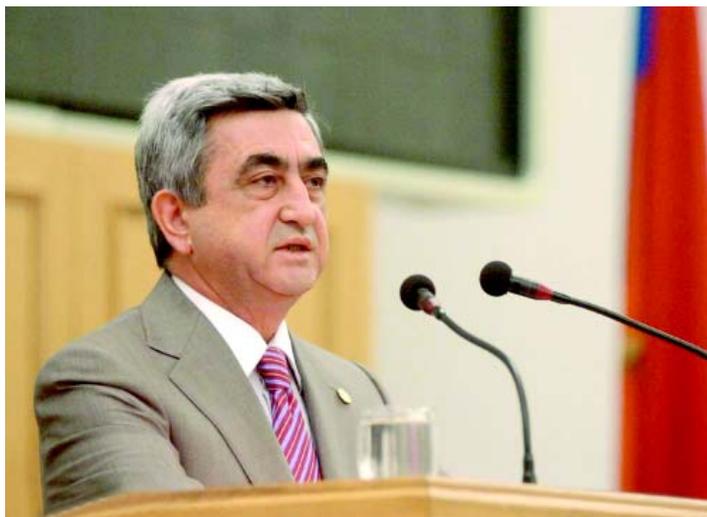


REPUBLIC OF ARMENIA
GOVERNMENT
PROGRAM

YEREVAN 2007

Non-official edition

**Statement by RA Prime Minister
SERZH SARGSYAN in RA National Assembly
at Presentation of RA Government Program**



**Honourable President of the National Assembly
of the Republic of Armenia,
Dear Members of Parliament,
Ladies and Gentlemen,**

In accordance with Article 74 of the Constitution of the Republic Armenia, the Government is now presenting its program to the National Assembly for consideration.

Before proceeding to the details of this Government Program, I would like to touch upon those approaches which led to the formation of the executive authority in the wake of corresponding political developments.

Following the May 12, 2007 parliamentary elections, as a result of political negotiations held within the National Assembly of 4th convocation,

the leading parliamentary forces established a coalition and a cooperation party to form a government.

A key priority was the formation of a highly operational government of greater public trust to build on the recent years' achievements by simultaneously focusing on the decision of those social and economic problems accumulated over the past several years.

As an amalgam of coalition and cooperating forces, the government will do its utmost in pursuit of an effective and uniform policy.

Our country goes through a difficult period of statehood engineering. Actually, having left behind the economic crisis, the complex social conflicts, party and ideological contradictions, we are building a new life. As a result, step by step and somewhat slowly for the time being, our life has been changing for the better. We understand that there is still much to do on the way to the accomplishment of our goals. The future we aspire to will bring us a secure and decent life and the possibility of self-expression for each citizen of our country.

A chief pre-requisite for the development of our country is the spiritual unity of our people, the shaping of an atmosphere of mutual respect, cooperation and trust that is crucial to government efficiency. As Nerces Shnorhali has best put it: "Unity is needed in basic matters, freedom is good for minor ones, while love is needed in everything." Actually, this is the spiritual basis for the construction of a democratic civil society.

We live in a rapidly changing world which puzzles us with global challenges. As we drafted the Program of Government, we set ourselves the task of providing for the program's responsiveness to these challenges by proposing corresponding approaches and taking into account the best of the international expertise.

This ever-shrinking world, along with the emerging challenges, opens up new opportunities for Armenia. Our Government is obliged to take advantage of these opportunities proceeding from the following conclusions:

- 1** Economic, financial and cultural cooperation between States is largely based on the generally accepted universal rules.
- 2** There is no alternative to the competition-based open economic system for Armenia.
- 3** Free and creative individuals represent the driving force of the society of the 21st century; they should be our competitive edge.
- 4** Modern information and communication technologies provide an excellent opportunity for the consolidation and cooperation of all Armenians to enhance our competitiveness worldwide.

Our region is a crossroads for the interests of different geopolitical forces and, therefore, contradictions seem to be inevitable. The best strategy for safe and sustainable development is the engineering of a democratic society based on the principles of liberalism in line with the international practice.

The government has set itself an ambitious task, namely to win international recognition in the regional struggle for competitiveness as a country providing better conditions for business and investments. This is the right way to becoming a regional centre.

We must develop our competitive edge in mining industry, chemical industry, construction, agriculture and science.

Moreover, we have to build up new competitive assets in such spheres, as education, public health care, information technologies, holiday organization, financial and banking services. Well above being accessible to the citizens of Armenia, high-quality services in these areas should by virtue of their competitiveness attract customers and investments from our region and - why not – from all over the world.

Major enterprises in all the above sectors have to be re-organized into public companies with social responsibility. The possibility of participating in the capital of these enterprises should be offered both to the citizens of Armenia and foreign investors. The Government is ready to support

this process by creating a favourable climate, including the participation in the formation of infrastructures.

