1	x	8,1	x	4,8	x
Energy sector, including	1774,7	4085,1	130,2	16735,8	309,7	48291,0	188,5	29415,1	-39,1
Electric Power Lines and Electrical Distribution Networks Rehabilitation Project assisted by the Japanese Bank for International Collaboration	23,1	368,2	1492,2	2559,5	595,1	6245,2	144,0	9163,2	46,7
<i>Share in total expenditure (percent)</i>	1,3	9,0	x	15,3	x	12,9	x	31,2	x
Construction of the Energy Block with Combined Steam–Gas Cycle Project assisted by the Japanese Bank for International Collaboration	0,0	805,6	0,0	13305,0	x	41815,3	214,3	20251,9	-51,6
<i>Share in total expenditure (percent)</i>	0,0	19,7	x	79,5	x	86,6	x	68,8	x
Electricity Transmission Sector Reconstruction Project assisted by the German Bank for Development Credits, including:	896,8	2056,5	129,3	871,3	-57,6	230,4	-73,6	0,0	-100,0
<i>Share in total expenditure (percent)</i>	50,5	50,3	x	5,2	x	0,5	x	0,0	x
Construction of the Reservoir for Dry-Type Storage of Nuclear Fuel Utilized at the "Armenian Nuclear Power Station" CJSC	854,8	854,8	0,0	0,0	x	0,0	x	0,0	x
<i>Share in total expenditure (percent)</i>	48,2	20,9	x	0,0	x	0,0	x	0,0	x

## CHAPTER 16.

### 16.1 TRADE AND ECONOMIC DEVELOPMENT

#### 16.1.1. SITUATIONAL OVERVIEW AND MAIN PROBLEMS

The sector of trade and economic development includes development and support to small and medium entrepreneurship in Armenia, development of tourism sector, works for radio-active waste sterilization, public protection of the interests of the state and consumers in the sense of safety and quality of goods, works, and services, standardization and compliance assessment, unity of metrology, elaboration of technological projection norms for mining enterprises, and regulation of technical safety normative documents.

Government considers small and medium entrepreneurship (SME) as one of the priority directions in the economy and takes on-going steps towards the state support and development.

Small and medium entrepreneurship (SME) is one of the most dynamically developing sectors in the economy of Armenia. Over the last three years about 25,000 small and medium entities were registered in Armenia creating 22,000 new work-places. Besides that, the SME sector has a crucial role in formation of the Gross Domestic Products (GDP).

In 2004, the share of SME in GDP amounted to around 39 percent which exceeds the level of 2000 by almost twice. This index will increase to 41 percent in 2006 by estimate.

1. **Tourism** is one of the most dynamically developing sectors of economy. It is declared a primary branch by the Law "On Tourism and Tourism Activities", as the main principle of the public policy. It is completely included in the SME sector and comprises, in terms of workforce, socially vulnerable layers of population, such as youth and women.

Serious progress was recorded in this sector over the last years:

- legal field of the sector was formed and improved;
- hotel construction, public catering, and other service areas developed considerably;
- Sales volume of souvenirs substantially increased;
- Transportation infrastructure boosted;
- Drastic increase of tourist mediatory services' supply was registered directed to satisfying the exciting demands.

Improvement of roads throughout the country is of a basic importance for developing tourism infrastructures, since it provides the basis for drafting new tourist routes in Armenia, which in its turn facilitates development of other sectors of economy in the neighboring communities.

Re-opening of the cultural establishments, especially of museums renovated over the last years, also facilitates promotion of tourism, since cultural tourism appears to be a significant constituent of the travel industry in Armenia. Re-functioning of the Tsaghkadzor funicular and construction and exploitation of its third part are of great importance for development of tourism infrastructure and of tourism in communities. Exploitation of this complex, meeting international standards, will be a stimulus for attraction of international and domestic tourists into the region.

2. Under the program for **radio-active wastes** sterilization, their centralized transportation, research, reservation, sterilization, burial pursuant to the nuclear and radio-active safety

norms and rules are implemented, so as to protect people and environment from the hazardous influence of ionizing radiation.

3. The "**National Institute of Standards**" CJSC conducts the following activities in the field of standardization and compliance assessments within the framework of its competence pursuant to the requirements of the Law "On Standardization" and the Law "On Compliance Assessment":

- Adopts national standards;
- Defines organizational-methodological and general technical rules, procedures for standardization works pursuant to the requirements of the national system of standardization, as well as procedures for applying international, regional, interstate standards and national standards of other countries.

4. State control on compliance of goods and services to **requirements of technical regulations** and state metrological control on observance of metrological rules and norms is conducted by the Quality Inspectorate (hereinafter - Inspectorate) under the Ministry of Trade and Economic Development.

5. The "**National Institute of Metrology**" CJSC pursuant to the Law "On Ensuring the Unity of Measurements" implements the following state policy in the area of metrology within the frameworks of its competence:

- Establishes, improves, preserves, and implements etalons for measurement units, creates the system of conversions for measurement units;
- Organizes and implements control check-ups of measurement units in the sectors under the state metrological control; conducts accreditation works for legal persons and private entrepreneurs certifying measurement methodologies.

6. The sphere of **exploiting of Earth entrails** by mining enterprises is regulated by the Earth Entrails Code. The Ministry of Trade and Economic Development, the Ministry of Ecology and Environmental Protection, and the Ministry of Energy are the public bodies authorized by legislature in the sphere of utilization and maintenance of Earth entrails. The Ministry of Trade and Economic Development conducts the main function with regard to exploitation of Earth entrails, particularly, granting of (special) licenses for mining; implementation of state expert examinations of projects on exploitation of Earth entrails; signing of stabilization, concessive, and licensing agreements (the last one is done in cooperation with the Ministry of Ecology and Environmental Protection); and mines provision.

7. Pursuant to the **Law "On Public Regulation of Technical Safety"**, in force since January 1, 2006, legislative regulation will be implemented instead of inspectoral functions, together with technical safety examinations to ensure compliance to defined technical requirements. Among the activities of the National Center of Technical Safety is development of technical regulations and norms. Pursuant to the Law "On Standardization", technical regulations and norms are adopted for protection of people's life and health, physical and legal persons and state property, animals' and plants' life and health, environmental protection, prevention of consumers' misleading. It is prohibited to adopt technical regulations for any other purposes.

8. The activities of **World Trade Organization (WTO)** Notification Agency in the Republic of Armenia is aimed to ensure realization of Armenia's commitments undertaken by the WTO accession; to ensure compliance of ongoing reforms in the trade-economic sphere with the WTO requirements; as well as to guarantee provision of information and

transparency in regard with trade-economic relations of Armenia and the WTO member countries.

### **16.1.2 TENDENCIES OF DEVELOPMENT AND STATE SUPPORT**

Tendencies of the SME sector development and state support (both physical and financial) were preserved both in 2005 and 2006. In 2005 the situation was the following:

The State Support to the SME-s 2005 program is currently being implemented. 70 percent of the activities under the program are directed to facilitate economic and business activities in the regions of the Republic of Armenia. Besides, due to attraction of financial resources from international donor organizations there appears a possibility to expand the scope of program activities for enhancement of the SME sector long-term development and state support implemented to that extent. In 2005, assistance in provision of loan guarantees, introduction of quality management systems, educating, informative and advisory assistance was provided to 4,500 SME-s in Yerevan and other marzes.

Within the framework of the State Support to SME-s 2004 program the "Andron Scientific-Research Institute-Techno Park" was established. Works were conducted for its institutional development and strengthening in 2005.

The Loan Guarantees Provision program is a part of activities planned within the framework of the State Support to the SME-s 2005 program and is directed to increase financial and investment opportunities necessary for the SME-s' development. Loans guarantees are prescribed for those SME-s, which are credit-worthy, but have low attractiveness. This measure substantially (up to 15 percent) decreases loan interest rates and comprises almost 70 percent of loan obligations (within the limits of sums not exceeding 10 million drams).

Tendencies for the tourism sector development are preserved in the current period. The tourists' predicted flow will be more than 350,000 in 2006, if the growth dynamics remains the same. Based on the methodology of profit calculation in the tourism sector used by the International Tourism Organization, every international tourist spends around US\$ 1,000 during his/her average seven-day trip to Armenia.

Based on these calculations, export of tourist production was about US\$ 300 million in 2005 in the international incoming tourism sector only. Researches show that over the last years the share of tourism in GDP amounted to 5 percent and in terms of export rates, it is one of the leading branches.

The following works were completed within the framework of the 2005 expenditure program for radio-active waste sterilization:

- 120 radio-active wastes of 2.2 curie-equivalent were transported from 4 different organizations;
- radio-active wastes of 21 thousand curie-equivalent are in reservoirs for radio-active materials;
- two unknown radio-active wastes were found in Meghry passing point, transported, and stored to RWS,

Tendencies of 2006 for radio-active waste sterilization are their centralized transportation and preservation pursuant to the nuclear and radio-active safety norms developed by the International Atomic Energy Agency. In the framework of the program implementation, according to the Government Decree N 1653-N, dated December 11, 2003, the radio-active waste sterilization services tariff was defined at 0.00 drams, hence all expenses are reimbursed from the State Budget through Subsidies.

In 2005 works on conformity of the Republic of Armenia standardization and compliance assessment systems to the requirements of the international and European standards were continued. Elaboration of 19 main technical regulations and their approval by Government is a proof that Armenia realizes commitments undertaken by the WTO Agreement "On Technical Obstacles in Trade". Within the framework of the intergovernmental standardization, the Republic of Armenia joined to projects on more than 150 international standards and amendments to them in 2005, which was achieved through discussions and assessments of the projects by various interested organizations in the country. 353 national standards were registered over that period, including 49 standards of the Republic of Armenia, 226 interstate standards (including 78 standards of the Russian Federation, ISO, EN, and IEC). It is envisaged that the physical and financial indicators in 2006 will remain the same as the 2005 level. The number of state registered technical specifications amounted to 356, and that of released informational documents – to 5, including the Catalogue on Standards -1 and Standards Directories - 4.

State control over 2,447 economic entities on implementation of requirements of technical regulations and measurement rules and norms was conducted in 2005 by the Inspectorate. 458 violations of norms were disclosed in 367 entities; heads of 17 economizing entities created obstacles for inspections. Development tendencies in 2006 will remain on 2005 level.

The outcomes of inspections conducted in 2005 are as follows:

- 193 economizing entities were provided with written instructions on suspending the realization of goods, which do not meet the requirements of technical regulations;
- 41 economizing entities were provided with written instructions on prohibition of exploitation of non-tested metrological means;
- 370 responsible persons were imposed to administrative penalties (of about 24.0 million drams) for violations.

**Works to ensure the unity of measurements were continued in 2005:** a receiver of signals of etalon frequency and precise time was purchased in the framework of the program, liquids consumption measurement etalon was purchased by the means of the institution; 17 national etalons were compared with interstate etalons; two fundamental standards of national system for ensuring the unity of measurements were developed; scientific researches were implemented to design a device for assuring the technical safety during gas utilization. In 2006, it is planned to acquire a metrological mobile station for test measurement of electric power and voltage transformers; to compare 10 national working etalons with the interstate etalons of the CIS countries; to implement research works related to natural gas and gas mixtures preparation and certification; to create standard samples for the alcoholic beverages' industry.

Development tendencies of the 2005-2006 program on elaboration of technological project norms for mining enterprises with respect to both physical and financial indicators are facing certain problems related to the process of program implementation, which will start in 2006. In case of a successful implementation of the program on elaboration of technological project norms for mining enterprises, the working projects of currently operating 370 licensed mining enterprises (the number will increase up to 450 in the near future) may be reviewed and redesigned in compliance with new norms. It will contribute to rational use of Earth entrails by mining enterprises, increased efficiency of control by the public authorized body over exploitation safety, level of environmental protection, and rational and safe utilization of Earth entrails. As a result of the above-stated activities, 54.8 million drams in 2004 and 53.6 million drams in 2005 were collected and transferred to the State Budget as



state duties. These amounts were collected while the norms were not developed yet and, as a result, it is expected that due to financing from the State Budget the efficiency of state duties' collection rates will increase by around 20 percent.

The final formation of the technical safety ensuring system defined by the Law "On State Regulation of Technical Safety" will be implemented after the completion of two transitional phases:

During the phase 1 (the whole period of 2006), based on the law standards, all exploited industrially dangerous entities of the Republic of Armenia should be identified and registered in the register of industrially dangerous entities of the National Center of Technical Safety; legal persons or private entrepreneurs should be accredited in accordance with the Government's regulations, in order to obtain rights for the technical safety examinations.

During the phase 2, which may last three or four years, the National Center of Technical Safety has to finalize the regulation of technical safety normative documents.

During its activity in the Republic of Armenia the WTO Notification Agency made appropriate notifications relating the Armenia's trade-economic sector in accordance with the WTO agreements requirements; in order to fulfill these and other commitments, the Agency coordinated the works of WTO Survey Centers in Armenia - the Ministries and other government bodies; organized and conducted tutorial seminars, developed a guide-database on procedures of information provision; ensured provision of notifications received from the WTO member countries to the WTO Survey Centers; the Agency collaborated with a number of international organizations (Energy Charter, European Economic Commission of the UN, etc.) in order to simplify notification provision and international trade processes, and ensured information provision and transparency of all processes.

### **16.1.3 BASIC PROBLEMS**

Despite the progress registered in SME sector, there are also a number of basic problems faced by SME entities, which were discovered during expert examinations works and administrative monitoring. These problems are caused by both objective and subjective factors, particularly, unavailability of financial resources (loans), difficulties in getting business information, consultancy and staff professional training, problems related to the promotion of goods and services of SME-s into market, as well as lack of skills of the beginners involved in entrepreneurial activities.

It will be possible to ensure sustainable development of tourism and dynamic increase in the number of tourists visiting Armenia through solution of problems below:

- a) Improvement of the quality and competitiveness of tourism services (results);
- b) Promotion of Armenia's image as a country, which is favorable, attractive, and safe for tourism; up to the mark and effective presentation of the country to the international markets;
- c) Introduction of an effective system for obtaining and processing the statistical data.

The basic problems of the standardization and compliance assessment sector are the following:

- providing assistance in protection of people's life and health, physical and juridical persons and public property, and environment, including animals and plants;
- ensuring technical and information compliance, interchangeability of products;
- enhancing the quality and competitiveness of goods, works, and services;

- ensuring economy of resources;
- enhancing consumers' trust towards goods and services, and preventing factors misleading the consumers;
- ensuring elimination of technical obstacles in domestic and international trade, as well as provision of favorable conditions for international economic and scientific-technical collaboration and participation in international trade;
- ensuring creation of unified technical policy in the sections of standardization and compliance assessment;
- creation of conditions for international mutual acceptance of certification bodies and results of testing laboratories activities.

The basic problems of the Inspectorate are:

- prevention and elimination of violations of the requirements defined by technical regulations with regard to the products and services provided by economic entities;
- ensuring compliance of products and services with technical regulations;
- ensuring observance of metrological rules and norms defined by standardization normative documents, disclosing and preventing violations in the area of ensuring the unity of measurements;

The basic problems of the unity of measurements sector:

- ensuring the unity of measurements in the country;
- elimination of technical obstacles in the international, interstate trade-economic collaboration;
- prevention of Armenia's dependence on other countries in terms of high-accuracy measurements;
- ensuring provision of metrological services for modern technologies introduced in the most important economic branches;
- modernization of material-technical basis of the National Institute of Metrology and its re-equipment with high-accuracy metrological devices and etalons;

The basic problems in elaboration of technological norms and guidelines for the mining enterprises:

- detailed research and analysis of technological project norms for mining enterprises of the Former Soviet Union;
- research and analysis of developed countries' experience, which have the same type of mining enterprises;
- studies of the currently operating mining enterprises;
- analysis of received technical-economic indexes;
- summary of obtained results and formulation of norms;
- development of corresponding normative legal acts.

The basic problem for regulation of technical safety normative documents is the analyzing of numerous technical safety normative documents existing in this area (Armenian standards, sanitation rules and norms, construction rules and norms, etc.) and elaboration of new technical safety norms using modern scientific-technical achievements, technological

developments, and international experience, according to peculiarities of every branch of the industry.

The basic problems of the WTO sector are:

- promotion of complete fulfillment of the main principles, objectives, and requirements of the WTO in Armenia through information accessibility and availability, as well as through assistance to activities of the WTO Survey Centers in Armenia;
- ensuring of mutual transparency and provision of necessary information regarding trade-economic policies and other procedures of Armenia, WTO member countries, and other partner countries. This is a basic principle for elimination of obstacles for transparent trade-economic environment and establishment of stability in terms of trade-economic collaboration which, in turn, will enhance the further growth of trade, investment and economic development.
- ensuring availability and accessibility of business information on foreign trade-economic situation and consultancy for business people- importers, exporters, small and medium business entrepreneurs; as well as provision of analysis based on trade policies, development trends, and dynamics.

#### ***16.1.4 Objectives***

The main objectives of the SME sector development and the state support over the MTEF period are:

- extension of the state support to the SME entities and continuation of this process;
- establishment and strengthening of substructures for assistance to the SME entities; expanding financial and investment opportunities for the SME entities;
- extension of the SME entities' innovative and international economic activities
- enhancement of availability of business information, advisory and training services for the SME entities;
- enlargement of business opportunities;
- increase in the number of SME entities leading to creation of new jobs, and assistance to reduction of poverty in the country.

The main objectives of the tourism sector over 2007-2009 are:

- to establish modern, efficient and competitive tourism industry in Armenia to ensure opportunities for satisfying the demands for services of local and international tourists;
- to present Armenia to the international tourism market as a four-seasons region, including presentation of Tsaghkadzor as a part of the Armenia's tourism industry, which has facilities not only for winter sports tourism.

The main objective of the program for radio-active waste sterilization is transportation, examination, storage, sterilization, and burial of radio-active wastes in Armenia in compliance with the radioactive safety norms and regulations. Allocations for the implementation of program in 2007-2009 are aimed to preserve the company's active capacity and prevent the brain–drain.

The MTEF 2007-2009 main objectives in the standardization and compliance assessment sector are:

- compliance of the RA standardization and compliance assessment system to international standards, including the World Trade Organization requirements;

- transition to the principle of voluntary usage of national standards.

The MTEF 2007-2009 main objectives in the measurements unity ensuring sector are:

- ensuring accuracy, reliability, and compliance of the measurements unity ensuring in the legislatively regulated spheres, including: health protection, diagnostics, environmental protection, technical safety of labor, stocktaking of material and energy resources, communications and transportation, labor reliability, country defense, and protection of consumers' rights;
- ensuring provision of metrological services for modern technologies introduced in the most important branches of economy;
- preventing of Armenia's dependence on other countries in terms of high-accuracy measurements;

The main objectives of the Inspectorate are:

- prevention and elimination of violations of the requirements defined by technical regulations with regard to the products and services provided by economic entities;
- ensuring compliance of products and services with technical regulations;
- ensuring observance of metrological rules and norms defined by standardization normative documents, disclosing and preventing violations in the area of ensuring the unity of measurements;
- determining the compliance of produced metrological means to approved types;
- determining the condition and accuracy of metrological means applied for control testing of metrological means, including etalons and working metrological means;
- ensuring availability of certified methodologies for measurement.

The main objective of the process of regulation of normative documents of technical safety is the creation of a technical regulations system, and requirements defined by it will ensure the maximum protection of the society and individuals from technical accidents, industrial injuries, and their consequences taking place in industrial and service-providing entities. Normative documents on technical safety to be developed over 2007-2009 must include the requirements for all types of industrially dangerous entities currently operating in Armenia.

The basic objective of elaboration of technology projection norms and normative standards for mining enterprises is to increase effectiveness of exploitation of Earth entrails by enterprises operating in the Armenia. Elaboration of technology projection norms and normative standards for mining enterprises will create a legislative basis for elaboration of working plans on exploitation of Earth entrails and conducting their state expert examinations; will make the process of mines exploitation controllable both in terms of safety of works and fulfillment of tax requirements by the economizing entities.

The main objectives of the WTO Notification Agency are:

- Ensuring the provision of information on trade-economic relations of Armenia and WTO member countries and transparency;
- Ensuring the fulfillment of the WTO post-membership commitments by Armenia and participation of the country to current trade negotiations;
- Support to the development of business, small and medium entrepreneurship, and ensuring active involvement of Armenian business circles into the WTO current processes.

### ***16.1.5 Priorities***

Priority directions of the SME sector over the coming three years are:

- establishment and strengthening of relevant infrastructures for supporting SME entities;
- expanding financial and investment opportunities for the SME entities;

Priority direction of the tourism sector is enhancing the development of internal and external tourism pursuant to the Law "On Tourism and Tourism Activities".

Priority directions of the area of radio-active waste sterilization are: transportation, examination, storage, sterilization, and burial of radio-active wastes.

Priority directions of the system of standardization and compliance assessment are:

- safety of goods and services;
- elimination of technical obstacles in trade;
- increase of the quality and competitiveness of goods and services in domestic and international markets.

Priority directions of the measurements unity ensuring sector are:

- creation (acquiring) and improvement of national etalons; comparison of units (basic metrological means) with the interstate etalons of the CIS countries, their maintenance and servicing;
- insuring the measurements of common time and frequency;
- implementation of scientific and research works in metrology,
- development of legislative acts and normative documents of the sector.

The priority directions of the Inspectorate are provision of public protection of interests of the state and consumers in the area of safety and quality of goods, works, and services.