The Government of Armenia will make every effort to ensure:

- 8-10 % annual growth of GDP;
- No less than 10% annual growth of investments;
- Rise in the level of tax collection at a yearly rate of 0.3-0.4 % of GDP;
- Poverty reduction to the threshold level of no more than 12 % of Armenia's population;
- Increase in the actual level of pensions, starting from a 60 % rise as of January 1, 2008
- Other targets stipulated in the program.

We understand that the Government cannot afford making inefficient use of State resources, given their limited size.

This is a goal-oriented program, which tends to the decision of pressing issues which, in turn, will bring about progressive development in the long run.

Our top-priority tasks are as follows:

1. National security and sustainable development

First of all, this means adherence to the fundamental values of national security such as:

- Independence
- Protection for citizens and for the State
- Peace and international cooperation
- Preservation of the Armenian identity
- Well-being

In accordance with the logic of ensuring national security, the



Government will proceed along the lines of macroeconomic stability, reduction of poverty, realization of infrastructure-related projects aimed at the maintenance of lifeline system's integrity.

Our army-building efforts have already yielded concrete results, yet there are a number of problems in want of decision.

2. Effective Governance

A primary task for us will be to develop efficacious systems of governance at all levels of public administration, local self-management and the private sector.

Corruption, shadow economy, inequalities in the competitive environment - these are problems susceptible to be solved only on the basis of efficient governance and necessitate a smooth change in technologies, management tools and methods.

This core problem has 3 components:

Firstly:

An up-to-date and effective system of government means:

- Aptitude of activity process description;
- Task/job description based on process description;
- System of work results assessment;
- Application of incentives on the basis of work results assessment;
- Introduction of a system of process risk assessment;
- Transparency and social feedback.

We have to ensure that the yearly performance of government departments and agencies is estimated based on these very principles. This means that the supervising entities, inclusive of the Control Chamber, should first of all perform process audits.

Secondly:

The government should promote the introduction of corporate management system in the real sector, to begin with the government itself. In other words, State enterprises and enterprises with State participation must introduce the best available standards of corporate management. The society and the State ought to prefer these enterprises to others.

Thirdly:

We are going to introduce the concept of public - private sector partnership, namely:

- Development and implementation of important national and local programs together with the private sector;
- The State should not get involved or intervene into such spheres as are susceptible to be developed by the private sector on its own;
- The State should refrain from exercising such functions as may lead to market deviations;
- The State should encourage the application of best practices and advanced know-how in private sector business management.

In addition to the mentioned approaches, the fight against corruption and shadow economy implies overcoming psychological complexities. Tax-evasion and bribery must be deemed as abusive practices and condemned by the society. We must be intolerant of adverse phenomena, with the cleansing to be started from ourselves. We should rule out the pre-emption of family ties and friendship bonds and must condemn those of our friends, close relatives, party comrades who evade from paying taxes or put up with this adverse phenomenon. We must realize that this is the most serious evil challenging the State. We shall demand from law enforcement bodies to toughen the struggle against corruption and we shall expose the offences revealed to public criticism. In this respect, the activities of the Office of Prosecutor General, the police, tax and customs bodies should become more transparent. The transparency will help combine severity and fairness of punishment.

3. Education and science

The formation of a knowledge-based society is the basis of economic development in the world of the 21st century where fresh ideas and innovation, as well as the aptitude of taking them into effect as promptly as possible are among key driving forces of the progress. From this point of view, the functions of the State may vary substantially. We should provide for the quickest possible circulation of knowledge of all the elements of social assets.

Low level of knowledge in the 21st century implies low standard of life.

The government shall be consistent with the implementation of reforms in the field of education and science.

We need to pass new laws, reorganize the system of research and education, create such structures as seem to be susceptible to bring together the scientific and intellectual potential of all Armenians.

Young people with higher academic achievement should be given the possibility of continuing their education in world-famous educational institutions.

At the same time, more stringent and higher university standards have to be applied in line with the worldwide experience.

Universities should become core centres of fundamental research: science and education must be closely tied up.

We need to invite renowned experts, including ones of Armenian origin, to teach in the educational institutions of Armenia.

Measures will be taken to set up infrastructures necessary for communication between fundamental research and the real sector of economy.

4. Proportional development of regions

A key task for modern States is the proportional development of administrative units. Disproportionate territorial development has become a serious barrier on the way to social and economic development. Yerevan is overloaded with cultural, health care, industrial, financial, educational, as well as administrative and judicial functions to the detriment of itself and at the expense of other territories. Taking some functions away from Yerevan will be subject to Cabinet discussions.

Another important step of the Government shall feature changes in the system of territorial administration to enhance the level of self-management and responsibility of local self-government entities. Financial levelling mechanisms will be improved. We need to increase the budgets of local self-government entities. Public services should be provided in the provinces, first of all.

We must prevent the outflow of the population from remote and border regions. The primary cause behind the outflow of the population from

these regions is the lack of jobs or narrow specialization, low social activity leading to social apathy. Well aware of the problem, the Government needs to apply a complex approach in addressing the question of Armenia's comprehensive territorial development. Under the strategy of public-private sector partnership, a national territorial development program will be designed. It would be best started in Shirak Marz of Armenia, from the town of Gyumri.

5. Social protection for the citizens of Armenia

In the social sector, I would single out 3 major problems:

- Public health care
- Social security and pensions system
- Culture

The above 4 priorities are supposed to create favourable conditions for employment. "Jobs must seek people and not vice versa. We must create an effective labour market, detect the problem of structural unemployment, as well as carry out programs on targeted training in order to bring people's skills and qualifications up to needs of the economy.

We must admit openly that the invalids, destitute children, large households, war veterans, dead freedom-fighters' families, refugees, who are facing multiple hardships today, appear to be unable to solve the problems on their own. We shall be expanding the scope of targeted social programs by involving the private sector which, in turn, will help improve the moral and psychological atmosphere in the country.

We are embarking upon public health care and pensions system reforms. The quality and accessibility of health care services, as I have already mentioned, should live up to the best standards available. We must detect such areas in health care services as are most wanted in the region and

take steps for making of Armenia a regional centre of health services. The modernization of our resorts and spas (Jermouk, Arzni, Dilijan, Aghveran) will go a long way towards the decision of this problem. At the same time, we must realize that not only do health care services imply provision of high-quality medical aid to patients, but they also imply the availability of an effective system of health maintenance and preventive care. By promoting physical education and sports, we will encourage people to leading a healthy way of life.

The government will consistently raise the level of pensions to make them exceed the threshold of poverty by 1.5 times. In addition, the Government will continue working towards the introduction of a multistage pensions system, inclusive of the funded pension scheme.

Our population has to learn saving up money. Young people should assume responsibility for comfortable old age by joining the funded pension scheme.

Culture is another component of social priorities. The increase in the population's cultural level with obligatory preservation of the foundations of our national culture, the overcoming of provincialism, the broader outlook of our citizens are important pre-conditions for the construction of the society of new type.

The Government must go through with its mission of ensuring free access to cultural assets for the whole population of Armenia.

I mean the preservation and restoration of cultural-historical monuments, the development of Armenia's library network, the accessibility of world's best libraries through information technologies, the activation of creative unions and collectives.

I have just stated some of the priority tasks of the Government for the five years ahead. This program is sufficiently ambitious and its realization will necessitate combined efforts on the part of all staff in government agencies. We have substantially updated the approaches to program implementation. Each new project will be made public for discussion

among all interested sides and what matters most is that it will be carried out based on the principle of public-private sector partnership.

We are open to new constructive proposals, discussions and cooperation.

In conclusion, I would like to state the following: basically, analysts estimate a government's activity by means of quantitative indicators, such as the growth of GDP, the per capita GDP, the average size of wages and pensions, the growth in the level of taxes etc. Indeed, these parameters are extremely important, but for me there is another indicator which defies all quantitative assessment, namely the people's belief in the future of our country. Therefore, our primary goal will be to rally our society around of the motto: **For you, Armenia.**

Thank you.



**REPUBLIC OF ARMENIA GOVERNMENT
D E C R E E**

June 21, 2007 N 695 - A

**ON REPUBLIC OF ARMENIA GOVERNMENT
PROGRAM**

In accordance with Article 74 of the Constitution of the Republic of Armenia, the Government of the Republic of Armenia **has decided to:**

Approve of the Government Program of the Republic of Armenia, as stated in the Annex below, and submit the Program to the National Assembly of the Republic of Armenia for consideration.

REPUBLIC OF ARMENIA
PRIME MINISTER

S. SARGSYAN

June 25, 2007
Yerevan

ANNEX

to

RA Government Decree
N 695-A of June 21, 2007

REPUBLIC OF ARMENIA
GOVERNMENT
PROGRAM

YEREVAN
June 21, 2007

1. PREFACE

The Government's Program has been developed taking into account the provisions of the Republic of Armenia National Security Strategy and Poverty Reduction Strategy Paper and incorporates the main provisions of the election programs of the Republic of Armenia President, the Republican Party of Armenia, the Prosperous Armenia Party, as well as some provisions of the election program of the ARF "Dashnaktsutyun."

Guided by the following 3 main missions of the State:

- Ensuring the internal and external security of the country;
- Creating preconditions necessary for the multilateral development of each member of society; and
- Meeting the basic minimum needs of the members of society that, in accordance with the procedure stipulated by law, are entitled to social security.

The Government's Program aims at the sustainable and secure development of the State, including the development of civil society anchored in democratic values, the formation of an atmosphere of trust between the public and the authorities, the establishment of social justice, and the provision of the unconditional rule of law, a free economy offering opportunities of equal competition, and national security.

The Government's Program will ensure the implementation of continuous reforms of political, economic, and governance systems, which have proven their efficiency in previous years.

The implementation of the Government's Program will rely on complete mutual understanding and close cooperation between the Republic of Armenia President, the Republic of Armenia National Assembly, and the Republic of Armenia Government, as well as an active dialogue with civil society.