Priority in elaboration of technical safety documents is given to development of those technical safety documents which are related to the mostly developed branches of industry and have common characteristics.

Priority directions for elaboration of technology projection norms for mining enterprises are:

- elaboration of technology projection norms for mining enterprises;
- development of corresponding normative legislative acts.

Priority directions of the WTO Notification Agency are:

- collection of information according to laws and other normative-legislative acts and/or their drafts regulating and influencing the RA foreign trade-industrial relations and other trade related information in compliance with the WTO requirements and their provision to the WTO Secretariat; provision of the same type of information obtained from the WTO member countries to the WTO Survey Centers in Armenia, corresponding Ministries, other public bodies, and businessmen, coordination of works of the Survey Centers on Armenia's commitments under the WTO post-membership agreements; ensuring the compliance of the provisions of draft legal acts with the WTO requirements, continuous collaboration with various international trade and economic organizations, and establishment of new relations;
- ensuring transparency of information on the above-mentioned processes; analysis of current development trends in the world trade, news, RA and WTO member countries' trade

related legislative acts (laws, regulations, and other legal acts) and programs; as well as transparency of information on trade negotiations within the WTO frameworks;

- ensuring provision of businessmen, entrepreneurs, interested persons, groups and organizations with information, analysis, and forecasts on the WTO member countries' trade-economic policies, regimes, as well as provision of development plans and programs.

#### **16.1.6. Expenditure Drivers**

The expenditure drivers in SME sector (in this case, state support to the small and medium entrepreneurship annual (2007, 2008, and 2009) programs) are conditioned both by successful implementation of the SME state policy (increase of their number), and factors, which do not have direct relations to the SME state policy (population migration, changes in the social structure of the population), etc.

a) The expenditure drivers in the tourism sector are:

- level of marketing expenditure necessary for increasing the Armenia's tourism attractiveness rating within international tourism markets and effective integration;
- stable increase of internal and external tourists' number;
- necessity to implement new programs;
- climatic changes and natural catastrophes;
- influence of economic components (changes of prices and tariffs for purchased goods, services, and works).

b) The expenditures drivers of the Radio-Active Waste Sterilization, Standardization and Compliance Assessment, the Measurements Unity Ensuring, Quality Inspectorate, Regulation of Technical Safety Normative Documents, and Elaboration of Technology Projection Norms for Mining Enterprises programs are the following:

- influence of economic components (changes of prices and tariffs for purchased goods, services, and works);
- increase of base wage rates.

c) Expenditure drivers of the WTO Notification Agency programs. The following are the expenditure drivers of the WTO Notification Agency programs regardless of Government policy:

- demographic (the workforce structure and employment changes);
- social (changes in structure of minimal consumption goods and consumer baskets);
- economic (changes of prices and tariffs for purchased goods, services, and currency exchange rates);
- external factors (changes of the WTO member countries' trade-economic policies, regimes; as well as changes of all existing laws and regulations regarding the trade-economic sector).

#### **16.1.7 EXISTING EXPENDITURE COMMITMENTS**

Implementation of state support to SME annual (2007, 2008, and 2009) programs over the MTEF 2007-2009 period will enhance the implementation of SME sector priorities and SME sector development and state support program objectives. As a result, the predicted share of SME-s in the GDP will increase up to 45 percent by the end of the MTEF period.

- expansion of financial and investment opportunities for SME entities: extension of the program on assistance with provision of loan guarantees and, within the frameworks of this program, increase of fixed capitals for loan guarantees – up to 700 million drams;
- enlargement of volumes and availability of business information, advisory and training services for SME entities by almost doubling the number of organizations actively involved in this process from currently operating 30 organizations up to 60;
- enlargement of frameworks of the SME entities' activities and increase of their competitiveness; diversification of produced goods/services; quantitative and qualitative increase in production of new goods and provision of services and increase of their export from currently existing 16 percent up to 20 percent.
- increase of the number of SME entities by around 25,000 and, as a result, creation of about 50,000 new jobs, including those in marzes;
- increase of the business activity in marzes and distant regions and, for this purpose, allocation of 80 percent of the state support for that purpose to existing and newly established SME entities in marzes;

MTEF 2007-2009 allocations for the program will amount to 400.0 million drams in 2007, 400.0 million drams in 2008, and 400.0 million drams in 2009.

Programs in tourism sector are:

1. Tourism Development Program, implementation of which is directed at development of various areas of the sector. It will enhance establishment of well-developed tourism industry in Armenia, which will satisfy needs of internal and international tourists and will ensure country's economy development;

“Tourism Development Program” consists of several independent subprograms:

- Development of the tourism sector informative-advertisement system;
- Implementation of Marketing Researches of Tourism Industry;
- Creation and Further Maintenance of Professional Web-Sites of Different Regions of Armenia;
- Tsaghkadzor as a Tourism Center Meeting International Standards targeted program.

As a result of implementation of 2007-2009 Tourism Development Program, the number of internal and international tourists will increase ensuring 20-25 percent of growth annually; the travel industry of Armenia will be highly promoted and smoothly integrated into international markets; new tourist centers will be established; tourism will be enhanced in marzes; detailed and reliable information will be collected which, in its turn, will help to develop long-term programs.

MTEF 2007-2009 allocation for implementation of the program is 250.0 million drams in 2007, 200.0 million drams in 2008, and 200.0 million drams in 2009.

Implementation of existing **Programs for Radio-Active Waste Sterilization** facilitate observance of the nuclear and radio-active safety norms and rules, centralized transportation of radio-active wastes, improvement of works for protecting people and the environment from the hazardous influence of ionizing radiation.

The MTEF 2007-2009 allocation for implementation of the program is 20.9 million drams in 2007, 21.0 million drams in 2008, and 21.1 million drams in 2009.

Results of implementation of **Programs for the System of Standardization and Elaboration of Technical Regulations** will enable to enhance the level of standardization

and compliance assessment works in the country, as well as to meet Armenia's commitments under the WTO Agreement "On Technical Obstacles in Trade".

MTEF 2007-2009 allocation for implementation of the program is 41.0 million drams in 2007, 44.5 million drams in 2008, and 45.0 million drams in 2009.

By the existing expenditure programs, it is envisaged to allocate 100.00 million drams for procurement of sample items during the inspections conducted by **the Quality Inspectorate** and their testing in certified testing laboratories, while 56.0 million drams was allocated by the 2005 State Budget for establishment of a mobile laboratory for testing oil products. For implementation of existing programs, the Quality Inspectorate has already purchased sample items and submitted them to certified testing laboratories.

The MTEF 2007-2009 allocation for implementation of the program is 100.0 million drams in 2007, 100.0 million drams in 2008, and 100.0 million drams in 2009.

As a result of implementation **for the Unity of Measurements Sector and Metrology** programs (obtaining of new etalons, comparison of the national etalons with interstate standards, researches, etc.) the level of metrological service and the accuracy of measurement in the country, mutual trust in state tests, control tests, and product certification results will increase. This will promote Armenia's metrology to a new qualitative level, facilitate introduction of new technologies, ensure reliability of stocktaking for material values and energy resources, contribute to the elimination of obstacles in the international trade, and prevent Armenia's dependence on other countries in terms of high-accuracy measurements.

The MTEF 2007-2009 allocation for implementation of the program is 21.5 million drams in 2007, 21.5 million drams in 2008, and 21.5 million drams in 2009.

**Expenditure Program for Elaboration of Normative Documents on Technical Safety** is presented for the first time. MTEF 2007-2009 allocation for implementation of the program is 80.0 million drams in 2007, 80.0 million drams in 2008, and 80.0 million drams in 2009.

**Expenditure Program for Elaboration of Technology Projection Norms for Mining Enterprises** consists of two parts because of the work scope. MTEF 2007-2009 provision for the program is 20.0 million drams in 2007, there is no expenditure program intended for 2008 and 2009.

#### **Expenditure Programs of WTO Notification Agency in Armenia**

- maintenance and constant development of the informative, analytical, and popular Internet website within the frameworks of the Agency ([www.arm-wto.am](http://www.arm-wto.am)), constant update and enlargement of areas of inclusion;
- organization of meetings, consultations, and seminars with business people;
- organization of trainings for employees of the WTO Survey Centers, the Ministries, other public bodies, and business people.
- translation, publication, and distribution of materials with regard to the WTO principals, commitments, and current negotiations to the WTO Survey Centers, the Ministries, other public bodies and business people in Armenia.

The MTEF 2007-2009 allocation for implementation of the program is 37.968 million drams in 2007, 28.840 million drams in 2008, and 30.612 million drams in 2009.



**Table 16.1.1 Comparative Presentation of Expenditure in Trade and Economic Development, as per MTEF 2006-2007 and MTEF 2008-2009, by Subgroups (Million Drams)**

Functional Classification Group/ Subgroup/ Program	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Public administration in trade and economic development	573.70	626.50	687.40	666.17	800.70	688.30	770.83
Program for state support to small and medium entrepreneurship in Armenia	350.0	350.0	400.0	400.0	450.0	400.0	400.0
State program for developing tourism	200.0	276.0	200.0	250.0	200.0	200.0	200.0
State support to the "Radio-Active Wastes" CJSC	29.54	18.697	20.25	20.86	20.25	20.90	21.1
State order implemented by the "National Institute for Standards" CJSC of the Ministry of Trade and Economic Development	28.662	35.00	28.662	41.00	28.662	44.5	45.0
State order implemented by the "Metrology" CJSC of the Ministry of Trade and Economic Development	41.324	21.50	41.324	21.50	41.324	21.50	21.50
Public expenditure program on "Quality Inspectorate System" of the Ministry of Trade and Economic Development	100.0	80.0	100.0	100.0	165.747	100.0	100.0
Program for Elaboration of Technology Projection Norms for Mining Enterprises	0.0	20.0	0.0	20.0	0.0	00.0	00.0
Program for Elaboration of Normative Documents on Technical Safety	00.0	00.0	00.0	80.0	00.0	80.0	80.0
Program of the WTO Notification Agency	00.00	00.0	00.0	37.968	00.0	28.840	30.612

**Table 16.1.2 Expenditure in Trade and Economic Development over 2007-2009 (Million Drams)**

Functional Classification Group/ Subgroup/ Program	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
Share in the State Budget expenditure (percent)	0.12	0.17	x	0.18	x	0.15	x	0.15	x
Share in GDP (percent)	0.02	0.03	x	0.04	x	0.03	x	0.03	x
Trade and economic development sector, including:	489.39	801.20	63.71	971.323	21.23	895.74	-7.8	898.17	0.27
Program for state support to small and medium entrepreneurship in Armenia	300.0	350.0	16.67	400.00	14.29	400.0	00.0	400.0	00.0
<i>Share in total expenditure (percent)</i>	61.3	43.7	x	41.2	x	44.7	x	44.5	x
State program for developing tourism	19.95	276.0	1283.32	250.0	-9.42	200.0	-20.0	200.0	0.0
<i>Share in total expenditure (percent)</i>	4.1	34.4	x	25.7	x	22.3	x	22.3	x
State support to the "Radio-Active Wastes" CJSC	17.041	18.697	9.72	20.856	11.55	20.903	0.23	21.06	0.75
<i>Share in total expenditure (percent)</i>	3.5	2.3	x	2.1	x	2.3	x	2.3	x
State order implemented by the "National Institute for Standards" CJSC of the Ministry of Trade and Economic Development	28.662	35.0	22.11	41.00	17.14	44.5	8.5	45.0	1.1
<i>Share in total expenditure (percent)</i>	5.9	4.4	x	4.2	x	5.0	x	5.0	x

2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

<b>Functional Classification Group/ Subgroup/ Program</b>	2005	2006	Change, percent	2007	Change, percent	2008	Change, percent	2009	Change, percent
State order implemented by the "Metrology" CJSC of the Ministry of Trade and Economic Development	41.262	21.5	-47.9	21.5	0.0	21.5	0.0	21.5	0.0
<i>Share in total expenditure (percent)</i>	8.4	2.7	x	2.2	x	2.4	x	2.4	x
"Quality Inspectorate System" of the Ministry of Trade and Economic Development	82.47	80.0	-3.00	100.0	25.0	100.0	0.0	100.0	0.0
<i>Share in total expenditure (percent)</i>	16.9	10.0	x	10.3	x	11.2	x	11.1	x
Program for Elaboration of Technology Projection Norms for Mining Enterprises	00.0	20.0	00.0	20.0		00.0		00.0	
<i>Share in total expenditure (percent)</i>	0.0	2.5	x	2.1	x	00.0	x	00.0	x
Program for Elaboration of Normative Documents on Technical Safety	00.0	00.0	00.0	80.0		80.0	00.0	80.0	
<i>Share in total expenditure (percent)</i>	00.0	00.0	x	8.2	x	8.9	x	8.9	X
Program of the WTO Notification Agency	00.0	00.0	00.0	37.967		28.840	-24.0	30.612	
<i>Share in total expenditure (percent)</i>	00.0	00.0	x	3.9	x	3.2	x	3.4	X

## 16.2 REAL ESTATE CADASTRE

The 2007-2009 programs in the sector of real estate cadastre of the Republic of Armenia were developed based of the Government Decree No 777-N "On Approving of the 2006-2008 Medium-Term Expenditure Program of the Government of the Republic of Armenia", dated June 1<sup>st</sup>, 2005 and the Prime Minister's Decree No 907-N "On Beginning of the 2007 Budget Processes", dated November 22, 2005. In 2005, 17 program activities were implemented under the administrative management of the Committee, for which 1,508,900.0 thousand drams were projected from the State Budget. During 2005 financing of the program activities was 1,506,566.5 thousand drams or 99.9 % of the projected amount. In 2006 it is envisaged to implement 14 program activities under the administrative management of the Committee, for which 1,069,215.5 thousand drams are projected.

### 16.2.1 SITUATIONAL OVERVIEW

#### Stocktaking

In 2005 for 754 communities (where public property lands were transferred to the communities based on the Government Decrees), documents on the initial stocktaking of the available lands were prepared according to the existing regulations and transferred to the community leaders. Works on initial stocktaking of public property lands out of administrative boundaries of communities were implemented.

The stocktaking activities are completed in all communities of the country. The total land balance is summarized (based on results of 679 communities' preliminary stocktaking of the lands and the 1997 data on the land balances of 239 communities), submitted to Government and is taken into consideration.

In 2005 projected stocktaking activities were completed for 100 percent and their financing was 20,000.00 thousand drams.

#### Mapping

In 2005 mapping works were implemented in five directions: topographical, cadastral, thematic, geographical names, and geo-information systems.

1. In the sphere of topographical mapping, works on creation of topographical maps with the state scale series of 1:10 000 were continued. Within the frameworks of this program, 6,207 square kilometers of the country's territory are covered by air-photos and 11.1 thousand square kilometers are covered by satellite-photos.

In 2005 working out of air-photographed materials with scale 1:10 000, creation of orthophotomaps, and digitizing works have been completed for another 2,210 square kilometers. Totally, air-photographed materials for 3,421 square kilometers were worked out and digitized, and works for development of air-photographed materials for the remaining 2,786 km<sup>2</sup> will proceed in 2006.

Working out of satellite-photographed materials, including filed interpretation works were completed for a territory of 3,038.5 square kilometers; orthophotomaps of satellite-photographed materials (with 1:10 000 scale) were created and digitized for 516 square kilometers. Totally, space-photographed materials of 4,400 square kilometers were worked out, and works for development of satellite-photographed materials for the remaining 6,700 square kilometers will proceed in 2006-2007.

Digitizing works on previously created and updated 651 pages-topographical maps with 1:10000 scale are completed, out of which 206 pages were digitized in 2005. Based on topographical maps with the state scale of 1:10 000, works on creation of topographical

maps with scales 1:25 000, 1:50 000, and 1:100 000 were started, based on the methods of summarization – 120 pages, from total of 526 pages. Works for creation of the remaining 406 pages will proceed in 2006-2007.

In 2005 financing of topographical mapping was 350,600.0 thousand drams, and in 2006 the projected amount is 259,183.3 thousand drams.

For implementation of works on creation of the state scale series base maps, the system is saturated with modern equipments and computer software, organizes trainings and re-qualification (re-training) of personnel and implements study of the world-leading experience.

2. Cadastral mapping works were implemented in three marzes' lands laid outside of the communities' administrative borders, and these works were completed in ten marzes. Also, cadastral mapping works for all marzes of Armenia are completed; however, taking into account increasing rates of activities in the capital construction and real estate markets, some communities face problems with updating the cadastral maps. These are, mainly, the communities where works on construction of public importance buildings and roads were completed after finishing cadastral mappings, as well as a lot of land distributing, auctioning, and land renting activities were conducted.

In 2005 projected works for the cadastral mapping system were completed for 100 percent and their financing was 120,000.0 thousand drams, and in 2006 the projected amount will be 20,000.0 thousand drams.

3. In the sphere of thematic mapping, works for the preparation of the National Atlas of Armenia were continued. Most of the works for the preparation of the Atlas is done and the materials are submitted to various bodies to get their opinion. The publication works had to be completed by December, 2005; however, keeping in mind that the National Atlas of Armenia is a fundamental and unique mapping publication, for exclusion of alien and cacophonous geographic names, and to restore the historical and Armenian names of settlements, it has been decided to postpone the publication until 2006.

In 2005 the financing of thematic mapping works was 43,000.0 thousand drams.

Several maps have been published, such as the Road Map of the Republic of Armenia and the Republic of Nagorno-Karabakh; the Administrative and Physical Maps of the Republic of Nagorno-Karabakh with 1:300 000 scale; "The Armenian Genocide of 1915" postcard in Armenian and in English; "The Armenian Highlands" relief map with 1:2 000 000 scale; The Armenian Highlands physical map; Worlds Atlas for Children; "Around Aragats" postcard, "Rebirth of Gyumry" postcard, etc.

4. In the sphere of geographical names, works for the stocktaking of geographical names, their registration and introduction of the automation systems continued. Additionally, 18,000 names of geographical objects were registered. As a result of initial stocktaking, around 38,000 names of geographic objects were registered, but it is an on-going process and, supposedly, card-indexes have to be kept and updated annually. The guide-book of administrative – territorial division is published, and it is planned to publish soon a brief dictionary of the settlements names. In 2004-2005 it was proposed to rename 411 settlements and geographical objects of 5 marzes (Aragatsotn, Armavir, Ararat, Kotayk, Syunik) and in Yerevan. Renaming of 155 names of 3 marzes and in Yerevan was accepted and renaming of the 256 settlements is in process. Renaming of 5 marzes was approved by the National Assembly, as an amendment in the Law "On Administrative – Territorial Divisions". Currently, a list of 119 rural settlements that have to be renamed is in the process of preparation and submission to the Government.

In 2005 projected works for the geographic names mapping system were completed for 100 percent and their financing was 180,000.00 thousand drams, and in 2006 the allocations will be 7,000.00 thousand drams.

5. For introduction of geo-information systems, the Kanaker - Zeitun community geo-information systems' pilot project was implemented. Later, based on discussions and analysis of the results, large-scale works to adopt this system will be conducted. Legends for 1:500, 1:5 000 1:10 000 scale topographical maps were worked out, as well as a topographical information classifier was elaborated which is applied in 1:500 – 1:10 000 scale digital mapping automation systems.

In 2005 projected works for the geo-information systems mapping were completed for 100 percent and their financing was 50,000.0 thousand drams, and in 2006 the amount will be 91,000.0 thousand drams.

Priorities in this area include the introduction of mapping (surveying) basis as the core principle; digital and geo-information technologies, photogrammetry and mapping, training and retraining of specialists for digital and geo-information technologies, stocktaking of geographical names; establishment of a unified informational database for geographical names; implementation of air and space surveying for generating base mapping materials; introduction of digital; development of photomaps and orthophotographic maps, etc.

Realization of these activities will facilitate the works defined in the action plan for implementation of the Poverty Reduction Strategic Program, such as works on first-time state registration of property rights, development of land market, etc.

#### **Real Estate Cadastral Evaluation and Systematized Observations of the Market**

As of July 1<sup>st</sup>, 2005, within the framework on land tax base formation, the cadastral regional departments evaluated 1,532,253 units of land with a total area of 498,386 hectares, of which 37,620 units in Yerevan with a total area of 3,601 hectares. The generated data were submitted, in a timely manner, to the tax and local self-governance bodies. In 2005, compared to 2000, the land tax bases increased by about 77,192 hectares, including lands having agricultural importance - by about 56, 554 hectares and lands (plots) adjoining accommodation units – about 20,686 hectares.

Works on the property tax base replenishment were continued. As a result of current functions, 79,996 units of buildings and constructions were evaluated. In 2005, compared to 2004, property tax bases were replenished in Yerevan by 23,220 units, in other marzes by 9,908 units of buildings and constructions. The property tax bases were submitted, in a timely manner, to the tax and local self-governance bodies.

In 2005 projected works in the sphere of cadastral evaluation of real estate were completed for 100 percent and their financing was 40,000.0 thousand drams, and in 2006 the amount will be 35,000.00 thousand drams.

Qualitative and quantitative systematized observations of lands laid outside the administrative boundaries of communities were conducted in ten marzes, results of which will be a basis for new methods of cadastral evaluation of pastures.

Systematized observations of price situations for inhabited lands, buildings and accommodations were conducted, results of which will be a basis for development of new methods for cadastral evaluation of real estate unified taxations.

Systematized observations and analyses of the real estate market were conducted; as a result, monthly, quarterly, semi-annual, and annual reports were prepared on real estate market and price situation. Summaries of those reports were published in press and delivered to the public and local government bodies. The National Statistical Service got output (baseline)

data and summaries of systematized observations and analysis of real estate market and price situation to be included in “Statistical Summaries.”