2. MAIN PRIORITIES OF THE GOVERNMENT'S ACTIVITIES

The high rates of economic growth reported in previous years have laid a solid foundation for the future development of the country and a considerable improvement of the living standards. Sustaining the high rates of economic growth through a continuous improvement of quality remains the Government's main priority – as a primary safeguard of the future development of the country.

As a result of achieving economic growth and a targeted social policy, poverty has declined considerably, from 56.1% to about 29.8% (an about 1.9-fold decline from 1999 to 2005). Nevertheless, the current level of poverty and income distribution inequalities remain a major threat to the country's sustainable development and the formation of civil society. Although the Government's activities will be based on a strategy of further economic development, poverty reduction will remain a priority for the Government.

Considering that a liberal economy and free competition are necessary for the economy to continue growing, the Government considers that ensuring equal opportunities of competition and the equality of all citizens before the law, without any exceptions, are important priorities for the Government's activities and the implementation of this Program.

There is still a strong disparity of regional development in the country, and economic activities are mainly concentrated in the capital city. The Government's priorities include the consistent economic development of the regions and a considerable improvement in economic equalization policies.

The gap between the average pension and the average wage has resulted in a major difference between the living standards of the working population and pensioners (including the disabled). Social pensions and benefits remain low and do not guarantee a minimum level of prosperity

to those who need the State to care for them. The system of family allowances, as an instrument for overcoming extreme poverty, needs to be revised in order to achieve the general poverty reduction goals and to facilitate the emergence of stable households. Considering the importance of targeted and effective social protection policies, the Government will continue to prioritize the consistent improvement of the living standards and the demographic situation, as well as the comprehensive solution of social problems.

The Government considers that active demographic policy should be a priority for its activities and an essential component of national security. Households should be the focus of the Government's demographic policy. This policy will be implemented through strategic documents that the Government intends to approve in 2008. This policy will aim at strengthening families, increasing the birth rate, protecting motherhood and childhood, reducing the mortality rate, increasing life expectancy, halting emigration, and encouraging immigration.

Considering that human potential development is the key to sustaining economic growth and developing civil society, the Government will continue to treat it as a priority, which will be promoted in order to address the following issues:

- Considerably improving the quality of education and access to education (including higher education) for the disadvantaged groups of the population;
- Ensuring an adequate quality of life and increasing the average life expectancy by means of considerably improving the quality of and universal access to health care and essential services (potable water, heating, and the like), as well as implementing an appropriate environmental policy; and
- Expanding the sectors in which contemporary information technology is applied by improving the quality of and access to such services.

Public sector reforms are of extraordinary importance to making Armenia a competitive democratic country anchored in the principles of a liberal economy in accordance with international standards. To fully develop this sector, which has continuously been a fundamental priority, the Government considers the following to be priorities for the upcoming five years:

- Ensuring high efficiency, accountability, and transparency of public administration institutions;
- Considerably improving accountability before the public and significantly deepening cooperation between the public and private sectors; and
- Continuing to clarify the State's regulatory functions in the economy on the basis of the legislative stability principle.

In public resource management, the priority will be to continue improving the efficiency and transparency of public assets management and public expenditures through a consolidated State treasury system, as well as augmenting State revenue collection without increasing the tax burden.

The Government considers the fight against corruption a problem that needs to be addressed as a matter of urgency. The existence of corruption-friendly conditions threatens not only economic reform, but also public and political stability. The Government will make a structured effort to eliminate such conditions.

From the standpoint of developing the governance system, the modernization and development of the local self-government system on the basis of the Amended Constitution is of special importance. The formation and development of a fully-fledged local self-government system are important preconditions of overcoming regional disparities and achieving regional development.

The Government will continue to treat matters related to defense, public order, and national security as fundamental priorities, as per the National Security Strategy of the Republic of Armenia.

3. MAIN RESULTS EXPECTED FROM THE GOVERNMENT'S ACTIVITIES

The Government expects the following main results from the implementation of this Program during 2007-2012:

- Annual real GDP growth of 8-10%;
- At least a 10% annual increase in investments;
- A significant reduction of regional economic disparities;
- A 10% increase in non-agricultural employment;
- An increase in State revenue collection by 0.3-0.4 percentage points of GDP per annum;
- A significant reduction of poverty to achieve below 11.2% poverty and below 1.6% extreme poverty;
- Increasing pensions every year to achieve by 2012 an average pension that is 1.5-fold above the poverty line;
- Higher financing to the social security and insurance system, to reach 6.2% of GDP;
- Higher public expenditures on health, to reach 2.2% of GDP; and
- Higher public expenditures on education, to reach 3.5% of GDP.

4. MAIN AREAS OF THE GOVERNMENT'S ACTIVITIES

4.1. Significant Reduction of Poverty and Lowering Inequalities

During 1999-2005, strong economic growth and a targeted social policy have almost halved poverty from 56.1 to 29.8 percent. During this period, extreme poverty was reduced about 4.6-fold from 21 to 4.6 percent. Inequality was reduced considerably, too: the Gini coefficient of income concentration dropped from 0.597 to 0.359. Poverty reduction trends and progress are presented in the table below.

TABLE. Poverty Reduction Targets

	1999	2005*	2010	2012
Poverty (in %)	56.1	29.8	13.6	11.2
Of which:				
Yerevan City	58.4	23.9	8.2	6.4
Other cities	65.5	37.8	18.5	15.1
Rural settlements	48.2	28.3	14.2	12.0
Extreme poverty (in %)	21.0	4.6	1.9	1.6
Of which:				
Yerevan City	24.8	3.6	1.0	0.8
Other cities	27.4	7.2	2.8	2.3
Rural settlements	14.1	3.2	1.9	1.7

* The 2005 actual numbers are presented considering that the 2006 Household Survey results have not been published yet.

Nonetheless, the Government considers 29.8 percent poverty to be high. Its significant reduction is considered a key objective of the Government's activities. In collaboration with all stakeholders, the Government will continue the PRSP revision and approve in 2007 the 2008-2015 Poverty Reduction Strategy Paper, which it considers an essential component of the nation's sustainable and secure development strategy.

4.2. Reforms of Governance System and Fight against Corruption

4.2.1. Government Effectiveness

The successful implementation of the Government's Program will largely depend on further improvement of the effectiveness of the public administration system. To this end, the Government plans:

- To expand civil society participation in governance and raise awareness of the system, and to enhance the transparency of the public administration system;
- To create the necessary physical, technical, and working conditions for ensuring the effectiveness of an independent chamber of control;
- To enhance the strategic governing potential of the State system by gradually delegating the day-to-day administration functions to local self-government bodies; and
- To define a code of conduct for employees of this system and liability for violations and creating unnecessary hurdles.

In order to improve the human resource potential of the public administration system, the Government intends to achieve a considerable

improvement in the legitimate appeal of employment in the public sector by making the quality of employment and wages competitive with the private sector, albeit refraining from an increase in the number of public sector employees in the medium term.

The Government will continue activities to develop and introduce a unified system of technical, economic, and social information classification and encryption.

Public administration financing volumes will be increased by means of improving the qualification of public sector employees and introducing effective procedures for the preparation, adoption, and implementation of decisions. The Government will continue to introduce e-governance systems, with a priority focus on these sectors in which their application seems to be more efficient in terms of reducing the time costs of the population and businesses and enhancing the transparency and accountability of government.

In line with the international experience, the Government plans to continue disposing itself of such functions as are not typical of public administration.

In reforms of the public administration system, the Government attaches great importance to implementing a second phase of judicial reform on the basis of the Amended Constitution with the aim of:

- Developing and submitting to the National Assembly new criminal procedure, civil procedure, and administrative procedure codes;
- Creating new specialized courts stipulated by the Republic of Armenia Judicial Code and providing them with the necessary buildings, financing, and other physical and technical facilities;
- Transferring the investigative functions from the prosecution system to other public administration bodies; and
- Providing the newly-created investigation agencies with physical, technical, and financial resources.

Although the National Assembly elections of May 12, 2007 were considered by the international organizations to be the best since Armenia's re-gaining of independence and to comply broadly with the international standards, the Government considers that it is important to review the issues identified by the international observers and to take the necessary measures to further improve the electoral process.

The Government's priorities include the development of legislation regulating public services, as well as the development of the public service sectors and the development and implementation of a public servants' remuneration strategy that will reinforce a high-quality public service system.

The Government will take steps to develop a corporate governance culture in the public and private sectors, in accordance with the international best practice, including, in particular, measures to attract foreign investments by means of developing the capital markets.

4.2.2. Territorial Administration and Local Self-Government

In this sector, the reforms stemming from the Amended Constitution will draw clear lines between the functions of territorial administration and local self-government bodies. Cooperation procedures and checks and balances will be developed and implemented in the relationship between the community council, which will have greater powers, and the community mayors, which will be better protected.

From the standpoint of the Amended Constitution, clarifying and defining special schemes of territorial administration and local self-government in the City of Yerevan will be essential.

The efficiency of the system of state budget financial support to community budgets will be enhanced. Financial equalization mechanisms

will be improved by differentiating the types of support provided to communities. Measures will be taken to ensure a continuous increase of local self-government bodies' budget revenues. Activities will be carried out to minimize regional disparities and to improve access to the appropriate services, including the following:

- Improving the functions and capabilities of territorial administration bodies, introducing modern technologies for governance, and enhancing transparency;
- Raising the efficiency of the local self-government system and improving the quality of services provided by local self-government bodies, as well as governance skills and abilities in the local self-government sector; and
- Creating a unified database for communities.

Activities will continue to facilitate the creation of inter-community unions, and practical measures will be implemented towards community consolidation.

The Government plans to carry out activities to improve community infrastructure (roads and water supply).

4.2.3. Fight against Corruption

The fight against corruption is a key component of the policies implemented by the Government.

To combat corruption effectively and to build public confidence, it will be necessary to develop a fully-fledged multi-partisan system that supports true political competition.