In 2005 projected works on systematized observations were completed for 100 percent and their financing was 55,000.0 thousand drams, and in 2006 the amount will be 30,000.00 thousand drams.

In order to assist property tax payers and to calculate property taxes independently, the Cadastre Committee put on its webpage the computerized Property Calculation program ([WWW.cadastre.am](http://WWW.cadastre.am))

In 2005 works with local governance bodies on creation and systematization of property tax and land tax bases were not been completed.

Based on the 2005 analysis of real estate market, it could be concluded that it has tendencies for development and price increase.

Over the last years, the process of quantitative changes in state registration of property rights on real estate has a tendency to increase. Hence, in 2000 the state registration of property rights on real estate was 33,233, in 2001 - 44,792, in 2002 – 60,874, in 2003 – 71,797, in 2004 – 98,345, and in 2005 - 122,405. Compared to the previous years, in 2005 the quantitative increase of state registration of property rights on real estate is 24.5 percent. Property alienation and rental transactions geography is changed compared to 2004-2005. Year by year, more property alienation and rental transactions are registered in marzes compared to Yerevan. The structure of real estate transactions is also changed. For example, if during the previous years there were more real estate alienation transactions (41 – 50 percent), in 2005 they did not exceed the rate of 35 percent. There is an increase of real estate rental and mortgage transactions.

Research on price indexes in 2005 allows to conclude that an average yearly increase of market prices for flats in multi-apartment buildings in Yerevan is at 23.4 percent, while in other marzes it is 28.8 percent; and an average yearly increase of market prices for private houses in Yerevan is 22.1 percent, while in other marzes it is 24.2 percent.

Research of real estate market shows that since 2000, the following tendencies had a substantial influence on activation of civil transactions of real estate:

- Stabilization of a social – economic and political situation;
- The present level of implementation of construction and investment programs;
- Improvement of the legislative system;
- Decrease of time-frame for transactions; decrease of payments for these actions and simplification of registration procedures;
- Process of licensing and involvement of real estate market participators, such as realtors, real estate evaluators, cartographers of topographical and cadastral maps.

### **State Registration of Property Rights**

In 2005, within the framework of state registration of property rights, 122,405 transactions were registered which is by 23,274 more compared with the previous year.

First-time state registration of property rights is completed in 108 communities of the Republic. The works of first-time state registration of property rights are still in progress in 75 communities. 234 thousand units of real estate got state registration of property rights and for 188 thousand units of real estate registration certificates on property rights were provided to owners and users free of charge. Till now, 2 million state registration of real

estate property rights was conducted, out of which 1,500.6 thousand were provided free of charge.

In 167 communities, where the works for the first-time state registration of property rights pursuant to law had been completed, in 2005, according to the defined procedures worked out in collaboration with the communities, the obstacles in registration of real estate rights were removed, and the rights were registered, thus enabling the real estate owners to act as fully competent participants of the market.

During first-time state registration of property rights, 818,326 units of lands plots with a total area of 55,879.2 hectares from those, which were used by citizens without legislative grounding, were provided free of charge in an order provided by the law.

In spite of the efficient works implemented in collaboration with communities, the above-mentioned obstacles were not completely removed in urban areas. Particularly, in Yerevan, within the framework of the first-time state registration of property rights, no decision has been made with regard to around 31,000 units of unauthorized constructions placed under the disposal of the City Mayor in 2005.

In 2005 allocations for projected works in the sphere of registrations amounted to 75,000 thousand drams and in 2006 allocations will be 103,722.00 thousand drams.

24,529 title certificates and 2,114 pages of copies of documents were provided by the personnel of the Committee's subdivisions to public administration bodies.

The register of movable property mortgages has been introduced in 2004; by now state registration of rights for 807 movable property collaterals and financial renting (leasing) under 5 leasing agreements is completed.

Citizens of the Republic of Armenia and legal persons were provided with 25 references on registered rights.

In spite of the fact that state registration of rights for movable property collaterals and financial renting (leasing) is not mandatory, increasing number of applications for state registration of rights (30-40 applications per day) is a proof that the trust in state registration of rights increases more and more.

In the medium run, the main objectives in the sector will include improving reliability and transparency of the system for state registration of property rights, ensuring objectivity, accessibility, and regularity of information on registered rights and restrictions.

### **Establishment of Real Estate Cadastre Database and Automation of Real Estate Cadastre**

#### For automation of real estate cadastre:

- In 2004 the following was projected and developed:
  - Automated system for land assessment, systematized observations of real estate and real estate market, and market analysis;
  - Automated system of the card indexes of geographical names;
  - Automated system for provision of on-line information on registration of property rights and restrictions;

In 2004 three systems were created and worked out based on the automated system for registration of property rights and restrictions (ARPACREG) which assured compatibility of these systems and creation of an automated system of unified database for real estate cadastre. In 2005 a pilot- project introduction of these systems was conducted.

- In 2005 in the Yerevan Kanaker - Zeitun community geo-information systems pilot project was implemented and, as a result, the automated system for adoption of geo-information systems was worked out which will be applied during 2006.

For establishment of real estate cadastre information database the following works were completed:

- Digital cadastral maps of 928 communities were compiled;
- Ciphering of digital cadastral maps of 829 communities is completed;
- Data on 1,564,353 units of real estate property rights were registered in the electronic archive, which will be transferred to the computer database for registration of real estate property rights and restrictions while introduction of an automated system of property rights registration;
- About 20,000 data on real estate qualitative and quantitative units and their owners (users), on registered real estate related rights and restrictions were entered (within the framework of the first-time state registration of property rights) into the computer database for real estate related rights and restrictions;
- Data on 15,450 geographical objects were entered into the database of geographical names;
- Works on standardization of 2000-2004 systematized observations of real estate and real estate market data and their transfer into the computer database of the systematized observations of real estate and real estate market are completed;
- Works on digitalizing of buildings' lay-outs, as well as real estate qualitative and quantitative data inputting started in 2005.

### **Geodesic Works**

The following works were conducted in the sphere of geodesy within the framework of the Government Decree No 1530-N "On Approving of the 2002-2006 Program on Development of the Geodesic Sector of the Republic of Armenia", dated September 19, 2002 and the Decree No 1024-NG:

The following was implemented by the program over 2002-2005:

- Establishment in the Republic of Armenia of a new planned geodesic network with 806 marks (5 marks of the zero category, 40 marks of the 1<sup>st</sup> category, and 761 marks of the 2<sup>nd</sup> category) in the world geodesic coordinate system WGS-84, and compiling of catalogues of coordinates. 5 marks balanced to the WGS-84 zero category in the territory of Armenia were included in the Pan-European EUREF system during the symposium in Bratislava (Slovakia), hold on June 1, 2004. They were characterized as B-type marks and got ARMEF 02 conditional name. The world geodesic coordinate system WGS-84 is totally introduced in the Republic of Armenia and the works are completed. Modern high-accuracy satellite devices and technologies were used for conduction of these works.

- Establishment of 308 marks of the 2<sup>nd</sup> category in the world geodesic coordinate system WGS-84, leveling of the 2<sup>nd</sup> and 3<sup>rd</sup> category networks with 219 linear kilometers and 311,35 linear kilometers of length, respectively, in 17 cities: Yerevan, Gyumry, Vanadzor, Hrazdan, Sevan, Charentsavan, Eghegnadzor, Vayk, Jermook, Kapan, Kajaran, Spitak, Dilijan, Ijevan, Goris, Artashat, and Armavir.

Out of projected leveling of 1634.9 linear kilometers of the 1<sup>st</sup> category networks, 1315.9 linear kilometers were completed, including 696.6 linear kilometers in 2005. Out of



projected 852.2 linear kilometers of the 2<sup>nd</sup> category networks, 625 linear kilometers were completed, including 260 linear kilometers in 2005. The works will be completed in 2006.

Based on the program approved by the Government Decree No 1024-NG, over 2003-2005 works were implemented for establishing 106 marks (1 mark of the zero category, 10 marks of the 1<sup>st</sup> category, and 95 marks of the 2<sup>nd</sup> category, in the WGS-84 world geodesic coordinate system. The works were completed in 2005. Out of projected 350.4 linear kilometers of the 1<sup>st</sup> category, 260.18 linear kilometers were completed in 2005; 2<sup>nd</sup> category 85 tripod were installed. The program will be completed in 2006.

In 2005 projected works in the geodesic sphere were completed for about 100 percent and their financing was 194,163.00 thousand drams, and in 2006 projected allocations are 91,500.00 drams.

### **Land Planning**

In 740 communities works were conducted to transfer (free of charge) the state-owned lands within the administrative borders of communities to their ownership. Based on the respective Government Decrees, out of 1,314.1 thousand hectares of state-owned lands within the administrative borders of 740 communities, 846.0 thousand hectares were passed to the communities. In 2005, 517.1 thousand hectares were passed, out of 771.6 thousand hectares.

The program concept on inclusion of state-owned lands of different categories out of the administrative borders of communities into the communities' administrative borders has been submitted to the Government and approved by the Decree N 1873-N on 27.11.2005. Within the framework of the program preparatory activities were conducted on the whole territory of the Republic, and draft projects are elaborated on inclusion of state-owned lands of different categories out of the administrative borders of the communities into the communities' administrative borders for Shirak, Gegharkunik (excluding the Gavar region), Kotayk, and Aragatsotn marzes. In 2005 through auctions and direct sale, 19,000 hectares of lands were disposed (alienated) in the Republic, 293 auctions were arranged, and 8,742.5 hectares of land plots were sold. 2 million drams (excluding Yerevan) were collected and transferred to the Community Budgets.

A draft concept is developed for land consolidation and it will turn to be a basis for elaboration of land consolidation strategy in future.

Within the framework of the Program on "Land Consolidation and Preparation and Realization of Land Planning Schemes in Armenia", a program for land consolidation is being implemented in Nor Erznka rural community (Kotayk marz) since 2005, and an utilization scheme is developed for lands in Nor Erznka.

Adoption of the Law "On Control over Land Utilization and Maintenance", submitted to the National Assembly, will greatly assist in implementation of legislative requirements regulating land relations.

In 2005 projected works for the land planning system were completed for about 100 percent and their financing was at 110,000.00 thousand drams, and in 2006 the allocations are envisaged at 175,000.00 thousand drams.

Existence of problems in the sphere of land planning related to adjusting, describing, and mapping of administrative borders of communities; as well as the necessity to deal with a great number of issues connected with land utilization and urban planning activities in communities is conditioned by realization of some activities, such as programs on land consolidation and extension in order to promote hypothec lending and investing in agricultural lands.

**International Collaboration**

During the year, activities of the UN EEC Land Management Work Group (LMWG) continued. Members of the State Committee for Real Estate Cadastre participated in the LMWG conferences.

With participation of a Committee representative, the following UN Guides are elaborated: "Land Resources Management in EEC Countries"; "Identification of Real Estate Units"; "Collaboration of Public and Private Sectors in Terms of Land Resources Management".

The World Bank's "Doing Business 2006" periodical ranked Armenia's real estate cadastre as number 7 (out of 145 countries throughout the world) due to simplicity, transparency, and efficiency of its procedures (compared to the previous year, this rating moved up by two marks).

Some measures were implemented for increasing transparency and publicity of the Committee's activities and to increase the level of public awareness. Tutorial and explanation advertisements were presented on TV. Booklets are prepared and published to inform about activities of the state cadastre system. "Cadastre Directory" magazine is published on a monthly bases and provides analysis of real estate market.

**16.2.2. OBJECTIVES AND PRIORITIES OVER MTEF*****16.2.2.1. Objectives***

(i) Introduction of a system for running a single real estate cadastre, and ensuring its efficient management;

(ii) Improvement of of management efficiency in geodesy and mapping.

***16.2.2.2. Priorities***

Over 2007-2009 main directions and priorities of the real estate cadastre development will be the following:

(i) Introduction of a system for running a single real estate cadastre, and ensuring its efficient management

- Implementation of an automated on-line system for registration of real estate property rights; introduction and management of a single information system on real estate property rights and restrictions, and on qualitative and quantitative data. The automated system of real estate registration will be installed and made available for external users in 47 territorial divisions of real estate cadastre and its information center;

- Introduction of a new assessment system for taxation purposes based on market mechanisms, and implementation of works for switching to the single tax on real estate for automating assessment works;

- Supporting development of the real estate market.

(ii) Improvement of management efficiency 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 photogrametric methods, on the basis of satellite and air surveying technologies;

- Introduction of an automated system for the stocktaking and registration of geographical names;

- Modernization of the state geodesic planning and altitude network, based on satellite technologies.

### **16.2.3 EXPENDITURE COMMITMENTS AND EXPECTED RESULTS**

It is expected, that the programs to be implemented (by sectors) will produce the following outcomes:

#### **Mapping**

- Taking of new air photos and high-resolution space photos for next-to-frontier areas and highlands; creation of topographic base maps of the state scale series for the Republic of Armenia and the Nagorno-Karabakh Republic; updates of the scale base topographic maps of the entire territory of Armenia (both digital and traditional);
- Creation of the Republic of Armenia topographic base maps of the state scale series ranging from 1:25 000 up to 1:1 000 000, which will be created in laboratories, based on the generalization principals of digital topographic base maps of the scale series 1:10000;
- Creation of digital cadastral maps for marzes and lands outside of the administrative borders of the communities (for the whole territory of Armenia);
- Introduction of automation systems for the Republic of Armenia geographical names' card indexes;
- Availability of technologies and specialists necessary for data analysis, creation and preservation of base maps from digital aero- and satellite photos, creation of orthophotographic maps, implementation of air and space photos surveying for updating and preserving cadastral data, as well as for land utilization planning, agriculture, environmental protection, and for other important purposes;

The following works can be facilitated based on mapping data:

- to run the real estate cadastre;
- to clarify data on land tax and property tax database;
- To describe and fix the RA state borders, those of administrative units (marzes and communities);
- To compile the RA land balance by administrative –territorial units;
- To prepare land utilization schemes;
- To evaluate and monitor categories of agricultural lands;
- To hold the on-duty map of the RA territory;
- Keeping the RA geo-informational system
- To plan and deal with problems of urban planning, environmental protection, and local management;
- To solve other economic and public problems.

#### **Automation**

Results anticipated after implementation of this program:

- digital cadastral maps for 928 communities and lands outside of the administrative borders of the communities (cadastral sectors);
- a state unified information database of real estate;

- substantial decrease of time spent on registration of real estate and rights on them;
- substantial decrease of time spent on provision of information (both territorial and legislative) regarding real estate and registered rights and restrictions. (Information can be provided within minutes);
- public accessibility to real estate database (through Internet);
- increase of credibility of information on real estate, continuity in changing and updating of information;
- exclusion of useless repetition of information on real estate;
- introduction, implementation, and maintenance of geo-information systems.

#### **Evaluation and Systematized Observance**

1. For introduction of the new system of real estate evaluation:
  - Systematized observations of price situation regarding land plots, buildings and constructions on them (during 2007-2009);
  - Systematized observations of the price situation regarding agricultural land (over 2007-2009);
2. Cadastral evaluation of land plots in settlements, buildings and constructions on them, for forming the real estate unified taxation base for 2008-2010 (in 2007).
3. Cadastral evaluation of agricultural lands for forming agricultural land taxation base for 2008-2010 (in 2007).
4. Regulation of the evaluation sector, implementation of measures aimed at separation of competences of public and private sectors.

#### **Evaluation and Systematized Observance of:**

1. Real estate - land, buildings and constructions on it:
  - systematized observations (2007-2009) of price situation;
  - disclosure of area-evaluation unified zones (reflection of borders, description of their extension), continuance of observations over 2007 - 2009;
  - disclosure of factors for switching to unified location zones, continuance of observations over 2007 - 2009.
2. Price situation of agricultural lands:
  - continuation of implementation of systematized observations over 2007-2009 per bypass zones (sub-zones); characterization of price situations; continuance of observations over 2007 - 2009;
  - price zones (sub zones) per location, taking into account results of a price situation analysis for agricultural lands in the real estate market;
  - assistance in developing of evaluation methods, including data analysis, formulation of mathematical models for price formations; base prices and disclosure of drivers substantially affecting them;
3. Situation with agricultural lands:
  - continuation in 2007-2009 of systematized observations, including provision of preliminary, field, laboratorial, and cameral works, disclosure of negative drivers

**Land Planning**

- re-distribution of state-owned lands (which are outside of the administrative borders of the communities) to communities;
- works on preparation of a General scheme for land resources management;
- implementation of a pilot project on consolidation of lands which will allow to enlarge the plots and make their utilization more efficient and attractive for investments.

**16.2.4. EXPENDITURE PROGRAMS OVER MTEF 2007-2009**

Expenditures Comparative Table as per MTEF 2006-2008 and MTEF 2007-2009, by Programs

Functional Classification Group/ Subgroup/ Program	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
Public administration in real estate cadastre	1,404,320.0	1,583,000.0	1,488,580.0	1,662,150.0	1,577,890.0	1,745,257.5	1,832,520.4
Real estate cadastre, total	1,069,215.7	1,069,215.5	635,700.0	729,700.0	476,000.0	635,000.0	635,000.0
Cadastral mapping, works on first-time state registration	20,000.0	20,000.0	20,000.0	10,000.0	20,000.0	10,000.0	10,000.0
State order on stocktaking of geographical names, their registration by the "Center of Geodesy and Mapping" SNCO	7,000.0	7,000.0	14,000.00	7,000.0	14,000.05	7,000.0	7,000.0
State order on creating the base maps of the state scale series and air photographed surveys by the "Center of Geodesy and Mapping" SNCO	269,261.0	259,183.0	109,000.0	245,600.0	36,000.0	208,000.0	208,000.0
State order on digitalizing of mapped units by the "Center of Geodesy and Mapping" SNCO	10,000.0	10,000.0	10,000.0	1,797.0	10,000.0	2,000.0	2,000.0
State order on implementation of geodesic works (establishment of a new geodesic network in the world geodesic coordinate system WGS-84) by the "Center of Geodesy and Mapping" SNCO	125,232.7	91,500.0	00.0	40,000.0	0.0	0.0	0.0
State order on conduction of works for first-time state registration of rights to real estate and provision of Ownership Certificates	118,722.0	103,722.0	0.0	0.0	0.0	0.0	0.0
Information provision on unified real estate cadastre	30,000.0	30,000.0	30,000.0	30,000	30,000	30,000	30,000
State order on evaluation of agricultural lands outside of the communities' administrative borders by "Landplanmonitoring" SNCO	0.0	50,000.0	0.0	0.0	0.0	0.0	0.0
Implementation of cadastral evaluation of real estate (incl. lands) for creation of a base for property and land taxes	0.0	35,000.0	40,000.0	40,000.0	0.0	0.0	0.0
Introduction and development of automated system for running the real estate cadastre and	170,00.0	158,810.0	315,500.0	158,810.0	273,000.0	253,000.0	253,000.0

Functional Classification Group/ Subgroup/ Program	2006		2007		2008		2009
	MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
servicing of informational database							
The Geo-information system's projection, implementation, and maintenance	104,000.0	91,000.0	3,000.0	87,293.0	53,000.0	87,000.0	87,000.0
State order on systematized observations of land, buildings, and constructions on it for the purpose of introduction of a new real estate evaluation system by "Landplanmonitoring" SNCO	30,000.0	30,000.0	30,000.0	47,000.0	30,000.0	30,000.0	30,000.0
Information provision for public	10,000.0	8,000.0	10,000.0	8,00.0	10,00.0	8,00.0	8,00.0
Description of borders of administrative-territorial units, arrangement and realization of new administrative-territorial division by "Landplanmonitoring" SNCO	175,000.0	175,000.0	54,200.0	54,200.0	0.0	0.0	0.0

In the sector of real estate cadastre the change of expenditure for each year over the MTEF period compared with the previous year is as follows:

For the program on "Cadastral mapping, realization of works for the first-time state registration", 20.0 million drams per year was envisaged by the MTEF 2006-2008, while by the MTEF 2007-2009 10.0 million drams per year is envisaged. Decrease of the planned funds is caused by a decrease of the volume of works.

For the program on "Stocktaking and registration of geographical names", 14.0 million drams per year was envisaged by the MTEF 2006-2008, while 7.0 million drams per year is envisaged by the MTEF 2007-2009. Decrease of the provided funds is caused by the fact that works on stocktaking and registration of all names of geographical objects in marzes and Yerevan were completed over 2002-2005. Also, a reference book of physical-geographical objects is planned to be published in 2006. For continuation of the program, it is suggested to allocate the funds equal to that of the 2006 State Budget.

For the program on "Creation of the base maps of the state scale series and for air photographing works", 109.0 million drams was envisaged in 2007 and 36.0 million drams in 2008 by the MTEF 2006-2008, while 245.6 million drams is envisaged for 2007 and 208.0 million drams annually for 2008 and 2009 by the MTEF 2007-2009. Increase of the projected funds is caused by an increase of the volume of works.

For the program on "Digitalization of mapped units", 10.0 million drams per year was envisaged by the MTEF 2006-2008, while 1.8 million drams for 2007 and 2.0 million drams annually for 2008 and 2009 is envisaged by the MTEF 2007-2009. Decrease of the projected funds is conditioned by volumes of digitalized units.