The Government will continue to build upon the achievements of the 2003-2007 Anti-Corruption Strategy and to implement the stated principles of preventing corruption, improving the legal framework, institutional capacity building, accession to international organizations involved in the

fight against corruption, and honoring the commitments made under international treaties.

The Government will pay special attention to the media coverage of corruption cases revealed by law-enforcement agencies.

In the fight against corruption, the Government's main objective will be to develop a new anti-corruption strategy aimed at:

- Protecting human rights and freedoms;
- Raising the efficiency of central and local government bodies;
- Raising public awareness of the fight against corruption;
- Engaging civil society and making it more active in the fight against corruption;
- Improving the public administration system;
- Raising the efficiency of the public's participation in governance;
- Ensuring respect for the principle of everyone's equality before law; and
- Building a level playing field for competition between businesses and reducing the shadow economy.

In the new Action Plan designed to support the implementation of the anti-corruption strategy, the Government will focus on honoring the obligations undertaken by Armenia upon accession to GRECO and the OECD's Anti-Corruption Network of Countries with Transition Economies, including the adoption of legal acts necessary to honor such obligations.

4.3. Economy

4.3.1. Economic Development

Sustaining the High Pace of Growth

During 2001-2006, Armenia's growth (13 percent on average) was among the highest in the world, which enabled to double per capital GDP in the same period.

The Government's policies during 2007-2012 will aim at sustaining the high pace of economic growth. During this period, 8-10% real growth of GDP per annum is planned. This growth will enable Armenia to move to the group of middle income countries by yearend 2009.

Maintaining macroeconomic stability is considered important from the standpoint of sustaining growth. To this end, the Government will keep up its recent years' fiscal policy, which is conducive to macroeconomic stability and strong growth. The Government considers the implementation by the Central Bank of a reliable and predictable monetary policy an important precondition of the success in economic development.

The Government considers increased country competitiveness a safeguard of sustainable economic development. To this end, among other things, the Government's economic policy during 2007-2012 will focus on enhancing production capacity and promoting exports through the use of modern technology.

To this end, the Government attaches importance to:

- Shaping an international image of Armenia as a favorable and safe environment for investments, business, and tourism;
- Continuously improving the business climate and proactive attraction of investments;

- Encouraging free competition, the implementation of new technologies, and increased work productivity;
- Significantly increasing the level of financial intermediation;
- Promoting exports of goods and services and diversifying the geography and structure of exports; and
- Finalizing the formation of an innovation system and information society.

Employment, Labor Productivity, and Income

The Government's policy in this area will aim at implementing active employment policies, forming an efficient and stable labor market, reducing unemployment, providing employment and a healthy, safe, and dignifying workplace, and ensuring adequate pay for work.

Recent years' economic developments have been accompanied with stabilization of agricultural employment and a reduction of non-agricultural employment. Starting from 2005, non-agricultural employment has grown, and opportunities are visible for increasing employment.

To this end, the Government's economic policy will focus mainly on encouraging investments and further improving the business and investment climate, as well as streamlining business procedures. As a result, it is expected that non-agricultural employment will grow by about 105,000 jobs or an average of about 2.4% per annum; the majority of new jobs will be created outside of Yerevan.

The Government plans that about 30% of the next five years' economic growth will be fueled by employment growth, while the rest—by higher labor productivity. As a result, labor productivity is expected to grow by an average of about 7% per annum.

Smoothing Disparities in Regional Development

Presently, economic activities are predominantly concentrated in Yerevan, which has accounted for about half of the total industrial output and over 80% of the construction volume, trade turnover, and transport

and communication services. On the other hand, this increasing concentration in Yerevan of the most rapidly growing sectors and investments therein, especially private investments, has led to a large disconnect of economic activity between the capital city and other urban and rural settlements. The Government realizes that, without an active regional policy on the part of the State, it will be impossible to achieve an even distribution of economic activity. To this end, the Government plans to carry out measures to boost the development of other Armenian cities and to promote investment activity, including measures involving the creation of national projects, capacity building of local self-government bodies by means of creating inter-community unions, and encouraging the public-private partnership. The Government intends to start the coordinated application and piloting of these instruments from the City of Gyumri and later disseminate the experience to other cities of Armenia.

The Government intends to improve access to finance, commodities, and services in the regions, as well as further improve the locally-adapted provision of public services.

4.3.2. Business and Investment Climate

The Government's policy of attaining high growth will hinge upon a qualitative improvement of the business environment. In recent years, the business environment in Armenia has been assessed as broadly favorable under the international standards. However, Armenia is still not globally perceived as sufficiently competitive in terms of a number of key indicators of the business environment quality. This applies, in particular, to the accessibility of credit, the protection of investments, the simplicity of tax payment procedures, the streamlining of customs procedures, and the volumes of the shadow economy. The Government will focus primarily on improving these indicators in order to reach a considerable improvement

of the nation's competitiveness. By yearend 2007, the Government will set the target levels of these indicators based on the international practice and will define a clear strategy and action plan for achieving such indicators.