For the program on "Introduction and development of automated system for running the real estate cadastre and servicing of the informational database" by the MTEF 2006-2008 315.5 million drams was envisaged for 2007 and 273.0 million drams for 2008. While by the MTEF 2007-2009 158.81 million drams is envisaged for 2007 and 253.0 million drams annually for 2008 and 2009. Increase of the projected funds is caused by the increase of the volume of works.

For the program on "Projection, introduction and maintenance of the geo-information systems", by the MTEF 2006-2008 3.0 million drams was envisaged for 2007 and 53.0 million drams for 2008. While by the MTEF 2007-2009 87.293 million drams is envisaged

for 2007 and 87.0 million drams annually for 2008 and 2009. Increase of the projected funds is conditioned by the adopted implementation time-frame (2006-2013), according to the schedule of the concept approved by Government Decree No 197-N "On Approving the concept for creation and running of the geo-information system of RA", dated January 20, 2005, and estimate of financial resources (792.6 million drams).

For the program on "Information provision to public" by the MTEF 2006-2008 10.0 million drams was envisaged in 2007 and 10.0 million drams for 2008. While by the MTEF 2007-2009 8.0 million drams annually is envisaged. It is suggested to keep the level of funds provision equal to that adopted by the 2006 State Budget.

**Table 16.2.1. Public Expenditure in the Cadastre Area over 2007-2009 (Thousand Drams)**

Group	Subgroup	Functional Classification Group/ Subgroup/ Program	2005	2006	2007	Percentage share in total expenditure	2008	Percentage share in total expenditure	2009	Percentage share in total expenditure
		Share in the State Budget expenditure (percent)		0.2	X	0.1	x	0.1	x	0.1
		Share in GDP (percent)	0.01	0.04	X	0.03	x	0.02	x	0.02
		Real estate cadastre total	1,508,900.0	1,069,215.5	729700.0	100.0	635,000.0	100.0	635,000.0	100.0
		Cadastral mapping, first-time state registration	120,000.0	20,000.0	10,000.0	1.4	10,000.0	1.6	10,000.0	1.6
08	05	<i>Percentage change, as compared with previous year</i>		-83.3	-50.0	X	0.0	x	0.0	x
		Works for stocktaking and registration of geographical names implemented by the "Geodesy and Mapping Center" SNCO	18,000.0	7,000.0	7,000.0	1.0	7,000.0	1.1	7,000.0	1.1
08	05	<i>Percentage change, as compared with previous year</i>		-61.1	0.0	X	0.0	x	0.0	x
		State order for compilation of base maps of state series and for aero-photographic works implemented by the "Geodesy and Mapping Center" SNCO	350,600.0	259,183.5	245600.0	33.7	208,000.0	32.8	208,000.0	32.8
08	05	<i>Percentage change, as compared with previous year</i>		-26.1	-5.1	X	-15.4	x	0.0	x
		State order for digitization of mapped units implemented by the "Geodesy and Mapping Center" SNCO	27,000.0	10,000.0	1,797.0	0.2	2,000.0	0.3	2,000.0	0.3
08	05	<i>Percentage change, as compared with previous year</i>		-63.0	-82.0	X	11.3	x	0.0	x
		State order for implementation of geodesic works (continuation of works for establishment of a new geodesic network within the world geodesic coordinate system WGS-84) implemented by the "Geodesy and Mapping Center" SNCO	133,924.2	91,500.0	40,000.0	5.5	0.0	0.0	0.0	0.0
08	05	<i>Percentage change, as compared with previous year</i>		-31.7	-56.3	X	0.0	x	0.0	x
		Implementation of works under the first-time state registration of property rights and provision of title registration certificates	75,000.0	103,722.0	0.0	0.0	0.0	0.0	0.0	0.0
08	05	<i>Percentage change, as compared with previous year</i>		38.3	-100.0	X	0.0	x		x
		Provision of information to the single state cadastre of real	30,000.0	30,000.0	30,000.0	4.1	30,000.0	4.7	30,000.0	4.7

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Group	Subgroup	Functional Classification Group/ Subgroup/ Program	2005	2006	2007	Percentage share in total expenditure	2008	Percentage share in total expenditure	2009	Percentage share in total expenditure
		estate								
	05	<i>Percentage change, as compared with previous year</i>		0.0	0.0	X	0.0	x	0.0	x
		State order for works to evaluate agricultural plots outside the administrative boundaries of communities implemented by the "Land Planning and Monitoring" SNCO	70,000.0	50,000.0	0.0	0.0	0.0	0.0	0.0	0.0
	08 05	<i>Percentage change, as compared with previous year</i>		-28.6	-100.0	X	0.0	x	0.0	x
		Implementation of works for evaluating real estate, including cadastral evaluation of land, for establishment of property and land tax base	40,000.0	35,000.0	40,000.0	5.5	0.0	0.0	0.0	0.0
	08 05	<i>Percentage change, as compared with previous year</i>		-12.5	14.3	X	-100.0	x	0.0	x
		Introduction and development of automated system for running the real estate cadastre, servicing of informational database	296,100.0	158,810.0	158,810.0	21.8	253,000.0	39.8	253,000.0	39.8
	08 05	<i>Percentage change, as compared with previous year</i>		-46.4	0.0	X	59.3	x	0.0	x
		Design, introduction, and maintenance of geo-informational system	50,000.0	91,000.0	87,293.0	12.0	87,000.0	13.7	87,000.0	13.7
	08 05	<i>Percentage change, as compared with previous year</i>		82.0	-4.1	X	-0.3	x	0.0	x
		State order for systematized observations of land, buildings, and accommodations on it, and of real estate, for introducing the new system of real estate evaluation implemented by the "Land Planning and Monitoring" SNCO	55,000.0	30,000.0	47,000.0	6.4	30,000.0	4.7	30,000.0	4.7
	08 05	<i>Percentage change, as compared with previous year</i>		-45.5	56.7	X	-36.2	x	0.0	x
		Public awareness	10,000.0	8,000.0	8,000.0	1.1	8,000.0	1.3	8,000.0	1.3
	08 05	<i>Percentage change, as compared with previous year</i>		-20.0	0.0	X	0.0	x	0.0	x
		Description of boundaries of state administrative units, organization and implementation of the new administrative division	110,000.0	175,000.0	54,200.0	7.4	0.0	0.0	0.0	0.0
	08 05	<i>Percentage change, as compared with previous year</i>	x	59.1	-69.0	X	-100.0	x	0.0	x
		In urban areas, establishment of the 2nd category network, leveling, balancing, and cataloguing of the 2nd and 3rd category networks within the world geodesic coordinate system WGS-84	60,275.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	08 05	<i>Percentage change, as compared with previous year</i>		-100.0	0.0	X	0.0	x	0.0	x
		State order for compilation of The National Atlas of Armenia implemented by the "Geodesy and Mapping Center" SNCO	43,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	08 05	<i>Percentage change, as compared with previous year</i>		-100.0	0.0	X	0.0	x	0.0	x



2007-2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Group	Subgroup	Functional Classification Group/ Subgroup/ Program	2005	2006	2007	Percentage share in total expenditure	2008	Percentage share in total expenditure	2009	Percentage share in total expenditure
		State order for works to generate and update initial stocktaking data on areas outside the administrative boundaries of communities implemented by the "Land Planning and Monitoring" SNCO	20,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
08	05	<i>Percentage change, as compared with previous year</i>		-100.0	0.0	X	0.0	x	0.0	x

## 16.3 STATISTICS

### 16.3.1 SITUATIONAL OVERVIEW

According to the Law "On State Statistics", the National Statistical Service, as a public administration body acting for public benefit, is responsible for organizing a system of statistical data on phenomena and processes observed in the economy and the society, and on their outcomes, as well as for providing summarized statistical information to public and local self-governance bodies, legal entities, state enterprises, and international organizations, and to the public.

Pursuant to the provisions of the Law "On State Statistics", the basis for running state statistics in the territory of the country is the annual State Statistical Activity Program (hereinafter - Program), to be approved within one month after the adoption of the State Budget.

In 2005, among statistical works under 443 codes (or 1,845- with the account of frequency) included into the State Statistical Activity Program, those under 440 codes (or 1,842- with the account of frequency), or 99.8 percent, were implemented within the specified terms and frequency. At that, the other 3 works were carried out by 35 percent.

With regard to the information/publication activities envisaged by the Program, in 2005 the National Statistical Service published 121 titles of statistical materials, totaling 11,647 copies and around 1.5 million pages, including "Social-Economic Situation in the Republic of Armenia" annual statistical report (in Armenian and Russian). Among 17 titles of statistical sets envisaged and published under the Program, 15 titles, or 88,2 percent, were financed from the State Budget.

At the same time, pursuant to the Program, the envisaged 19 titles of statistical bulletins (or 84- with the account of monthly, quarterly, and annual publication frequency), 8 statistical reports, 32 press releases and 44 informational quarterly reports of regional agencies of the National Statistical Service were publicized.

Within the international cooperation framework, in 2005 the National Statistical Service released 8 publications, 1 press release, and replied to 287 inquiries via e-mail.

The 2006 Program includes statistical works under 455 codes (or 1,954- with the account of frequency).

13 statistical surveys are to be conducted, 5 of which to be financed from the State Budget. The program stipulates for the publication of 20 statistical sets through budgetary financing.

At the same time, pursuant to the Program, some 19 titles of statistical bulletins (or 84- with the account of monthly, quarterly, and annual publication frequency) and 1 statistical report, around 10 thematic press releases, 24 monthly informational reports, and 44 informational quarterly reports of regional agencies of the National Statistical Service will be publicized.

The basic tasks in the area of state statistics in Armenia are the following:

- (i) Ensuring availability of a unified statistical methodology in line with the criteria recognized by international, financial, economic, social and other institutions, as well as with the nationally recognized criteria;
- (ii) Organization and coordination of a system of statistical information on economic and social processes, and on their outcomes;

(iii) Provision of summarized information to public administration and local self-governance bodies, organizations (including international organizations), scientific-educational institutions, mass media, and to the public;

(iv) Coordination of the works for elaborating forms of documents serving as sources of statistical data;

(v) Ensuring reliability and completeness of statistical data, including arrangement and realization of the supervision for keeping anonymity (secrecy) of initial (original) statistical data;

(vi) Running a statistical business (entrepreneurship) database necessary for the organization of statistical works, and its regular updating;

(vii) Elaboration of classifiers for technical-economic and social data, their harmonization (including that through continuous improvement) with internationally recognized and applied classifications.

Implementation of the tasks listed under this item both directly and indirectly reflects the need for improving the composition and contents of indicators necessary for monitoring the Poverty Reduction Strategic Program and their calculation methodologies, as well as for bringing them in balance with internationally recognized and applied methodologies.

### **16.3.2 OBJECTIVES, PRIORITIES, AND EXPENDITURE DRIVERS OVER MTEF PERIOD**

#### ***16.3.2.1. Objectives***

According to the provisions of Article 11 of the Law "On State Statistics", the National Statistical Service conducts its main activities in state statistics implementation sector based on the main directions defined by the triennial State Statistical Activity Programs adopted by the National Assembly and measures defined by the Programs approved by the RA National Statistical Council for implementation of these directions.

The Program includes a list of statistical data (data collection sources, time-frames for data submission and works (development of the index), and publications) used for observation of economic, demographic, social and environmental protection situations, taking into account the scarcity of resources, the volume of obligations of statistical data providers, and the efficiency of expenditure.

Directions and activities envisaged by the Program should take into account compliance of the country's indexes with international statistical standards, ensure the stable periodicity of trends to uncover them in long-term period and their proportionality with resources provided annually to the state statistics.

#### ***16.3.2.2. Priorities***

The main priorities of the National Statistics Sector development over 2007-2009 will be the following:

(i) For purposes of ensuring the quality and transparency of statistical data, and for the introduction and application of international standards in statistics, switching to internationally recognized criteria for data propagation (in particular, participating in the "Special Standards for Data Dissemination" elaborated by the International Monetary Fund), which would imply uninterrupted operation of the National Statistical Service website, as well as regular updating of the structure and quality of information and meta-data;

(ii) In parallel with introducing and keeping the compact files of communities, improving and expanding the composition and contents of indicators necessary for running territorial statistics;

(iii) Switching to the full application of the mechanism of data collection through administrative registers, in view of the need for ensuring implementation of the works determined by the annual State Statistical Activity Programs;

(iv) Improving timeliness of data preparation, through the utilization of modern means and methods for data collection, including the introduction and application of information technologies;

(v) Developing statistical databases; in particular, regularly (at least, annually) updating the business register database (with regard to the data on legal entities and individual entrepreneurs); forming and running the branch and territorial registers;

(vi) Expanding the structure and contents of statistical publications (bulletins, collections, etc) so as to meet the needs of consumers (users) of statistical data in a comprehensive and timely manner, also using the potential of information technologies;

(vii) Furthering the establishment of a unified system for the classification and coding of technical-economic and social data harmonized with internationally recognized classifications, so as to ensure comparability and unity of statistical data;

(viii) Furthering activities aimed at the completion of the gender statistics, so as to improve statistical record-keeping of the basic problems of women, and to ensure its international comparability;

(ix) Within the framework of international collaboration, broadening the data coverage through the improvement of the basic infrastructure of data collection; increasing the frequency and quantity of statistical surveys;

(x) Modernizing the local computer network at the National Statistical Service through the incorporation of network resources and establishment of a corporate network, thus consolidating the separated and structural divisions of the National Statistical Service.

Allocations to the statistics as per MTEF 2006-2008 and the MTEF 2007-2009 are presented in Table 16.3.1.

**Table 16.3 Budget Allocations to Statistics Over 2006-2009, by Functional Classification Subgroups (Million Drams)**

N	Functional Classification Group/Subgroup/Program	2006		2007		2008		2009
		MTEF 2006-2008	Adopted Budget	MTEF 2006-2008	MTEF 2007-2009	MTEF 2006-2008	MTEF 2007-2009	MTEF 2007-2009
01.07.01.	Public administration	497.8	488.1	571.1	562.3	653.5	580.9	646.0
01.07.03.	Collection of state statistical data	208.0	219.3	208.0	221.6	221.6	248.5	276.5
	TOTAL	705.8	707.4	779.1	783.9	783.9	829.4	922.5

### 16.3.2. 3. Expenditure Drivers

The main drivers influencing the expenditure in state statistics over 2007-2009 are:

- increase of minimal wage by 5,000 drams annually, over the MTEF period;
- increase in services tariffs.

**16.3.3. EXPENDITURE COMMITMENTS OVER MTEF PERIOD**

In view of the main activities and priorities for the strategic development of functional areas of statistics, as defined by the triennial State Statistical Activity Programs adopted by the National Assembly, allocations to the sector over 2007-2009 will amount to 784.0 million drams in 2007, to 829.4 million drams in 2008, and to 922.5 million drams in 2009.

Increase in expenditure will comprise 29.0 percent in 2006, as compared with 2004 level; 10.8 percent in 2007, 5.8 percent in 2008, and 11.2 percent in 2009, as compared with the respective previous year.

Expenditure in state statistics, as stipulated by the medium-term expenditure framework, is summarized in Table 16.3.2.

**Table 16.3.2 Budget Allocations to Statistics Over 2005-2009, by Functional Classification Subgroups and Current and Capital Expenditure (Million Drams)**

N	Subgroup/ Program	2005 <i>Actual</i>	2006 <i>Adopted Budget</i>	2007	2008	2009
	Total:	548.3	707.4	784.0	829.4	922.5
	- <i>Current expenditure</i>	548.3	707.4	784.0	829.4	922.5
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
01.07.01.	Public administration, including:	350.9	488.1	562.3	580.9	646.0
	- <i>Current expenditure</i>	350.9	488.1	562.3	580.9	646.0
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	<u>National Statistical Service</u>	350.9	488.1	562.3	580.9	646.0
01.07.03.	Collection of state statistical data, including:	197.4	219.3	221.6	248.5	276.5
	- <i>Current expenditure</i>	197.4	219.3	221.6	248.5	276.5
	- <i>Capital expenditure</i>	0.0	0.0	0.0	0.0	0.0
	<u>National Statistical Service</u>	197.4	219.3	221.6	248.5	276.5
	Percentage of total					
01.07.01.	Public administration	64.0	69.0	71.7	70.0	70.0
01.07.03.	Collection of state statistical data	36.0	31.0	28.3	30.0	30.0
	<i>Percentage change, as compared with previous year</i>					
	Total	0.0	29.0	10.8	5.8	11.2
01.07.01.	Public administration	0.0	39.1	15.2	3.3	11.2
01.07.03.	Collection of state statistical data	0.0	11.1	1.1	12.1	11.3

## CHAPTER 17. DEFENCE, NATIONAL SECURITY AND PROTECTION OF PUBLIC ORDER

### 17.1. DEFENCE

#### *17.1.2. Provision of Alternative Military Service*

Alternative military service is defined by the Law "On Alternative Military Service". The Program on "Provision of Alternative Military Service" was included into the State Budget in 2005 for the first time, in order to arrange and conduct the alternative military service. Three public administration bodies are responsible for its implementation. Within the framework of the Program, alternative military service is intended instead of compulsory military service in the army by a citizen of the Republic of Armenia, in the cases when compulsory military service in military divisions, or arms holding, keeping, preserving and using is in contradiction with his religious beliefs or consciousness. For the purpose of the Program, 77.4 million drams were allocated from the State Budget 2005, out of which 58.3 million drams were provided to the Ministry of Defence, 13.2 million drams- to the Ministry of Health, and 5.9 million drams- to the Ministry of Labor and Social Affairs; in 2006 the allocations amounted to 43.9 million drams, out of which 11.4 million drams - to the Ministry of Defence, 16.1 million drams – to the Ministry of Health, and 16.4 million drams - to the Ministry of Labor and Social Affairs. Decrease in 2006 allocations as compared with 2005 is caused by the actual number of alternative servants.

**Table 17.1.2.1. Provision of Alternative Service: Program Expenditure by Implementing Bodies (million drams)**

	2007	2008	2009
Total, including	35.7	35.7	35.7
RA Minisdry of Defence	11.4	11.4	11.4
RA Ministry of Health	10.8	10.8	10.8
RA Ministry of Labor and Social Affairs	13.5	13.5	13.5

### 17.2. NATIONAL SECURITY AND PROTECTION OF PUBLIC ORDER

Allocations envisaged by MTEF 2007-2009 will be directed to implementation of eight currently existing programs. The above-mentioned programs are developed for the MTEF 2007-2009 period based on suggestions and recommendations made by the Standing Group for coordination of MTEF elaboration works, and within the expenditure limits approved by the RA MTEF Standing Higher Council. The programs will be implemented by four public administration bodies. (See table 17.2.1.)

#### *Situational Overview of National Security and Protection of Public Order Sectors*

##### **Ensuring National Security and Provision of Public Guard Service**

The National Security Service under the Government (hereinafter - Service), while operating within the requirements of existing legislative framework, as well as pursuant to the RA Law "On National Security Bodies", adopted on December 28, 2001, provides different services within its competences, directed at: assuring of the RA sovereignty, inviolability of state borders, territorial integrity, the Constitutional order, protection of citizens' rights, freedoms, and legal interests, enhancement of the Republic's defence capacity, collection of information in order to be able to assure and strengthen the national security, the public guard service, to protect economic, scientific-technical and defence potentials, to ensure

security of military-industrial, economic entities, nuclear energy, transportation, communication, economic, financial and industrial institutions, of strategic objects, security in the sphere of primary scientific elaborations, to struggle against terrorism, corruption and bribery, detection, prevention and hindrance of activities of foreign countries' intelligence services and organizations, as well as intelligence and other destructive actions of separate individuals.

Construction of 2 frontier posts, capital repair of existing frontier posts, ensuring their compliance with normative requirements of regime zones, conducting technical re-equipment, acquisition of various devices and equipments, provision with special military/technical equipment, binoculars, devices for night vision, and other equipment is envisaged annually. 2 frontier posts in Bagratashen and Haghtanak, as well as the administrative building of the Public Guard Service were constructed in 2005. 2 more frontier posts will be constructed in Airum and Bavra in 2006.

Pursuant to the Prime Minister Decree N 242-N, dated April 12, 2006, "On Amendments to the Prime Minister's Decree N 226, dated April 16, 1999", the official wage rates (minimal and maximal) of the Service's officers, ensign and junior commander staff increased since January 1, 2006.

Based on the Law "On Provision of Security to Persons Subject to Special Public Guard", a new Program was established and included in State Budget framework in 2005 for the first time titled "Provision of Public Guard Service". Within the framework of the program, public guard services are being provided, particularly, functions are fulfilled for ensuring security of special objects under state protection and security protection of public entities, based on combination of legislative, organizational, protective, regime, operative-intelligence, technical, and other measures.

### **Ensuring Protection of Public Order, Printing of RA Passports Forms, and Acquisition of State Vehicle Number Plates**

Activities of the RA Police are regulated by the Constitution of the Republic of Armenia, the Law "On Police", the Law "On Police Service", the Law "On Provision of Social Security for Military Servants and Their Family Members" and other legislative acts, and international agreements. Implementation of legal obligations of police is conducted through 10 regional and 58 subdivisions, as well as through 42 subdivisions, which provide protection and security service on contractual bases according to the Government Decree No. 1008-N, dated April 29, 2004.

A standing problem for this sector is the ensuring of targeted and effective directedness of public expenditures in the condition of increasing allocations to the sector. Increase of public expenditure is one of the main directions for improving the situation in the sector. Public expenditure of this sector will have a growth tendency during the whole MTEF period.