Furthermore, the Government attaches great importance to sustaining policies aimed at the introduction of business ethics rules and standards.

The Government will place a strong emphasis on the formation of domestic savings and the attraction of foreign investments in view of their importance to sustaining high growth.

The Government intends to keep the investment-to-GDP ratio at least around 27-30%, which will be sufficient to achieve 8-10% annual growth. The required volumes of capital investments will be financed mainly from private sources and, in some cases, especially in infrastructure, on the basis of a private-public partnership.

With a view to mobilizing domestic and foreign investments, the Government will maintain a policy focus on a proactive policy of attracting investments, which is presently hindered mainly by the unpredictability of legislative amendments and official commentaries, a lack of confidence in the judiciary, the low level of financial intermediation, and the inadequate quality of tax and customs administration. The necessary measures will be undertaken to eliminate these obstacles.

To improve the business climate and to attract investments, the Government will revamp the Armenian Development Agency and the Business Support Council and enhance their effectiveness, while identifying obstacles to the provision of a fully competitive environment and the difficulties for the unconditional enforcement of laws.

4.3.3. Financial Intermediation

Financial intermediation remains low and does not adequately perform its primary function of converting higher domestic savings to investments, in spite of the banking sector growing faster in the last three years than the economy as a whole (in 2006, banking sector credit to the economy reached 9.8% of GDP compared to 6.6% in 2003). To this end, the Government will support the Central Bank's strategy of rapidly expanding the financial system, including the Central Bank's efforts at increasing mortgage and consumer lending, improving access to financial resources and the reliability of banks, lowering interest rates, expanding and developing the necessary schemes (such as the deposit guarantee fund, credit bureaus, mortgage schemes, and the like), and drawing more reputable foreign banks into the Armenian market.

The Government also attaches great importance to the Central Bank's policy of nurturing the growth of non-bank credit organizations and insurance companies, as well as activating the securities market, realizing the importance of developing these sectors in terms of increasing and diversifying investments.

Moreover, the Government intends to bolster the performance of the Small and Medium-Sized Enterprise Fund in order to make financial resources more accessible to small and medium-sized entrepreneurs.

The Government considers the development and implementation of policies to introduce and improve leasing instruments an important mechanism of expanding the financial system.

Structural reforms aimed at revising the functions of the Central Bank and separating the financial supervision function from the Central Bank are planned to lead to the creation of an independent body of unified supervision, which will license, supervise, and regulate the activities of financial system participants. Unified regulation and supervision are called

to ensure the country's financial stability and a level playing field for financial market participants, and to protect the interests of the financial market customers.

In view of the entry into Armenia's financial market of reputable international financial structures in recent years, the Government envisions the prospect of turning Armenia into a regional financial hub.

The Government will develop a program to phase in mandatory insurance and corporate social responsibility schemes in the country.

4.3.4. Budgetary System

Medium-term and annual budget programs will be closely linked with the Government's long-term social-economic development programs, especially with the PRSP.

The Government considers the predictability of public revenue an essential component of fiscal policies. Addressing this issue will enable to make a better assessment of the feasible level of budget expenditures.

Increasing public revenue collections during 2007-2012 will be a key priority for fiscal policies, which will increase the tax revenue-to-GDP ratio by an average of 0.3-0.4 percentage points per annum without raising the tax rates.

The Government attaches great importance to financing State budget expenditures from domestic sources and minimizing dependence on external sources of financing. Debt financing of public expenditures will be made through domestic debt and only concessional foreign debt. By means of efficiently managing the annual state budget deficit every year, public debt will be kept at a level that is safe from the standpoint of economic development.

When evaluating the efficiency of public expenditure management, the Government will be guided by the following three principles:

- **General Fiscal Discipline:** the fiscal resource package must be clearly and comprehensively defined. It must be formed before the expenditure distribution into areas and be supported with medium-term macroeconomic projections. Expenditure distribution must be carried out clearly within the limits of budgetary resources, and their actual execution—within the program budgetary allocation limits stipulated in accordance with the predetermined expenditure priorities.
- **Allocation Efficiency:** public expenditures must be consistent with the policy priorities of the State. Reallocation of funds within and between sectors, from less to more important priorities, and from low to high efficiency programs, must be possible.
- **Technical (Output) Efficiency:** line ministries (agencies) must ensure a minimum attainable level of efficiency, which must be compatible with the relevant private sector indicators.

To enhance the efficiency of public expenditure management, reforms to introduce program budgeting will be continued and their scope—extended. It is necessary to build the capacity of communities to develop and implement multi-year capital programs. Moreover, the community budgeting process must be improved by means of introducing a program budgeting scheme for communities.

The universal and transparent application of the public procurement system and, especially, electronic procurements, as well as further improvements of the treasury system will be essential to making the budgetary system more effective,

The Government will take steps to enhance the transparency of the budgetary process and establishing even tighter controls of the state budget execution process. Increased accountability of all ministries and agencies is of particular importance.