Six targeted programs were implemented in 2005, such as Centralized Printing of Forms of the RA Citizen's Passport and of Certificates for Persons Who Acquired Refugee Status in the Republic of Armenia – 202.0 million drams; Development of Population Register – 110.0 million drams; Creation of Card-Indexes for Stocktaking of the Republic's Bullets and Cartridge-Cases– 40.0 million drams; Conduction of Supervision over Registration (Comparison) of Weapons Bullets and Cartridge-Cases Traces; Enhancement of the Police Communication and Transportation Means Material-Technical Base – 390.7 million drams.

379.5 million drams were allocated for ensuring compliance with norms of the places, where persons are being detained in cases provided by the RA Criminal Procedural Code.

Over 2004-2005, the police administrative buildings (barrack's construction), main buildings and auxiliary buildings of subdivisions, boiler-houses, and barracks construction and repair was implemented by the Police.

In 2006 the budget allocations for police increased by 17.6 percent as compared to 2005 level, of which a substantial portion was directed to wage fund, due to increase of official wage rates (minimal and maximal) of the Service's officers, ensigns and junior commanders staff pursuant to the Prime Minister's Decree N 242-N dated April 12, 2006 "On Amendments to the Prime Minister's Decree N 226, dated April 16, 1999".

Police and its divisions, in collaboration with other law-enforcement bodies, implemented all necessary measures to prevent and detect crimes, as well as to ensure public order protection and security.

The quality of collaboration of the Police with public administration and local self-governance bodies and various non-governmental and international organizations dealing with juvenile problems was improved significantly, several social programs are developed and jointly implemented. These measures enabled not only to prevent the growth of juvenile offences, but even for the first time over the recent 9 years, a tendency of decrease of main indicators of the juvenile crime is observed.

Improvement of results is registered also in activities directed to searching for persons avoiding investigations and judgment. Moreover, Armenian Police has arrested 59 criminals searched by foreign countries.

### **Maintenance of the Criminal-Executive System**

The Criminal - Executive Service of the Ministry of Justice consists of the Criminal - Executive Department of the Ministry of Justice and 13 criminal - executive entities. This Service fulfills enforcement of the court sentences and decisions in force, detention of people under arrest, assists with transportation of prisoners and detainees, ensures legitimacy in criminal-executive institutions, as well as security of prisoners, of the personnel and other citizens in its territory, protection of life and health of prisoners and other detainees, creation of appropriate conditions for their individual, educational, and cultural development and their social-psychological rehabilitation, as well as coordination of activities of subordinated structural departments and criminal - executive entities.

The basic objective of the Service over 2007-2009 is the duly implementation of the legislatively defined functions, such as: material provision for prisoners and detainees (within the criminal-executive entities), including with food and other household stuff, ensuring communal, health care, and other conditions in compliance with provisions and standards of generally accepted international instruments in the field of human rights.

The above-stated condition turned to be an issue of high importance in connection with Armenia's accession to the European Council. Armenia ratified the European Convention "On Prevention of Torture and Inhuman or Degrading Treatment or Punishment", which entered into force in Armenia since October 1, 2002. Pursuant to the Convention, the European Committee on Prevention of Torture and Inhuman or Degrading Treatment or Punishment (hereinafter - CPT) visits criminal-executive entities of the Ministry of Justice, and submits respective reports to the Government of the EC member country. Recommendations presented in these reports are mandatory for the government of the given country (CPT visited Armenia in 2002 and in 2004).

Based on the above-stated, the main objective of the Service over the 2007-2009 period, and in general, is the fulfillment of duties defined by the law in compliance with the current requirements and international standards. With regard to the CPT recommendations, the



main problems of the Service throughout institutional reforms in the sector are mainly connected with capital expenses, which should be directly addressed to activities for improving the level of administrative management of criminal - executive institutions in the terms of security protection..

There are a number of drivers affecting works to be done in the line of Capital Expenses, particularly:

1. Formerly, two square meters of dwelling space was being provided per prisoner and detainee . Currently, the minimal size of the dwelling space should be at least four square meters per person, in accordance with the commitments undertaken by the RA in the field of criminal-executive policy and respective CPT recommendations. That is why, the standing problem of insufficient dwelling space with existing building conditions turned to be more urgent within the Service system, in spite of the fact that decrease of the number of prisoners is being observed. According to international standards, overcrowding of criminal-executive entities with prisoners and detainees is unacceptable for two reasons: firstly, it causes improper conditions for them (which is considered as inhuman or degrading treatment), and at the same time, preconditions for uncontrollable management of criminal-executive entities (in terms of security protection) are being established in the conditions of insufficient space and existing insufficiency of administrative personnel (per prisoner or detainee);

2. During the Soviet period and till now, in criminal-executive entities prisoners resided mostly in hostel-type dwellings, while at present there is a need to completely switch to the separated-cells dwelling type. The problem is important for two reasons:

- Based on the necessity to fulfill the principle of individualization of punishment (the person should have a maximal possibility for privacy) in accordance with international standards, through providing proper conditions in the criminal-executive entities for prisoners to be kept in separate cells in small groups, taking into account their personal compatibility, by ensuring separate lavatory system and other conveniences in each cell (the mentioned provisions are stated in the RA Criminal Procedural Code);

- The problem is getting high importance in terms of provision of security protection by the administrative staff, as it is impossible to ensure an adequate control in criminal-executive entities. In present conditions, the administrative staff is unprotected in terms of security (particularly, in possible emergency situations in the criminal-executive entities);

3. Because of scarcity of financial resources, no capital renovation work has been conducted in criminal-executive institutions over years, and the buildings are in unbearable conditions (is assessed as inhuman or degrading treatment or punishment by international experts). CPT submitted numerous recommendations, and enormous financial expenses are necessary for their realization (for capital renovation of 119 buildings and constructions in criminal-executive entities: 550.0 million drams were envisaged for this purpose in 2005);

4. The Republic of Armenia, due to its accession to the European Council, completely realized the principle of abolishment of death penalty as a type of punishment. At the same time, according to the RA Criminal Code, the life imprisonment is defined as capital punishment in Armenia. The study of international experience allows to conclude that the number of prisoners of this category has a tendency to grow. It is predicted that in a country with population of 3 million people the number of life-sentenced people will gradually increase up to 100-150 person (analysis was done based on the example of Scotland). Currently, the number of life-sentenced people is 71 (the number of life-sentenced people was almost doubled over last two years).

Hence, construction of a building for a new criminal-executive institution with the total capacity of 600 person (for 600 prisoners) is expedient, where life-sentenced prisoners, as well as other prisoners conditionally released for the purpose of implementation of technical-economic jobs will be kept.

In the future, construction of a new criminal-executive entity will enable to close down the one (out of 13 criminal-executive entities) having the worst conditions (where buildings are in such an obsolete condition that it is absolutely inexpedient to carry out construction works for reconstructing its hostel-type dwellings into separated-cells dwellings).

Previously, there were fifteen criminal - executive entities in the Republic of Armenia, and two of them were closed down in 2004 based on the Government Decree. Closure of another criminal-executive entity is expected soon.

About 6.5 billion drams are necessary for construction of a new criminal-executive entity (for life-sentenced prisoners). The works started in 2006, and 400 million drams were allocated for this purpose according to the Law "On the 2006 State Budget". However, the main part of financial expenditures will be provided in 2007-2008; engineering-technical works with regard to security protection will be conducted in 2009.

There are some expenses of less importance, although they are being mentioned below by the consideration of the fact that while they are of low priority, but still there is a need of increase. Non-prioritized expenditures are:

- Office supplies and materials;
- Assets and equipment;
- Business trips and roundtrips.

### **Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration**

The Rescue Service of Armenia is a public body acting within the structure of the Ministry of Territorial Administration, together with its 11 regional rescue departments, it develops and implements the Government's policy in the spheres of protection of population and civil defence during emergency situations. Its activities are regulated by several laws and legal acts, such as the Law "On Rescue Service of Armenia"; the Law "On Protection of Population in Emergency Situations"; the Law "On Civil Defence"; and the Law "On Fire Security".

Institutional reforms of the previous years, perhaps, most of all influenced the Rescue Service. First of all, in 2002 the Fire Department was reformed within the structure of the Department of Emergency Situations under the Government, later on the Department of Emergency Situations was reformed within the structure of the Ministry of Territorial Administration, and the Department was renamed as the Rescue Service of Armenia.

Establishment of this system coincided with the country's acquisition of independence; hence, all the difficulties of the transitional period had their direct impact on formation and development of the Rescue Service. The Law "On Rescue Service of Armenia" entered into force since September 1, 2005, which precisely defines the role of the Rescue Service and its place within the frameworks of the state functions. In 2006 its budget has increased up to 1,078.7 million drams or by 64.1 percent as compared with the previous year. For the first time capital expenses at 45.0 million drams were provided, which is an important qualitative change. The amounts of budget allocations for almost all economic classification categories substantially increased, particularly, for assets and equipments – by 1.5 times; uniforms – by 2.7 times; fuel – by 2.8 times; office supplies and materials – by 1.6 times. More tangible

change was registered in expenditures characterizing social conditions of the staff. Monthly food reimbursement for the staff was determined (10,000 drams). Works on material-technical re-equipment and modernization of communication means will be continued. In 2005 modern communication equipments have been acquired, such as 6 ultra-short wave stationary radio stations; 5 ultra-short wave easy-carriers; 1 short wave stationary radio station and 40 mobile ultra-short wave radio stations; 16 vehicles for operative services, and 14 fire rescue vehicles, as well as 5,000 meters of fire-hose.

Based on the Law "On Protection of Population in Emergency Situations" and the Law "On Civil Defence", the regional divisions (including that of the Yerevan City) of the system have organized and conducted several activities:

- 23 commander-staff instructional-training drills;
- 70 staff instructional-training drills;
- 32 stuff drills;
- 15 special tactical instructional-training drills;
- 10 community and object complex observations;
- 18 object drills,

through involvement of 8 towns, 82 communities, and 17 organizations.

1,590 cases of fire were registered during 2005 (as compared to 1,683 fires in 2004). 868 projects on rehabilitation of gas supply systems in multi-apartment buildings were studied and provided with conclusions. 2,956 gasified buildings, 48,620 gasified apartments, and 14,086 gasified private houses were checked-up. Around 22,500 objects passed fire-technical check-ups.

Within the period under review, collaboration was implemented with:

- respective services in Thailand, Holland, Finland, Sweden, the Check Republic, Romania, Lithuania, Latvia, Estonia, Georgia, Kazakhstan, Byelorussia, and the Fire Academy of the Russian Federation;

- Red Cross and Red Crescent;
- US Embassy in Armenia;
- Japanese International Collaboration Agency (JICA);
- CIS Interstate Council and Executive Committee;
- UN European Economic Commission;
- NATO, within the framework of the program on individual partnership;
- GTZ German Management organization;
- Conrad Hilton Foundation;
- Department of Trade and Industry (DTI) of the Great Britain
- World Vision Armenian office.

The Government of the Republic of Armenia and the Government of the Swiss Confederation signed an Agreement "On Technical and Financial Cooperation for Providing Support to the System of Reacting to Emergency Situations of Armenia".

Over the MTEF 2007-2009, further developments and trends of the sector will be conditioned by use of modern communication devices, improvement of the legislative

frameworks, gasification of divisions, works directed at repair of roofs, and introduction of centralized systems for the population warning based on several decrees of the Government.

### **State Support to the "Service of Active Influence on Atmospheric Phenomena" SNCO**

The Service of Active Influence on Atmospheric Phenomena, through the "Cosmos-2" system, conducts daily receipt of satellite data on general meteorological situation of. Daily radar meteorological observations are being conducted, and results registered, analyzed, and weather forecasts are made. Allocations from State Budget for further exploitation of 15 Argentinean generators located in Aragatsotn marz increased by 33.6 million drams (or by 90.8 percent) in 2006, as compared to 2005 level, because of several reasons, such as creation of a material–technical base for exploitation and servicing of the generators, for establishment of a new structural department with appropriate specialists, construction works for stations for the generators, organization of a business trip of two specialists to the Argentinean SAPOL.SA company to study methodologies and techniques on exploitation and servicing of the generators.

### ***Objectives and Priorities in the Sectors of National Security and Protection of Public Order***

#### ***Objectives and Priorities***

The MTEF 2007-2009 program in the sectors of national security and protection of public order is aimed to fulfill the following objectives in different spheres of the sector:

#### **Ensuring National Security and Provision of Public Guard Service**

- Ensuring Constitutional order of the Republic of Armenia;
- Protection of state borders, inviolability of frontier zone;
- Prevention of intelligence services' activities of foreign countries;
- Ensuring the security of the state high-ranked officials;
- Provision of the state high-ranked officials with special communication devices.

#### **Ensuring Protection of Public Order, Printing of Passports Forms, and Acquisition of State Vehicle Number Plates**

- Protection of a person's life and health, rights, freedoms and legal interests from offensive and other illegal actions;
- Protection of interests of the public and the state;
- Prevention and abolishment of criminal and administrative violations;
- Enhancement of efficiency of measures directed at prevention of crimes, protection of public order and security;
- Detection and disclosure of crimes;
- Improvement of activities to deal with to juvenile offensive groups; improvement of preventive-tutorial works with juveniles under the police observation;
- Improvement of procedures for provision of passports to citizens, documentation, and registration;
- Decreasing the number of cases of car crashes in the Republic, and enhancement of preventive measures;
- Improvement of legal framework for police operation;

- Activation of collaboration with international police and other structures in the field of fight against crime;
- Improvement of living conditions of servants called up for service in the police forces;
- Provision of state vehicle number plates.

#### **Maintenance of the Criminal -Executive System**

- Material provision of prisoners and detainees, including with food and other household stuff;
- Healthcare services for the prisoners and detainees;
- Ensuring compliance of the conditions of holding prisoners and detainees in the criminal-executive entities with provisions and standards of generally accepted international instruments in the field of human rights;

#### **Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration**

- Protection of life and health of people in emergency situations and during war situations;
- Implementation of unified state policy during emergency situations;
- Prevention of emergency situations, elimination and decrease of their possible consequences; elaboration of population protection programs, plans, and ensuring of their implementation;
- Organization of trainings for population;
- Organization and conduction of rescue, post-emergency restoration, and fire-fighting works.

#### **State Support to the "Service of Active Influence on Atmospheric Phenomena" SNCO**

Basic objectives of MTEF 2007-2009 are to actively influence on atmospheric phenomena and ensure continuous struggle against hail.

#### **Priorities for the Sectors of National Security and Protection of Public Order Ensuring National Security and Provision of Public Guard Service**

- Construction of new frontier-posts and passport check-up posts; supply of drinking water;
- Furnishing of training rooms for new frontier-posts, appropriate design of territories necessary for special preservation, provision of fire–proof and fire-preventive devices;
- Capital renovation of the administrative building of the National Security Service under the Government; its correspondence to specific requirements;
- Construction of a new kennel, involvement of qualified dog-trainers;
- Ensuring of continuance of activities for acquisition of food, uniforms, modern special machinery, equipment, weapons and armament;
- Provision with high-passage and representative transportation means, as well as acquisition of transportation means of BMP and BTR types in future;
- Provision with modern computer equipments and communication means.

### **Ensuring Protection of Public Order, Printing of the RA Passport Forms, and Acquisition of State Vehicle Number Plates**

- Increasing efficiency in disclosure/detection of serious and extremely serious crimes against the person's life and health;
- Preventing cases of illegal circulation and usage of drugs;
- Activation of operations for timely detection and disclosure of economic offences, including various forms of corruption and other activities hindering the economic development;
- Increasing efficiency of operative-intelligence activities;
- Improving the efficiency of measures directed at preventing crimes, ensuring protection of public order and security;
- Increasing efficiency of operations directed at disclosure and confiscation of illegally circulating weapons and armament, as well as of those illegally kept by population;
- Improvement of activities directed to deal with juvenile offensive groups; improvement of preventive-tutorial works with juveniles under the police observation;
- Improvement of procedures for provision of passports to citizens, documentation, and registration;
- Decreasing the number of cases of car crashes in the Republic and enhancement of preventive measures;
- Improvement of legal framework for police operation;
- Activation of collaboration with international police and other structures in the field of fight against crime;
- Improvement of living conditions of servants called up for service in the police forces;
- Ensuring the continuous improvement of a material–technical base.

### **Maintenance of Criminal -Executive System**

- Necessity to unload over-crowded criminal-executive entities;
- Necessity to completely reconstruct hostel-type dwellings for prisoners into separated-cell ones and enhance security measures;
- Necessity to increase allocations to wage fund of the service employees, due to introduction of new remuneration provision system according to the Law "On Criminal – Executive Service";
- Continuance of measures to improve communal-living conditions of prisoners and detainees in compliance with international standards;

### **Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration**

- Ensuring the regular improvement of the material–technical base;
- Improvement of social conditions of rescuers and civil servants conditioned by introduction of a new system defined by the Law "On Rescue Service of Armenia" and the Law "On Civil Service";

- Organization and implementation of rescue, post-emergency restoration, and fire-fighting activities.

Increase of MTEF 2007-2009 maintenance expenditure for this sector will be conditioned by creation of satisfactory conditions for the above-stated bodies and necessity to preserve their preparedness. Allocations to this sector envisaged by MTEF 2006-2008 and MTEF 2007-2009 are presented in Table 17.2.1.

**Table 17.2.1 Comparison of Expenditure in National Security and Protection of Public Order Sectors as per MTEF 2006-2008 and MTEF 2007-2009, by Programs, (million drams)**

Group/ Sub- group	Functional Classification Groups, Subgroups, Programs	2006		2007		2008		2009.
		2006-2008 MTEF	Adopted Budget	2006-2008 MTEF	2007-2009 MTEF	2006-2008 MTEF	2007-2009 MTEF	2007-2009 MTEF
03.01.	01. Printing of the RA Passports Forms	142.9	126.0	142.9	196.4	142.9	196.4	196.4
03.01.	02. Ensuring Protection of Public Order	14520.0	15302.6	16000.6	16331.8	17257.1	18436.7	19090.7
03.01.	03. Maintenece of Criminal-Executive System	4601.3	4420.0	5251.3	5086.6	4301.3	6343.6	6573.6
03.01.	04. Acquisition of State Vehicle Number Plates	125.4	112.5	125.4	162.0	125.4	175.5	189.0
03.01.	05. Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration	1746.7	2761.8	1746.7	3168.6	1746.7	3032.7	3203.7
13.05.	08. State Support to the "Service on Active Influence on Atmospheric Phenomena", SNCO	37.0	70.6	37.0	61.7	37.0	62.3	64.3
03.02.	01. Ensuring national security	7324.3	7470.8	8075.4	7973.3	8711.1	9000.9	9320.2
03.02.	02. Provision of Public Guard Service	853.4	1373.6	936.6	1256.1	1008.6	1068.0	1105.9
	<b>Total</b>	<b>29351.0</b>	<b>31637.9</b>	<b>32315.9</b>	<b>34236.5</b>	<b>33330.1</b>	<b>38316.1</b>	<b>39743.8</b>

Expenditure in 2007 and 2008 envisaged by MTEF 2007-2009 increased compared with MTEF 2006 - 2008 by 1,920.6 million drams and 4,986.0 million drams, respectively, mainly due to consideration of programs and expenditures already included in State Budget 2006, acquisition of capital assets, and increase of capital construction and capital repair expenses.

### *Expenditure Drivers*

**Ensuring National Security and Provision of Public Guard Service program** expenditure will increase by 385.0 million drams (4.4 percent) in 2007, 839.5 million drams (9.1 percent) in 2008, and 357.2 million drams (3.5 percent) in 2009, due to increase in payments for business trips within the country, fees for communication services, increase of gas and water tariffs, application of new communication technologies, increase of expenditure for other operative services, construction of a new kennel, repair of the Service's administrative building, furnishing of new training rooms in frontier-posts, provision of fire-proof and fire-preventive devices for specially protected territories.

**Ensuring Protection of Public Order program** expenditure will increase by 1,029.1 million drams (6.7 percent) in 2007, 2,014.9 million drams (12.9 percent) in 2008, and 654.0

million drams (3.5 percent) in 2009, due to increase in payments for business trips within the country, fees for communication services, increase of gas and water tariffs, application of new communication technologies, increase of expenditure for vehicle maintenance, construction of 4 new administrative buildings and a vehicle station, provision of police forces with armament, special technical and transportation means, provision of heating for military unit, repair of administrative buildings and constructions of 12 police divisions of Armenia, provision of measures for ensuring implementation of a new "Tsaghkadzor as a Tourist Center Compliant with International Standards" program.

**Printing of Passport Forms program** expenditure will increase by 70.4 million drams (55.8 percent) annually over 2007-2009 as compared to 2006, due to necessity for changing passports because of termination, as well as implementation of a new initiative - printing 67,500 passport inserts in Russian annually. Acquisition of 350,000 passports annually over the MTEF 2007-2009 period is envisaged as compared with 250,000 passports in 2006.

**Acquisition of State Vehicle Number Plates program** expenditure will increase by 49.5 million drams (44.0 percent) in 2007, 13.5 million drams (8.3 percent) in 2008, and 13.5 million drams (7.7 percent) in 2009, due to growth tendency of vehicles purchase by the population. Over the MTEF 2007-2009 acquisition of 60,000; 65,000 and 70,000 pairs of number plates, respectively, is envisaged.

**Maintenance of the Criminal-Executive System program** expenditure will increase by 666.6 million drams in 2007, 1,257.0 million drams in 2008, and 230.0 million drams in 2009, due to envisaged increase of base wage rates for the Criminal-Executive Service personnel over 2007-2009 period by 12,000 drams, as compared with the rate of 8,000 drams envisaged previously, increase of wages for free, hired employees to minimum 20,000 drams, as compared with the current 14,500 drams, construction of a new building for life-sentences prisoners planned to start in 2006, while main expenditure draws are envisaged for 2007-2009 (engineering-technical works with regard to security will be conducted in 2009), implementation of a complex program on capital renovation of "Erebouni" criminal-executive entity and its boiler house, capital renovation of "Sevan" criminal-executive institution, increase of expenditure for medicines and medical materials, acquisition of assets and equipment, capital assets, increase in payments for business trips, communication services, increase of gas and water tariffs.

**Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration program** expenditure will increase by 406.8 million drams (14.7 percent) in 2007 and 171.0 million drams (5.6 percent) in 2009, due to increase in payments for business trips, communication services, increase of gas and water tariffs, increase of base wage rates of civil servants of the system to 35,000 drams in 2007 and 2008 as to present 20,000 drams, and 40,000 drams in 2009, introduction of centralized systems for population warning - 137.4 million drams in 2007, out of which 48.1 million drams will be allocated to Siunik marz, 43.9 million drams- to Gegharkunik marz, and 45.4 million drams- to Tavoush marz, 178.6 million drams in 2008, and 300.00 million drams in 2009. Establishment of a satellite monitoring center for receiving and analyzing information between Armenia and Russian Federation is planned at the cost of 157.5 million drams. 25 million drams will be allocated for repair of 48 fire-rescue divisions premises roofs. Decrease in program allocations for 2008 by 135.9 million drams compared to the previous year is conditioned by at once implementation of capital expenditures.

**State Support to the "Service on Active Influence on Atmospheric Phenomena" SNCO Program** allocations will amount to 61.7 million drams in 2007, 62.3 million drams for 2008, and 64.3 million drams for 2009, for further maintenance of 15 Argentinean generators located in Aragatsotn marz. Increase in wages of employees earning less than



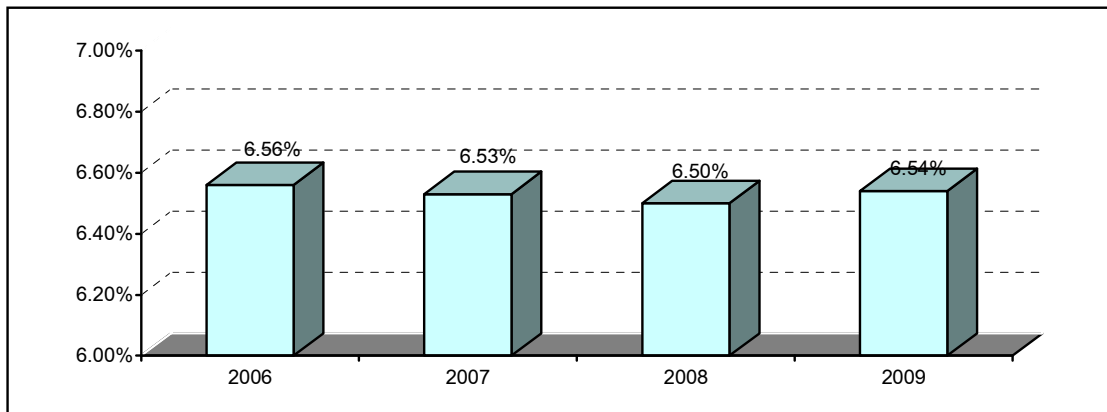
20,000 drams per month is envisaged. Increase in payments for business trips, communication services, and increase of gas and water tariffs were taken into account, as well.

**Expenditure Commitments**

MTEF 2007-2009 envisaged National Security and Protection of Public Order Sectors expenditure share in GDP will comprise 1.27 percent in 2007, 1.3 percent in 2008, and 1.24 percent in 2009.

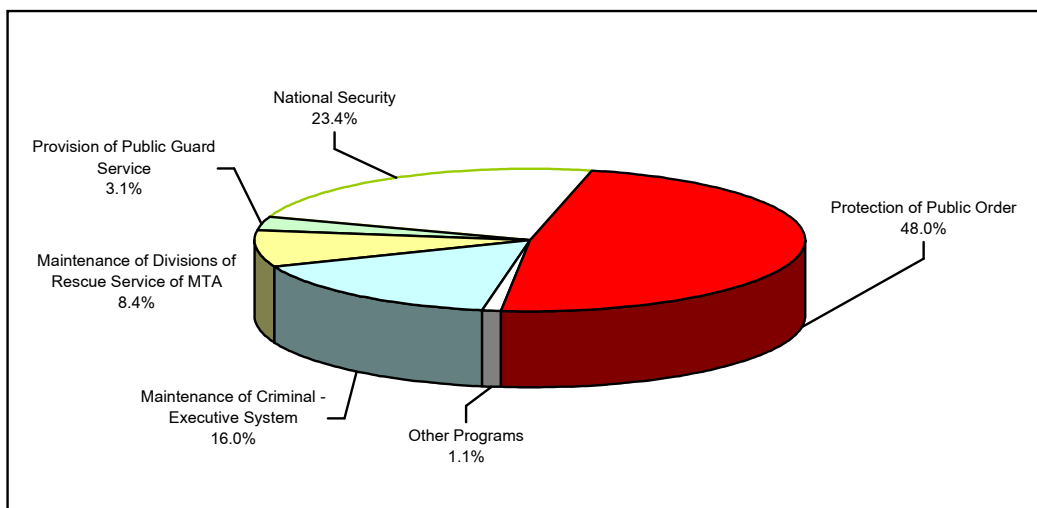
MTEF 2007-2009 envisaged National Security and Protection of Public Order Sectors expenditure share in State Budget expenditure is presented in Chart 17.2.1.

**Chart 17.2.1 State Budget Expenditure in National Security and Protection of Public Order Sectors (Percent to Total Budget Expenditure)**



The MTEF 2007-2009 allocations to National Security and Protection of Public Order Sectors amount to 34,236.5 million drams in 2007, 38,316.1 million drams in 2008, 39,743.8 million drams in 2009. Increase in expenditure will comprise to 18.3 percent in 2006, 8.2 percent in 2007, 11.9 percent in 2008, and 3.7 percent in 2009 as compared to respective previous years.

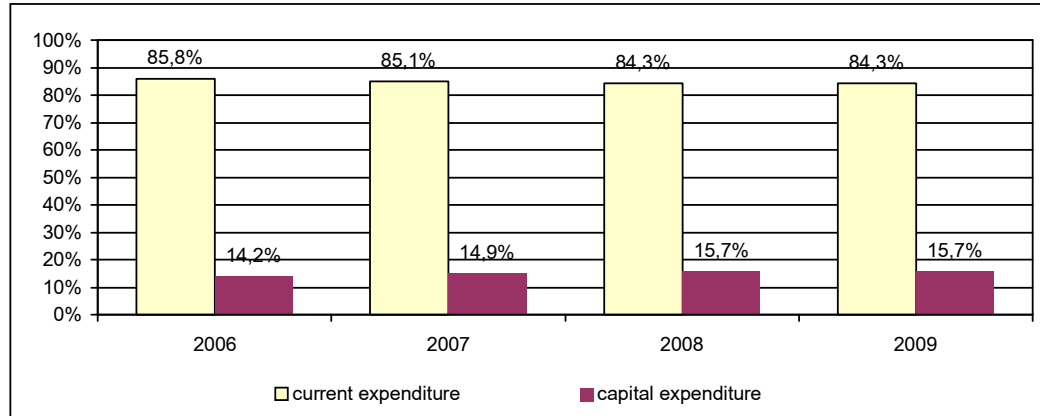
**Chart 17.2.2. Expenditure to National Security and Protection of Public Order Sectors Over 2007-2009, by Programs.**



National Security and Protection of Public Order sectors expenditure distribution by current and capital expenditures is presented in the Chart 17.2.3.

**Chart 17.2.3 Structure of Public Expenditure in National Security and Protection of Public Order Sectors, by Economic Classification**

(Percent to Total Public Expenditure in the Sector)



Budget allocations for national security and protection of public order sectors over 2007-2009, by subgroups, programs, and current and capital expenditure, are presented in Table 17.2.2.

**Table 17.2.2 Budget Allocations for National Security and Protection of Public Order Sectors Over 2007-2009, by Subgroups, Programs, Implementing Public Bodies, and Current and Capital Expenditure (Million Drams)**

Subgroups	Functional Classification Groups, Subgroups, Programs	2005	2006	2007	2008	2009
		<i>Actual</i>	<i>Adopted Budget</i>	<i>Forecast</i>		
	Total, including :	26555.1	31637.9	34236.5	38316.1	39743.8
	-current expenditure	22286.6	27141.2	29127.7	32284.1	33518.6
	- capital expenditure	4268.5	4496.7	5108.8	6032.0	6225.2
03.01.01	Printing of Passports Forms, including:	133.8	126.0	196.4	196.4	196.4
	-current expenditure	133.8	126.0	196.4	196.4	196.4
	- capital expenditure	0	0	0	0	0
	RA Police under the Government	133.8	126.0	196.4	196.4	196.4
03.01.02	Ensuring Protection of Public Order, including:	13498.5	15302.6	16331.8	18436.7	19090.7
	-current expenditure	11785.3	14140.0	15091.0	17036.0	17640.3
	- capital expenditure	1713.2	1162.6	1240.8	1400.7	1450.4
	RA Police under the Government	13498.5	15302.6	16331.8	18436.7	19090.7
	-current expenditure	11785.3	14140.0	15091.0	17036.0	17640.3
	- capital expenditure	1713.2	1162.6	1240.8	1400.7	1450.4
03.01.03	Maintenance of the Criminal - Executive System, including:	3241.5	4420.0	5086.6	6343.6	6573.6
	-current expenditure	2460.4	2720.0	3024.6	3218.6	3473.6
	- capital expenditure	781.1	1700.0	2062.0	3125.0	3100.0
	Ministry of Justice	3241.5	4420.0	5086.6	6343.6	6573.6
	-current expenditure	2460.4	2720.0	3024.6	3218.6	3473.6
	- capital expenditure	781.1	1700.0	2062.0	3125.0	3100.0
03.01.04	Acquisition of State Vehicle Number Plates, including:	120.7	112.5	162.0	175.5	189.0

## 2007–2009 MEDIUM-TERM PUBLIC EXPENDITURE FRAMEWORK

Subgroups	Functional Classification Groups, Subgroups, Programs	2005	2006	2007	2008	2009
		<i>Actual</i>	<i>Adopted Budget</i>	<i>Forecast</i>		
	-current expenditure	120.7	112.5	162.0	175.5	189.0
	- capital expenditure	0	0	0	0	0
	RA Police under the Government	120.7	112.5	162.0	175.5	189.0
03.01.05	Maintenance of Divisions of the Rescue Service of Armenia of the Ministry of Territorial Administration, including:	1653.2	2761.8	3168.6	3032.7	3203.7
	-current expenditure	1610.3	2716.8	2848.8	2854.1	2903.7
	- capital expenditure	42.9	45.0	319.8	178.6	300.0
	The Rescue Service of Armenia of the Ministry of Territorial Administration	1653.2	2761.8	3168.6	3032.7	3203.7
	-current expenditure	1610.3	2716.8	2848.8	2854.1	2903.7
	- capital expenditure	42.9	45.0	319.8	178.6	300.0
13.05.08	State Support to the "Service of Active Influence on Atmospheric Phenomena", SNCO, including:	37.0	70.6	61.7	62.3	64.3
	-current expenditure	37.0	70.6	61.7	62.3	64.3
	- capital expenditure	0	0	0	0	0
	The Rescue Service of Armenia of the Ministry of Territorial Administration, including:	37.0	70.6	61.7	62.3	64.3
03.02.01	Ensuring National Security, incl.	6966.5	7470.8	7973.3	9000.9	9320.2
	-current expenditure	5483.6	6368.8	6797.1	7673.2	7945.4
	- capital expenditure	1482.9	1102.0	1176.2	1327.7	1374.8
	National Security Service under the Government	6966.5	7470.8	7973.3	9000.9	9320.2
	-current expenditure	5483.6	6368.8	6797.1	7673.2	7945.4
	- capital expenditure	1482.9	1102.0	1176.2	1327.7	1374.8
03.02.02	Provision of Public Guard Services, including:	903.9	1373.6	1256.1	1068.0	1105.9
	-current expenditure	655.5	886.5	946.1	1068.0	1105.9
	- capital expenditure	248.4	487.1	310.0	0	0
	National Security Service under the Government	903.9	1373.6	1256.1	1068.0	1105.9
	-current expenditure	655.5	886.5	946.1	1068.0	1105.9
	- capital expenditure	248.4	487.1	310.0	0	0

## **CHAPTER 18.**

### **PUBLIC CAPITAL EXPENDITURE FRAMEWORK FOR 2007-2009**

#### **1. BASIC PRINCIPLES FOR ELABORATION OF PUBLIC CAPITAL EXPENDITURE FRAMEWORK**

The central element for substantiating the need for public capital expenditure in a market economy is the definition of the areas requiring public intervention and the subsequent choice between private and public investment, which provides the basis for determining the volumes and priority directions of public investment programs.

Due to the economic and institutional reforms implemented in Armenia, the role and level of participation of the state in the economy have significantly diminished, and presently they are comparable with the relevant indicators of EU newly accessed and other member countries.

The said diminishing dynamics also necessitates definition of the priorities of the public investment policy and their conformance with the changing economic role of the state. This should be based on the Government's clear understanding of the state's economic role at the present stage of economic progression, which is reflected in the Government's fundamental strategic documents on economic development.

In this respect, the main directions, priorities, and volumetric restrictions of the long and medium term state investment policy should be determined on the basis of the following sequence of action planning:

- i. Disclosure and concretization of the political consensus formed in the society with regard to the state's role in the economy;
- ii. Reflection of the main directions, priority areas, and target volumes of financing (including domestic resources, external borrowings and grants) defined on the basis of the above-mentioned consensus in strategic public documents on long term social and economic development<sup>5</sup>;
- iii. Elaboration of medium-term public expenditure frameworks produced at a certain periodicity on the basis of the long term strategic programs and specifying and concretizing their provisions by volumes and implementation deadlines<sup>6</sup>.

The framework of public expenditure stipulated for the first budgetary year under the MTEF, including the investment programs, provide the basis for drafting annual State Budgets, including specification of the investment programs, thus enabling reconciliation of the long term public expenditure priorities, medium terms forecasts, and short term implementation principles, as well as of the expenditure policy based on development programs.

The modern role of the state in the investment policy reflects and directly issues from the assessment of its general role in the economy. Over the last fifteen years of reforms, there is a formulated concept in the Armenian society, that for ensuring sustainable social and economic development the state should implement two broad scopes of functions:

- i. Supplying public goods to facilitate social and economic development<sup>7</sup>;

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<sup>5</sup> Presently, the Poverty Reduction Strategic Program (PRSP) is such a fundamental document in Armenia, adopted by the Government in August 2003 and covering a time frame up to 2015.

<sup>6</sup>The medium terms public expenditure frameworks (MTEF) in Armenia cover a time frame of 3 years, are based on the PRSP priorities and on the budgetary framework, and are adopted yearly for ensuring regularity of the budgeting process and programmatic nature of expenditure. In 2003, the Government adopted such a framework for the first time.

ii. Ensuring economic and social justice, aimed at enabling socially vulnerable and poor groups of the population to avail themselves of the basic goods, through providing financial assistance and/or ensuring availability of respective goods and services<sup>8</sup>.

Based on the above-stated scope of public involvement, in terms of clarifying appropriateness of that involvement through investment programs, the following questions should be answered with regard to each scope mentioned above:

i. What is the state's present and envisaged role (regulation, provision of public goods, maintenance and development of infrastructures, ensuring availability of services, protection of the poor and vulnerable groups, etc) in a given sector?

ii. How is the public involvement implemented in a given sector, and what changes in terms of involvement are expected in the medium term horizon (provision of public services directly on the basis of public ownership and by the state, through collaboration with non-public structures, by means of allocating budgetary financing to non-public organizations in return to provided services, through direct distribution of financial resources among certain groups of population, etc.)? Changes in the types and nature of public sectoral involvement issue from the strategic documents on social and economic development, which are further specified and concretized through the medium-term public expenditure programs.

iii. Are the public investment programs and public ownership necessary for efficient involvement of the state in a given sector? The answer to this question reflects the strategy for social and economic development defining the areas, where public involvement is subject to alterations, and the strategy for bringing those alterations into effect.

Decisions on necessity in the areas defined by development strategies with regard to public investments and public ownership may fail to coincide; that is, public investment programs may be channeled to the non-public sector, based on the need for public intervention in a given sector.

Based on disclosure of the areas needing public involvement and public investment programs, and on macroeconomic forecasts, including the forecasts of the long term budgetary framework, the volumes and inter-sectoral priorities of expenditure in public investment programs are identified.

After identifying inter-sectoral priorities, for each sector included into the public investment programs the options for investment program implementation are selected, generally characterized as follows:

i. Public investment programs are oriented to preserving and developing public ownership in a given sector. In this case, the task is defined as preserving or increasing the balance sheet value of the public ownership, and/or attaining certain target values of the qualitative indicators characterizing the ownership. Such programs should also incorporate decisions on the future status of public ownership appearing to be an object of

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<sup>7</sup> Public goods are defined as the goods (services) which are non-competitive in terms of consumption (their consumption by one consumer does not exclude consumption by another consumer or a group of consumers), and have a non-exclusive nature (their consumption cannot be limited for certain individuals or for groups of individuals). Based on that, collection of payments against consuming public goods becomes impossible, therefore, private producers do not have any motivation for arranging their production. Thus, in the modern market economy the inability of the market to efficiently supply certain goods and services appears to be one of the main reasons for public involvement.

<sup>8</sup> In countries with transitional and developing economy, goods and services meeting the basic demands of population are often distributed by competitive markets in a socially unacceptable way, which does not facilitate reduction of poverty and inequality. In this situation, public intervention is necessary for enabling socially vulnerable and poor groups of the population to avail themselves of those goods and services.

investments, as well as on the current and future capital expenditure necessary for the maintenance of the new public ownership produced through investment programs.

ii. An important prerequisite for the implementation of the said programs is inventorying public ownership in the given sector and defining intra-sectoral priorities for its maintenance and development, which should be carried out on the basis of the decisions on the necessity of public ownership in the sector, as well as on the general volumetric restrictions with regard to intra-sectoral public investments, as stipulated by the PRSP and specified by the medium-term public expenditure frameworks and annual budgets. With regard to the state ownership objects, which have not been included into the intra-sectoral priority lists, relevant decisions should be made (for example, re-profiling, privatization, transferring to communities for ownership, etc).

iii. Public investment programs are oriented to the preservation of non-public ownership. The necessity of such programs may be conditioned by the need for preserving or restoring vitally important and collectively used non-public assets, provided that the absence or extreme scarcity of private investment resources is known in advance (for instance, secondary networks of intra-community irrigation).

iv. In case there is an alternative between the acquisition or construction of new public ownership and the available opportunities in the market, the selection should be made on the basis of economic efficiency indicators. Particularly, in housing construction the alternatives may include housing construction and housing certificates, by which the state finances the persons eligible for improvement of housing conditions at the expense of the state. Under the investment programs in public administration, such alternatives may include construction or restoration of buildings and their leasing, procurement and maintenance of vehicles, and their leasing, etc.

Due to this phase, the possible types of public investment programs for the areas included into those programs should be identified, by pointing out the sub-sectors for their application, and the respective sub-sectoral restrictions.

**Box 2. Priorities of Public Capital Expenditure in the Context of the  
Poverty Reduction Strategic Program**

Based on the present level of public involvement in the economy and the long term forecasts of its alterations, the PRSP defined volumetric limits of public investment programs within the range of 4.0-4.4 percent of GDP (4.4 percent in 2007, with a further reduction down to 4.0 percent by 2015).

The PRSP has defined intra-sectoral priorities of public investment programs based on:

- i. Relation between public investments and overcoming poverty and inequality in a given sector; that is, to what extent are the values of the PRSP target indicators characterizing material or human poverty improved due to public investment interventions? Thus, the sectors where public investment intervention issues in the maximum outcomes are prioritized.
- ii. Time-related priorities in terms of public investment intervention in a given sector; that is, the sector where the failure to timely impose public intervention will result in unrecoverable or essential loss of the fixed assets necessary for regular functioning of the sector. In other words, among interventions which are comparable in terms of overcoming material or human poverty, the sectors with the worst characteristics of the fixed assets necessary for regular functioning of the sector will be prioritized.

## 2. MAIN DEVELOPMENTS OVER 2000-2006

Over 2000-2006, capital expenditure financed from the State Budget varied within the range of 3-5 percent of GDP. At the same time, capital expenditure within the structure of total budgetary spending fluctuated in the interval of 15-25 percent.

**Table 2.1 Capital Expenditure of State Budget Over 2000-2006 (Million Drams)**

	2000	2001	2002 <sup>(1)</sup>	2003 <sup>(2)</sup>	2004	2005	2006
	<i>Actual</i>						<i>Budget <sup>(3), (4)</sup></i>
<b>Total capital expenditure</b>							
Million drams	38,610.7	39,773.1	34,193.2	83,803.4	60,618.5	82,948.2	132,990.3
Percentage share within total budgetary spending	17.3	16.3	13.0	26.8	18.2	21.0	27.6
Percentage share in GDP	3.7	3.4	2.5	5.2	3.2	3.7	5.5
<b>Financed from internal sources, total</b>							
Million drams	21,592.6	12,161.0	13,406.1	19,253.7	30,423.9	69,265.3	79,073.2
Percentage share in total capital expenditure	55.9	30.6	39.2	23.0	50.2	83.5	59.5
Percentage share in total budgetary spending	9.7	5.0	5.1	6.2	9.1	17.5	16.4
Percentage share in GDP	2.1	1.0	1.0	1.2	1.6	3.0	3.3
<b>Financed from external sources, total</b>							
Million drams	17,018.1	27,612.1	20,787.0	64,549.7	30,194.6	13,682.9	53,917.1
Percentage share in total capital expenditure	44.1	69.4	60.8	77.0	49.8	16.5	40.5
Percentage share in total budgetary spending	7.6	11.3	7.9	20.6	9.0	3.4	11.2
Percentage share in GDP	1.7	2.3	1.5	4.0	1.6	0.6	2.2

<sup>(1)</sup> Excluded capital expenditure under proceeds of the Lincy Foundation (30.4 billion drams, or 2.2 percent of GDP)

<sup>(2)</sup> Included capital expenditure under proceeds of the Lincy Foundation (39.8 billion drams, or 2.5 percent of GDP)

<sup>(3)</sup> Pursuant to the Government Decree No 2162-N "On Actions for Ensuring Execution of the State Budget 2006" dated December 15, 2005

<sup>(4)</sup> Included capital expenditure under proceeds of the Lincy Foundation (25.0 billion drams, or 1.0 percent of GDP) and expenditure of a grant program in Gegharkunik and Tavush marzes assisted by the Government of the United Kingdom.

Source: National Statistical Service, Ministry of Finance and Economy

In terms of the sources of funding, expenditure in externally financed target projects was generally dominating within the structure of capital expenditure over 2000-2003. At that, around half of the capital expenditure financed from internal sources over 2000-2001 was generated through privatization of enterprises and incomplete construction objects. During those years, the key task of the fiscal policy was repayment of the arrears accumulated from the past (including those with regard to capital expenditure), which resulted in additional budget constraints.

Over the last years, in parallel with the stabilization of the budgetary system and the expansion of the resource framework, opportunities for formulating and implementing a fiscal policy oriented to dealing with long-term strategic tasks have been gradually broadening. This, particularly, has been reflected in the 2003-2006 dynamics of capital expenditure financed from internal sources, which have increased in both nominal terms and as a percentage share of GDP. Namely, the target indicators for 2006 significantly exceed the actual figures observed in 2005. At the same time, against 50 percent of internally financed capital expenditure within the total spending in 2004, the same indicator amounted to 83.5 percent in 2005, and is planned to 60 percent by State Budget 2006.

In the process of distributing expenditure between sectors and determining program priorities, the Government has done its best to follow the priorities of the state policy, through their incorporation into public spending, and particularly in capital expenditure. Besides that, one of the important tasks is reconciliation and assuring mutual complementation of internally and externally financed capital expenditure. However, given the insufficiency of internal resources, over 2001-2002 they were oriented more to the current expenditure, whereas internal capital expenditure was channeled to the priorities with limited external support. Nevertheless, over 2003-2006 internal resources were increasing from year to year (at the cost of current expenditure), thus expanding budgetary framework and enhancing the level of freedom in making capital expenditure decisions, which was reflected in the State Budget indicators in 2004-2006.

**Table 2.2 Structure of State Budget Capital Expenditure Over 2000-2006, by Aggregated Groups of Functional Classification**

	2000	2001	2002 <sup>(1)</sup>	2003 <sup>(2)</sup>	2004	2005	2006
	<i>Actual expenditure</i>						<i>Budget <sup>(3), (4)</sup></i>
	<i>Percentage share in total capital expenditure</i>						
<b>Total capital expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	100.0
General purpose public services	2.3	5.4	7.9	7.0	15.2	23.6	19.8
Social services	15.1	16.4	6.7	13.7	17.3	14.5	22.5
Housing and communal services	28.6	15.2	14.2	25.7	12.4	16.9	14.9
Economic services	45.4	56.8	53.5	51.0	52.9	30.1	40.9
Other services	8.7	6.2	17.7	2.4	2.2	14.9	1.9
	<i>Percentage share in internally financed total capital expenditure</i>						
<b>Financed from internal sources, total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	<b>100.0</b>
General purpose public services	4.0	17.7	18.7	26.6	26.7	26.6	29.7
Social services	11.6	19.5	10.5	15.4	27.8	14.6	18.8
Housing and communal services	38.4	25.1	20.0	23.2	10.2	13.2	13.3
Economic services	34.0	30.1	22.4	26.0	32.0	28.4	30.5
Other services	12.0	7.7	28.3	8.8	3.2	17.3	7.7
	<i>Percentage share in externally financed total capital expenditure</i>						
<b>Financed from external sources, total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	<b>100.0</b>
General purpose public services	0.0	0.0	1.0	1.2	3.6	9.9	5.4
Social services	19.6	15.0	4.2	13.2	6.8	13.4	27.9
Housing and communal services	16.1	10.9	10.4	26.5	14.6	35.4	13.9
Economic services	59.8	68.5	73.5	58.5	73.9	38.4	52.2
Other services	4.5	5.6	10.9	0.5	1.1	2.9	0.6

<sup>(1)</sup> Excluded capital expenditure under proceeds of the Lincy Foundation (30.4 billion drams)

<sup>(2)</sup> Included capital expenditure under proceeds of the Lincy Foundation (39.8 billion drams)

<sup>(3)</sup> Pursuant to the Government Decree No 2162-N "On Actions for Ensuring Execution of the State Budget 2006", dated December 15, 2005

<sup>(4)</sup> Included capital expenditure under proceeds of the Lincy Foundation (25.0 billion drams) and expenditure of a grant program in Gegharkunik and Tavush marzes assisted by the Government of the United Kingdom.

Integrating medium-term public expenditure planning into the budgeting process, the practice of which has been regularly applied since 2002, has played an important role in strengthening the interrelation between state policy priorities and budgetary expenditure, whereas the Poverty Reduction Strategic Program approved by the Government in 2003 has become the strategic framework guiding the elaboration of both medium-term and annual public expenditure programs. Moreover, the availability of a comprehensive strategy for poverty reduction and of the medium-term public expenditure frameworks has essentially improved the procedure for reconciliation of internally and externally financed capital expenditure. In essence, when developing country assistance strategies and negotiating them with the Government, the donors over the last two years have been emphasizing priorities and policy directions identified by the PRSP and the medium-term public expenditure frameworks.

Nonetheless, despite the present achievements, still there are unsolved issues with regard to decision-making mechanisms for determining priorities and urgencies at the level of both inter-sectoral and especially intra-sectoral and specific programs, and to the problems in the budgeting procedures at that level. Presentation of the capital expenditure as a separate section of the MTEF 2007-2009 like in MTEF 2006-2008 pursues to emphasize the logic and the principles laid in the base of inter-sectoral and intra-sectoral distribution of expenditure over the coming three years, as well as to differentiate the key problems and main obstacles in capital expenditure budgeting procedures and mechanisms, in order to take relevant actions for their mitigation in the near future.

### 3. NEED FOR PUBLIC CAPITAL EXPENDITURE

In the planning of public expenditure, a key role has been attributed to the differentiation of the drivers conditioning the need for expenditure, which, in essence, have influenced both



the decisions on including certain programs into the capital expenditure framework and, in some cases, the definition of inter-program priorities.

When elaborating the medium-term expenditure framework, during the decision-making processes with regard to allocation of resources to certain programs, the Government has differentiated the following drivers conditioning the need for capital expenditure:

- i. Capital expenditure, when insufficient financing has resulted (and/or will result) in the *accumulation of deferred expenses*, and this in its turn is adding pressure on current expenditure;
- ii. Capital expenditure, which are necessitated by the *increased demand* for the respective services;
- iii. Capital expenditure aimed at *improving the quality* of provided services;
- iv. Capital expenditure in the sectors lacking sufficient levels of *private investment* (although services in these sectors are most likely characterized as “private” goods);
- v. Capital expenditure of one-time (non regular) nature and conditioned by certain commitments undertaken by the state (for example, housing construction in the calamity zone, provision of housing to refugees, etc).

#### **4 PRINCIPLES FOR DEVELOPING CAPITAL EXPENDITURE FRAMEWORK**

When developing the 2007-2009 framework for capital expenditure, in view of the general limitations deriving from macro-economic and fiscal frameworks, the Government has been guided by the following principles:

- i. Compliance with the objectives and priorities of the Government’s policy;
- ii. In case of non-recovery of public assets, overcoming the risk of reducing volumes (and/or quality) of provided services;
- iii. Dealing with problems facilitating the enhancement of security, strategic issues, and regional competition;
- iv. Facilitating private sector development (attracting investments) and promoting economic growth;
- v. Mitigating territorial inequalities and enhancing availability of the respective services;
- vi. Meeting Government’s (investment) commitments;
- vii. Reducing future current expenditure, by means of implementing capital expenditure within the planned period;
- viii. Concreteness, preciseness, and validity of the objectives and outcomes of certain capital expenditure programs.

At the same time, in the triennial framework of capital expenditure the Government has separated a reserve component (not allocated by sectors). This is conditioned by the following factors:

- i. In some sectors, albeit the evident need for capital expenditure, additional research is to be pursued for accurately assessing the volumes of the necessary capital expenditure;
- ii. In certain sectors needing capital expenditure, capacity adjustment (optimization) reforms are being carried out, and as soon as these reforms are completed, the scope of

public intervention will be clarified with regard to both the volumes of capital expenditure and to the principles and mechanisms for their financing;

- iii. The unallocated component of capital expenditure certainly increases discretionary level of the fiscal policy, enabling a more adequate response to macroeconomic developments.

The Government places special emphasis on the need for inventorying and evaluating (and/or revaluating) public assets, which essentially influences the targeting and efficiency of planning and budgeting capital expenditure.

## 5. PUBLIC CAPITAL EXPENDITURE FRAMEWORK FOR 2007-2009

The MTEF 2007-2009 stipulates for capital expenditure allocations totaling 424.9 billion drams, of which 122.1 billion drams in 2007, 152.2 billion drams in 2008, and 150.6 billion drams in 2009. Around 55.8 percent of the total capital expenditure is to be financed from internal sources, and the other 42.2 percent from external sources.

**Table 5.1 Public Capital Expenditure Framework for 2007-2009**

		2004	2005	2006	2007	2008	2009	2007-2009
		<i>Actual</i>		<i>Budget</i> <sup>(1)</sup>	<i>MTEF 2007-2009</i>			
<b>A</b>	<b>General purpose public services</b>	<b>9,214.8</b>	<b>19,548.9</b>	<b>26,327.0</b>	<b>31,442.0</b>	<b>30,370.5</b>	32,394.1	<b>94,206.6</b>
<b>B</b>	<b>Social services</b>	<b>10,512.5</b>	<b>12,013.9</b>	<b>29,932.8</b>	<b>22,554.9</b>	<b>17,740.5</b>	<b>21,483.1</b>	<b>61,778.4</b>
B1	Education and science	8,569.4	9,004.9	21,229.8	14,038.4	14,941.7	17,121.8	46,101.8
B2	Health	1,393.3	1,429.0	4,922.5	5,271.4	1,683.9	1,798.2	8,753.5
B3	Social insurance and social security	32.8	421.2	1,498.1	581.2	279.5	0.0	860.7
B4	Culture, information, sports, and religion	516.9	1,158.9	2,282.4	2,663.9	1,835.4	2,563.1	6,062.4
<b>C</b>	<b>Housing and communal services</b>	<b>7,533.0</b>	<b>14,014.5</b>	<b>19,834.4</b>	<b>16,672.4</b>	<b>14,443.9</b>	<b>7,845.2</b>	<b>38,961.5</b>
C1	Housing services and housing construction	1,184.9	6,232.	9,104.4	6,936.6	5,929.5	5,122.4	17,988.5
C2	Operation of water and wastewater systems	4,754.4	5,132.2	8,262.6	8,881.1	7,721.4	1,912.8	18,515.3
C3	Other	1,593.8	2,649.9	2,467.4	854.7	793.0	810.0	2,457.7
<b>D</b>	<b>Economic services</b>	<b>32,047.4</b>	<b>24,977.6</b>	<b>54,332.2</b>	<b>47,010.1</b>	<b>86,793.7</b>	<b>75,102.4</b>	<b>208,906.2</b>
1	Fuel and energy complex	8,021.1	18,337.6	3,877.0	16,395.1	42,992.3	28,658.2	88,045.6
2	Agriculture, forestry and water economy, fishery	6,761.2	4,143.7	10,361.9	10,316.1	19,926.1	18,993.6	49,235.8
3	Industry, minerals (excluding fuel), construction, and environmental protection	1,319.3	2,495.4	3,119.1	2,596.6	2,012.1	664.0	5,272.7
4	Transport, roads and communications	13,806.3	14,333.9	34,547.8	15,602.3	19,763.2	23,679.0	59,044.5
5	Other economic services	2,139.5	2,170.8	2,426.3	2,100.0	2,100.0	3,107.6	7,307.6
<b>E</b>	<b>Other services</b>	<b>1,310.8</b>	<b>12,393.3</b>	<b>2,564.0</b>	<b>2,615.0</b>	<b>2,916.1</b>	<b>2,916.1</b>	<b>8,447.2</b>
1	Non-classified expenditure	1,310.8	12,393.3	2,564.0	2,615.0	2,916.1	2,916.0	8,447.2
<b>F</b>	<b>Unallocated capital expenditure</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1,776.1</b>	<b>0.0</b>	<b>10,872.2</b>	<b>12,648.3</b>
	<b>Total, Capital Expenditure</b>	<b>60,618.5</b>	<b>82,948.2</b>	<b>132,990.3</b>	<b>122,070.4</b>	<b>152,264.7</b>	<b>150,613.3</b>	<b>424,948.2</b>

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions for Ensuring Execution of the State Budget 2006", dated December 15, 2005.

Over 2007-2009, the ratio of capital expenditure to GDP will average to 4.8 percent; at that, during the planned period this indicator will be characterized by the highest index in 2008, up to 5.2 percent. Although the international comparison targets for these indicators are rather difficult to attain, it should be noted that in the developed market economies the level of public capital expenditure (as a share of GDP) is somewhat lower. This is partially conditioned by the presence of consummated structures in those economies. The Armenian economy so far has been in the phase of structural modifications, and when forecasting such a level of capital expenditure, the Government has first of all taken into consideration the fact that in a number of sectors involvement of private investments is an unlikely conjecture;

therefore, public spending should encourage and complement private input, while maximally excluding the option of forcing out private investment. This logic is reflected in the rather large share of capital expenditure in the total budgetary spending, which varies within the range of 23-25 percent over the MTEF period.

The MTEF 2007-2009 mainly stipulates for internally financed capital expenditure within the frameworks of capital expenditure; around 55.6 percent of the total capital expenditure over the planned period will be financed internally. As compared to the period of 2005 and 2006, the increase in externally financed capital expenditure within total capital expenditure is conditioned by Millennium Challenges Program implementation expenditure over the planned period (48.9 billion drams or 11.5 percent of total capital expenditure).

**Table 5.2 Public Capital Expenditure Framework for 2007-2009, by Sources of Financing**

	2005	2006	2007	2008	2009
	<i>Actual</i>	<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>		
<b>Total capital expenditure</b>					
Million drams	82,948.2	132,990.3	122,070.4	152,264.7	150,613.3
Percentage share within total budgetary spending	21.0	27.6	23.3	25.8	24.8
Percentage share in GDP	3.7	5.5	4.5	5.2	4.7
<b>Financed from internal sources, total</b>					
Million drams	69,265.3	79,073.2	77,932.9	70,078.1	89,138.2
Percentage share in total capital expenditure	83.5	59.5	63.8	46.0	59.2
Percentage share in total budgetary spending	17.5	16.4	14.9	11.9	14.7
Percentage share in GDP	3.0	3.3	2.9	2.4	2.8
<b>Financed from external sources, total</b>					
Million drams	13,682.9	53,917.1	44,137.5	82,186.6	61,475.1
Percentage share in total capital expenditure	16.5	40.5	36.2	54.0	40.8
Percentage share in total budgetary spending	3.4	11.2	8.4	13.9	10.1
Percentage share in GDP	0.6	2.2	1.6	2.8	1.9

<sup>(1)</sup> Pursuant to the Government Decree No 2162 -N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005

## 6 PUBLIC CAPITAL EXPENDITURE OVER 2007-2009 BY SECTORS

Allocations over the coming three years, differentiated by the nature of services, present the following picture: 22.2 percent will be channeled to the general purpose public services, 14.5 percent to the social services, capital expenditure in housing and communal services will comprise 9.2 percent, and another 49.2 percent will go to the economic services. The large volume of economic services expenditure is conditioned by the of Millennium Challenges Program implementation expenditures over the planned period. In the three-year package of capital expenditure 3.0 percent is the share of unallocated component. At that, whereas the share of unallocated component over the first two years comprises 0.4 percent, in the third year it is incomparably large and amounts to 2.6 percent (share of total capital expenditure for three years). Distribution of the unallocated component in 2007 will be made during the annual budgeting process, when technical details of certain presently discussed programs are clarified.

**Table 6.1 Structure of Capital Expenditure, by Type of Service, Percentage Share in Total Capital Expenditure**

		2004	2005	2006	2007	2008	2009	2007-2009
		<i>Actual</i>		<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>			
<b>A</b>	General purpose public services	15.2	23.5	19.8	25.8	19.9	21.5	22.2
<b>B</b>	Social services	17.3	14.5	22.5	18.5	11.6	14.3	14.5
<b>C</b>	Housing and communal services	12.4	16.9	14.9	12.8	9.3	5.2	9.2
<b>D</b>	Economic services	52.9	30.2	40.9	36.1	57.2	49.9	49.2
<b>E</b>	Other services	2.2	14.9	1.9	5.4	1.9	1.9	1.9
<b>F</b>	Unallocated capital expenditure	0.0	0.0	0.0	1.5	0.0	7.2	3.0
	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>100.0</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### **Box 3. Sectoral Peculiarities and Planning of Public Capital Expenditure**

When planning public capital expenditure in different sectors, peculiarities of the sectors have been taken into consideration, classified by certain indicators, such as: a) classification of sectors by the nature of public expenditure (current/capital), and b) classification of sectors by the main motives for public intervention.

Classification of sectors by the nature of public expenditure (current/capital): Two groups of sectors have been considered in this view:

- a) Sectors that are provided budgetary allocations for both current and capital expenditure; and
- b) Sectors that are provided budgetary allocations mainly for capital expenditure.

Classification of sectors by the main motives for public intervention: On this plane, the following three groups of sectors have been considered:

- a) Sectors of basic (primary) services provided by the state, where individualization of their provision is impossible (or practically impossible);
  - Sectors where provided services appear to be public goods by their nature; that is, they are non-competitive in terms of consumption and, in essence, there is no way for limiting the scope of the consumers (for example, public governance, defence, public order protection, and national security);
  - Sectors where provided services are characterized as “mixed” goods, with the predominance of the characteristics of public goods and, at least in the foreseeable future, their maintenance and rehabilitation will remain among key functions of the Government (and/or of local self-governance bodies) (for example, road network);
- b) Sectors where services are normally individualized and the scope of beneficiaries is clearly defined, but the state nevertheless provides financing to those sectors based on certain considerations (for example, education (particularly, general education, health care, etc);
- c) Sectors where services are rather characterized as “private” goods, but fail to be attractive for the private sector due to the volumes of the necessary investment to be made and, in many cases, to payback perspectives (for example, potable water system, irrigation system, energy).

### **Social Services**

Under the 2007-2009 framework for capital expenditure, (triennial) allocations to social services will amount to 61.87 billion drams, or 14.5 percent of capital expenditure planned for that period. As a share of GDP, social services will comprise 0.7 percent yearly, to be financed mainly – by 85.5 percent – from internal sources.

Intra-sectoral (triennial) allocations to social services are as follows: expenditure in education amounts to 46.1 billion drams (or 74.6 percent of capital allocations to social services), healthcare spending amounts to 8.7 billion drams (14.2 percent)<sup>9</sup>, expenditure in culture, information, sports, and religion totals to 6.1 billion drams (9.8 percent), and allocations to the social insurance and social security sector amount to 0.86 billion drams (1.4 percent).

**Table 6.2 Public Capital Expenditure in Social Services For 2007-2009**

	2006	2007	2008	2009
	Budget <sup>(1)</sup>	MTEF 2007-2009		
<b>Total</b>				
Million drams	29,932.8	22,554.9	17,731.9	21,483.1
Percentage share in total budgetary capital expenditure	22.5	18.5	11.6	14.3
Percentage Share in GDP	1.2	0.8	0.6	0.7
<b>Financed from internal sources</b>				
Million drams	14,831.1	16,929.8	15,560.3	20,159.9
Percentage share in total capital expenditure in the sector	49.5	75.0	87.7	93.8
<b>Financed from external sources</b>				
Million drams	15,101.7	5,625.1	2,171.6	1,323.2
Percentage share in total capital expenditure in the sector	50.5	25.0	12.3	6.2

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005

<sup>9</sup> Without consideration of the possible allocations to the sector from unallocated expenditure component, referred in the section on health care.

## Education

As a priority area of the state policy, education is emphasized in terms of both current and capital expenditure over the MTEF 2007-2009 period.

In education, the framework for both capital and current expenditure over 2007-2009 prioritizes elementary, basic, and secondary general education (general education). During the planned period, capital expenditure in this sector will amount to 46.1 billion drams (100 percent of the total programmed allocation to the sector), or around 10.9 percent of the total capital expenditure over the period. Capital expenditure in general education will annually average to 0.5 percent of GDP; at that, around 89.5 percent of it will be financed from internal sources.

**Table 6.3 Public Capital Expenditure in Education For 2007-2009**

	2006	2007	2008	2009
	<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>		
<b>Total</b>				
Million drams	21,229.8	14,038.4	14,941.7	17,121.8
Percentage share in total budgetary capital expenditure	15.9	11.5	9.8	11.4
Percentage Share in GDP	0.9	0.5	0.5	0.5
<b><i>Financed from internal sources</i></b>				
Million drams	10,636.0	12,201.7	13,116.1	16,065.4
Percentage share in total capital expenditure in the sector	50.1	86.9	87.8	93.8
<b><i>Financed from external sources</i></b>				
Million drams	10,593.8	1,836.7	1,825.6	1,056.4
Percentage share in total capital expenditure in the sector	49.9	13.1	12.2	6.2
<b><i>Elementary, basic, and secondary general education</i></b>				
Million drams	18,807.6	14,038.4	14,941.7	17,121.8
Percentage share in total capital expenditure in the sector	88.5	100.0	100.0	100.0
Percentage share in total budgetary capital expenditure	14.1	11.5	9.8	11.4
Percentage share in GDP	0.9	0.5	0.5	0.5

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005

The **main objective** of capital expenditure in general education is to ensure regular and reliable functioning of general education institutions through the maintenance and rehabilitation of public assets.

Under the guidance of the programmatic priorities of the Poverty Reduction Strategic Program and based on the provisions of the Complex Program for Capital Renovation and Improvement of General Education Schools, the above mentioned objective will be materialized through the actions in the following directions:

- i.Rehabilitation-fortification of the general education school buildings in an emergency technical condition, ensuring their operational safety;
- ii.Installation of heating systems, ensuring regularity of the educational process throughout the whole heating season;
- iii.Ensuring appropriate maintenance in school buildings (and/or constructions);
- iv.Ensuring safe sanitary-hygienic conditions in schools.

Over the coming five years, the Government will endeavor to solve urgent problems in general education schools<sup>10</sup>.

In order to enhance the efficiency of planned expenditure and to enter respective adjustments into the capital expenditure programs for the coming years, the Government will place a special emphasis on preparation of the report on the works executed over 2002-

<sup>10</sup> In this context, issues concerning sports and ceremonial halls are not referred to, since further studies are needed to make decisions on them.

2006 under the "Complex Program for Capital Renovation and Improvement of General Education Schools". Submission of the report prepared by the Ministry of Urban Development was envisaged by the MTEF 2006-2008, but it has not been submitted. The report will summarize the implemented works, by regions and by schools. Such a report will provide the basis for reviewing the respective programs and coming forward with adjusted estimates of capital expenditure needs of general education schools. Particularly, during the program review, the expediency of review of different program components (a) educational premises, b) sports (ceremonial) halls, c) furnishing with assets) on the same level, will be considered. While accepting the facts that capital expenditure is of once-provided nature, and the need for them differs from school to school, the Government will try to distribute capital expenditures by schools in a way so that no essential disproportions emerge between schools (and/or regions).

In parallel with channeling capital expenditure to schools by certain proportions, the Government will turn special attention to the efficiency indicators and the substantiality of capital expenditure. Within this context, in the meantime the Government will refrain from capital expenditure for expanding the floor space occupied by schools, except for the cases when such intervention is substantiated by arguments of increased demand and the existing risk of inaccessibility of respective services.

Among priorities, the Government specially emphasizes issues related to incomplete construction objects and prioritizes the respective programs, except for the cases, when public territorial governance bodies (and/or the relevant higher instances) do not prioritize those programs and provide for their conservation.

In the future, the Government intends to further reforms aimed at the extension of independency of general education schools, to a certain extent also facilitating introduction of incentives for efficient management of public assets within the behavior of the management bodies of those institutions. In this context, the Government plans to widen applicability of the per-student financing mechanism, by using the same mechanism while making capital transfers (grants) for covering the capital expenditure needs of schools.

At the same time, along with some independence granted to schools in terms of managing capital expenditure, actions will be taken for ensuring targeted usage of the allocated resources. In particular, budgets of capital expenses of schools, to be financed through capital transfers, will be approved by relevant bodies, as well as steps will be taken for regulating supervision over their execution.

### ***Health Care***

In general, capital investments in health care from various sources so far have been insufficient for enabling provision of high-quality services in line with the contemporary criteria in that area. Capital expenditure of the State Budget financed from external sources have been mainly channeled to rural ambulatories, whereas internally financed budgetary capital expenditure over the last years have been carried out in a centralized manner, particularly, prioritizing improvement of the quality of obstetric-gynecological services.

Capital expenditure in the sector over the next years will be directed to both primary and hospital care. Nevertheless, in view of the intra-sectoral peculiarities, planning and financing of capital expenditure will be carried out in a differentiated way.

Hospital care, in particular, is characterized by the circumstance that respective services under the state order are being provided both by public and private institutions. In this regard, elaboration and introduction of financing strategies is among the priority tasks of the Government.

Another important issue in planning of capital expenditure in hospital care is the impact of the presently implemented sectional optimization reforms on the potential demand for capital expenditure.

On the other hand, there is the issue of mitigating territorial disproportions in terms of distributing internally financed capital expenditure between various hospital care institutions, aimed at ensuring the availability of high-quality medical services for the population of the country. In this respect, the Government will prioritize capital expenditure programs addressed to the improvement of building conditions and equipment capacity of hospital care institutions outside Yerevan. However, in this regard also targeting and efficiency of capital expenditure are essentially dependent on matching the present capacities with the demand and enhancing their operational efficiency. In view of this fact, when allocating capital expenditure, the Government will prioritize the institutions having developed and implementing optimization programs, pursuant to the pattern set by medical institutions in Yerevan.

*In primary (ambulatory-polyclinic) care*, capital expenditure in polyclinics in the regions and in Yerevan will be emphasized over the coming years. This reflects the fact that during the last years budgetary allocations for capital expenditure in the field of primary care have been mainly channeled to the improvement of building conditions and equipment capacities in rural ambulatories.

In this context, one of the basic attitudes of the public policy will be matching the strategy for capital expenditure in the primary care with the reforms presently implemented in the sector and pursuing to switch to the family medicine system.

The table below presents the framework of capital expenditure in health care over 2007-2009, which includes the externally financed and a certain part of the internally financed capital expenditure necessitated by urgent health care issues, in view of considerations such as the quality, accessibility, and equality of the basic services. In this aspect, over the coming years the Government will still practice centralized allocation of capital expenditure, with its forecast values presented in the target indicators of capital expenditure framework in health care.

**Table 6.4 Public Capital Expenditure in Health Care over 2007-2009**

	2006	2007	2008	2009
	<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>		
<b>Total</b>				
Million drams	4,922.5	5,271.4	1,683.9	
Percentage share in total budgetary capital expenditure	3.7	4.3	1.1	1.2
Percentage Share in GDP	0.2	0.2	0.1	0.1
<b><i>Financed from internal sources</i></b>				
Million drams	1,676.5	1,924.6	1,337.9	1,531.4
Percentage share in total capital expenditure in the sector	34.1	36.5	79.5	85.2
<b><i>Financed from external sources</i></b>				
Million drams	3,246.0	3,346.8	346.0	266.8
Percentage share in total capital expenditure in the sector	65.9	63.5	20.5	14.8

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005

At the same time, the Government believes that the demand for capital expenditure in the sector is incomparably larger. However, in view of the presently implemented reforms aimed at the optimization of the system capacities (especially at the hospital care level) and the need for concretizing capital expenditure planning and financing mechanisms, in the

meantime the Government will refrain from providing for additional capital expenditure in health care over the next three years, bearing in mind that, in case of well-grounded need, there is the option of financing that expenditure at the cost of the unallocated capital expenditure component.

### ***Economic Services***

Under the 2007-2009 framework for capital expenditure, (triennial) allocations to economic services will amount to 208.9 billion drams, or 49.2 percent of capital expenditure planned for that period. As a share of GDP, economic services will comprise 2.3 percent yearly over the planned period. Such an increase of predicted expenditure is conditioned by Millennium Challenges Initiative Program implementation expenditure. Financing from external sources will exceed financing from internal sources. However, the structure of the sources of financing varies from sector to sector. In particular, capital expenditure in the transportation sector are to be financed both from internal and from external sources, whereas in the energy sector the financing is provided almost fully from external sources. Under the functional classification groups *Agriculture, Forest and Water Economy, Fishery and Industry, Minerals (Excluding Fuel), Construction, and Environmental Protection* the overwhelming part will be financed through targeted credit programs.

**Table 6.5 Public Capital Expenditure in Economic Services over 2007-2009**

	2006	2007	2008	2009
	<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>		
<b>Total</b>				
Million drams	54,332.2	47,010.1	86,793.7	75,102.4
Percentage share in total budgetary capital expenditure	40.8	38.5	57.0	49.9
Percentage Share in GDP	2.3	1.7	2.9	2.4
<b><i>Financed from internal sources</i></b>				
Million drams	26,044.9	20,161.1	15,679.8	18,708.4
Percentage share in total capital expenditure in the sector	47.9	42.8	18.0	24.9
<b><i>Financed from external sources</i></b>				
Million drams	28,287.3	26,849.0	71,113.9	56,394.0
Percentage share in total capital expenditure in the sector	52.1	57.2	82.0	75.1

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005

In the structure of (triennial) capital expenditure in economic services, allocations to fuel and energy sector, totally financed from external sources, at 42.1 percent (88.0 billion drams) and allocations to transportation and roads economy sector at 28.3 percent (59,0 billion drams) comprise the largest share. At that, most part (around 90 percent) of allocations to transportation and roads economy sector will be channeled to capital expenditure in the road network. The group Agriculture, Forest and Water Economy, Fishery has the third largest share (23.4 percent, or 49.2 billion drams) in economic services.

In view of the important role of the road network and the irrigation system in the economic development and poverty reduction<sup>11</sup> (which has been set forth in the respective provisions of the Poverty Reduction Strategic Program), the main expenditure drivers, priorities and policy directions in these sectors are presented below.

### ***Road Network***

The road network is exactly characterized as a public good; that is, on the one hand, the consumption of these goods (services) is in essence non-competitive, and on the other hand, practically there is no way for limiting the scope of the consumers.

<sup>11</sup> In the group Agriculture, Forest and Water Economy, Fishery, investments in the irrigation system comprise most part of capital expenditure.



Despite the rather significant public investments in the road network over the last years, still there are certain problems in this field needing public intervention in the form of capital expenditure. This, particularly, reflects the fact that the investments so far have been mainly channeled to the interstate importance roads. According to the latest estimates, the loss incurred by road users (solely through vehicle operation) annually amounts to around US\$ 100 million. On the other hand, studies show that economic growth in Armenia is highly correlated with and driven by the condition of the road network.

In view of the key importance of the road network for the further socio-economic development of the country, the state policy over the coming years will be oriented to the improvement and maintenance of the road network.

When developing the 2007-2009 capital expenditure framework, the Government has been guided by the following priorities:

- i. Road segments with strategic importance;
- ii. Road segments characterized by higher economic efficiency indicators;
- iii. Road segments, which are to be rehabilitated for connecting various localities in Armenia at least by one road and for ensuring the exit to highways, while prioritizing the segments with a higher rating (rank) in terms of facilitating economic growth and reducing poverty.

Allocations to the road network over 2007-2009 will amount to 59 billion drams (in average 0.7 percent of GDP yearly). At that, the framework stipulates for financing this expenditure from both external and internal sources. In parallel with increasing capital expenditure, the Government is willing to provide for relevant current allocations to the appropriate maintenance and regular operation of the assets, also reviewing the amounts of allocations as needed.

Substantial portion of works planned by the program – at the cost of 18.5 billion drams – should be implemented within the scope of assistance to Armenia by the Millennium Challenges Corporation (MCC) in the framework of the US Government’s Millennium Challenges Initiative.

**Table 6.6 Public Capital Expenditure in Road Network over 2007-2009**

	2006	2007	2008	2009
	Budget <sup>(1)</sup>	MTEF 2007-2009		
<b>Total</b>				
Million drams	34,547.8	15,602.3	19,763.2	23,679.0
Percentage share in total budgetary capital expenditure	26.0	12.8	13.0	15.7
Percentage Share in GDP	1.4	0.6	0.7	0.7
<b>Financed from internal sources</b>				
Million drams	17,621.0	15,281.4	11,681.4	13,500.0
Percentage share in total capital expenditure in the sector	51.0	98.0	59.1	57.0
<b>Financed from external sources</b>				
Million drams	16,926.8	320.9	8,081.8	10,179.0
Percentage share in total budgetary capital expenditure	49.0	2.0	40.8	43.0

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N “On Actions Ensuring Execution of the State Budget 2006”, dated December 15., 2005

### ***Agriculture and Water Economy***

Under the 2007-2009 framework for capital expenditure, (triennial) allocations to agriculture and water economy will amount to 49.9 billion drams. Around 9.2 percent of expenditure will be financed from internal sources, and the remaining part will be funded under credit programs and Millennium Challenges program.

**Table 6.7 Public Capital Expenditure in Agriculture and Water Economy over 2007-2009**

	2006	2007	2008	2009
	<i>Budget<sup>(1)</sup></i>	<i>MTEF 2007-2009</i>		
<b>Total</b>				
Million drams	10,361.9	10,316.1	19,926.1	18,993.6
Percentage share in total budgetary capital expenditure	7.8	8.4	13.1	12.6
Percentage Share in GDP	0.4	0.4	0.7	0.6
<b><i>Financed from internal sources</i></b>				
Million drams	3,447.6	1,735.60	1,377.7	1,436.8
Percentage share in total capital expenditure in the sector	33.3	16.8	6.9	7.6
<b><i>Financed from external sources</i></b>				
Million drams	6,914.3	8,580.5	18,548.4	17,556.8
Percentage share in total capital expenditure in the sector	66.7	83.2	93.1	92.4

<sup>(1)</sup> Pursuant to the Government Decree No 2162-N "On Actions Ensuring Execution of the State Budget 2006", dated December 15, 2005.

A significant part of sectoral allocations has been provided for investments in the irrigation system. At the same time, the largest component of capital expenditure in the sector will be provided within the scope of assistance to Armenia provided by Millennium Challenges Corporations (MCC) in the framework of the US Government's Millennium Challenges Initiative – 30.4 billion drams (triennial).

By prioritizing the irrigation system in its policy, the Government recognizes the important role of agriculture for the socio-economic development and food security of the country, which can be seriously hindered by the major problems in the irrigation network. The main objective of public investment in the irrigation system is eliminating the obstacles to economic development and increasing the income of small farming households.

On the other hand, bearing in mind that the services of the irrigation system, in essence, are not characterized as public goods, the Government will adopt a policy aimed at improving the interaction between public and private segments in the sector. In this context, the Government will mainly undertake investment commitments and keep conducting a restrained subsidization policy in the sector, by ensuring maintenance and operation of the assets through a relevant tariff policy. Besides that, through creating an appropriate environment, the Government will pursue the tactics of gradually, over time, transferring investment commitments just to the users of the services (water user associations).

## **ANNEXES**

**Measures to Be Undertaken by Taxation Bodies to Ensure the Collection of 2007-2009 State Budgets Tax Revenues****Ensuring Tax Revenues**

Annual development and approval of professional inspectorates working plans over 2007-2009 to raise the efficiency of works with major taxpayers and improve the indicator of tax collecting.

Solving the tax-related problems of mine exploiters, supervision over precise and timely fulfillment of their tax liabilities, administration, management and quality improvement over 2007-2009. Particularly, establishment of mining sector inspectorate is envisaged in 2006 in order to solve the above-mentioned problems.

**Reduction of Arrears and Overpayments**

Reduction of current liabilities in relation to State Budget and social security payments and development of a program directed to reduction of arrears; implementation of appropriate activities over 2007-2009.

Development of a program directed to reduction of current overpayments, reduction of overpayments volume and prevention of current overpayments growth. Improvement of the procedures of VAT overpayments payback to exporters and its transmission on the account of other tax liabilities, improved control over this process over 2007-2009.

**Tax Calculation and Development of Information System**

Automation of the tax invoices processing; creation and exploitation of tax invoices (over 100.0 thousand drams) database necessary for counter-examinations; creation of a computer program and corresponding database for processing the information on tax invoices received by taxation bodies; introducing them into tax inspectorates. Increased efficiency of the control over the tax invoices, cross-checking. Identification of the tax invoice party subjects, which have not presented the information defined by legislation, and provision of the necessary information on them to the tax inspectorates, where they are registered over 2007-2009.

**Arrangements on Particular Taxes**

Improvement of the residents' minimal income tax controlling mechanisms; examination of minimal income tax level; all year round control over minimal income tax sums. Reduction of tax losses of income tax paying residents; examination of the declared tax losses reasons; limitation of transferring the tax losses to the coming years; prevention of accumulation of unreasonable tax losses during the year (2007-2009).

Reduction of unlawful turnover of excisable products, organization and implementation of examinations on discovering the non-marked excisable products over 2007-2009.

Control over privileges provided by the legislation to the trade organizations with foreign investments, particularly, classification of privileged residents and examination of their other liabilities; permanent control over residents with permanent and new privileges in 2007.

Comparison of previous year's revenues from fixed payments taxable activities and implementation of examinations. Control over resource data on gas, petrol and diesel fuel, casino activities; improvement of legislation on fixed payments, including that for the construction activity.

Creation and periodical update of information database of correlated persons, utilization of database information during the control activities. Discovering of correlated persons paying simplified taxes, incorporation of simplified tax payers into the general field based on processed information.

Improved control over payment of state duties, including control over the payment of duties for definite activities according to the order and terms defined by legislation.

#### Insurers

Ensuring the growth of the number of employees declared by insurers and increase of average monthly wage. Enhanced control due to changes in mandatory social security payments minimal rate, preventing the cases of reduction of wages and the number of employees by insurers. Implementation of activities directed at increase of calculation volumes based on comparison of tax calculation database with social payments database over 2007-2009.

#### Tax Control and Inspections Strategy

Organization of efficient control in the framework of the National Inspection Program, wide application of adopted strategic basics (2007-2009).

Implementation of activities in different sectors of economy directed at persons writing out and acquiring documents without products (“forged” documents), discovering the cases of writing out the documents without products, full control over this process, and application of punishments defined by legislation (2007-2009).

Development of general methodology for examination of taxpayers’ reports to tax bodies based on mechanism of cameral study. Definition of general approaches to implementation of cameral study according to the law, their general application and ensuring the future utilization of their results. Enhanced control over legitimacy of currency relations (in the frameworks of tax bodies competencies) over 2007-2009.

#### Control over the Sector

Increasing the taxing levels of taxpayers in transportation sector (cargo and passenger transportation), enhanced tax control over unlawful transporters, increasing the taxing levels of transporting organization servicing interstate and domestic routes in 2007.

Enhanced control over compatibility of declared and actual volumes of production and realization of bread-bakery products, meat products, sausages, poultry in 2007.

Control over introducing cash registers in trade fairs, ensuring the legality of the trade and implementation of law provisions. Control over trade places, periodic control over taxes and social security payments calculation and payment in 2007.

Increasing the taxing levels of importing physical persons. Discovering importing persons which do not submit reports to tax bodies. Increasing the taxing levels of importing legal entities and private entrepreneurs (2007-2009).

Activities directed at defining the risk sectors over 2008-2009 and control over them.

#### Other Activities

Development of taxation mechanisms and implementation of corresponding preparation works over 2007-2008, taking into account the 100 percent inclusion of agricultural sector into the tax system since January 1, 2009 (as a result of cessation of privileges).

Introducing administrative and legislative changes directed at duly fulfillment of tax liabilities, closing up the legal loopholes relating tax calculation and payment, improvement of legislation regulating the tax administration.

### **Measures to Be Undertaken by Customs Bodies to Ensure the Collection of 2007-2009 State Budgets Tax Revenues**

The Customs State Committee under the Government envisages the following activities over 2007-2009:

1. Enlarging the number of self-declarations and persons providing customs declaration through electronic communication and introducing this model into the all customs houses and customs stations;
2. Introducing automated elective system of checking the documents of products and transportation means passing through customs border and their examination in all customs houses and customs stations;
3. Establishment of customs examination and registration places equipped with corresponding technical means;
4. Establishment of customs laboratories for implementation of customs activities and examination of products;
5. Implementation of joint activities with the Police to discover temporarily imported and not re-exported transportation means;
6. In order to improve the customs legislation and clarify customs procedures, make changes and amendments to:
  - Customs Code, in order to replace the current system of declaration of products transported through customs border with new self-declaration system;
  - Law "On Road Fees", in order to clarify the customs mechanisms, decrease the possibility of ambiguities and misunderstandings;
  - In the Order for Declaration on Products and Transportation Means Transported through Customs Border.
7. Improve the cooperation between the customs bodies and the Court Decisions Enforcement Service in order to ensure the future fulfillment of obligations of participants of Foreign Economic Activities (FEA);
8. To bring the customs stations technical capacities in correspondence with international standards in order to increase the efficiency of services provided by the customs bodies to FEA participants;
9. Improve the cooperation with international organizations, foreign customs bodies in order to increase the efficiency of post-customs control.