4.3.5. Tax and Customs Systems

The Government attaches great importance to improving the tax and customs legislation from the standpoint of providing a favorable environment for further economic growth. Moreover, increased efficiency of tax and customs administration must be coupled with the equitable and unconditional enforcement of the tax and customs legislation.

The tax system improvement priorities for the upcoming five years include:

- Streamlining the tax legislation and clarifying the requirements by means of eliminating uncertainties and ambiguities in the Republic of Armenia legislation;
- Expanding the tax base and evenly distributing the tax burden, which will be achieved primarily by means of reducing the shadow and informal economy and refraining from introducing new tax exemptions;
- Improving tax mechanisms by means of addressing the tax evasion loopholes in the legislation and streamlining and clarifying the legal framework;
- Replacing the alternative taxation schemes for certain types of activities with a regular taxation scheme;
- Minimizing exemptions to the utmost, and precluding any tax exemptions for specific sectors, types of activities, or enterprises; and
- Continuously improving the tax administration.

To this end, the Government will submit to the National Assembly in 2008 a draft Tax Code for review.

The Government plans to achieve the necessary level of tax revenues, especially by means of improving the efficiency of tax administration. In this respect, the Government will lay an emphasis on measures to curtail

the shadow economy and, thereby, providing a level playing field. This will be achieved by means of improving the effectiveness of the audit process, reinforcing measures to identify unlawful and shadow economic activities, and persistently tightening accountability.

The Government also attaches great importance to the protection of taxpayers' interests and improving the quality of services provided to them, which will increase the use of self-assessment practices in the tax field.

The Government plans to introduce e-reporting with a view to minimizing contacts between officials and businesses.

Specific work will be carried out to improve the procedures of refunding VAT credits to tax payers, especially exporters.

The Government will modernize also the customs system by means of streamlining the customs legislation and procedures, improving compliance with the requirements of the customs legislation, extending the use of customs self-declaration schemes and carrying out related measures, developing the capacity of customs houses, and implementing measures towards customs control.

The Government will improve the technical resources of tax and customs bodies and the information sharing arrangements between such bodies, leading to the creation of an effective information system for the supervision of economic agents.

4.3.6. Copyright and Property Rights

The Government will take measures to ensure the reliable and effective protection of intellectual property. To this end, the Government plans to improve the legislation on this sector.

Such improvements will facilitate the registration of inventors' and relevant organizations' rights in a relative short period of time with relative little costs, so as to ensure their protection.

The Government also plans to increase the amount of support given to inventors. Counseling and training programs will be carried out in order to encourage the creation and use of new technology. Activities will continue in order to make information on the achievements of science and technology accessible for inventors, SMEs, and other interested organizations.

In the area of copyrights, the state policy will focus on promoting national culture and arts, for which the Government will continue fighting persistently against piracy.

Considering the role of industry organizations created by authors to protect their rights in a collective manner, the main principles underlying the activities of such organizations will be clarified.

As an important mechanism of the effective protection of intellectual property, there is a plan to develop and introduce an intellectual property valuation system.

In the years ahead, an automated system of real-time registration of titles and limitations over real estate will be introduced in order to ensure the efficient management of the unified cadastre system of real estate. The automated registration system will be introduced, and external users' access to this system will be ensured.

Activities will be carried out to form an efficient system of land development and land resource management and to organize the new administrative-territorial division of the Republic of Armenia, as well as the redistribution of state-owned land. The public auction procedures for the sale or provision for use of State- and community-owned land will be improved. Assistance will be provided to land consolidation projects and the formation of the land market.

Government effectiveness in the mapping and surveying sector will be enhanced. Activities will continue to create and update a digital fund of State scale series base maps (topographic and cadastre maps) based on satellite, aerial, and ground imagery. The State mapping network

modernization, the geographic names recording, and the introduction of the automated registration system will continue on the basis of satellite technology-based surveying. Much attention will be paid to thematic mapping and the creation of academic and other historical maps.

The Government will facilitate the real estate market development. For the proportionate development of this market, assessment of growing supply of and demand for real estate will be important. The capacity in the construction sector will be assessed, and an action plan will be developed to improve it. Activities will be carried out to simplify the movable property pledge and financial lease registration procedures.

The Government will pay special attention to the protection of property rights.

4.3.7. Main Sectors of the Economy

4.3.7.1. Industry

An efficient sector structure of the economy is key to long-term and steady economic growth. To this end, it is important to increase the share of the industry in economic growth and to move towards becoming an industrial country. For this purpose, the Government considers it necessary to carry out an export-oriented industrial policy. The Government will support technologically-advanced branches of the industry and create favorable conditions for attracting investments into the industry.

The Government attaches great importance to developing sectors and industries that are typically competitive, with a high added value component, and an export orientation. The priority will be to support competitive industries related to the processing of domestic resources. Activities will be carried out to implement science and innovation results in the industry.

To make more effective use of the technological capacity and natural

resources available in the country, it is of particular importance to implement integrated development programs for the chemical and mining industries.

The priority in the industry is to develop mining, which, being a leading sector of the Armenian industry, will contribute greatly to long-term economic development. This sector has enormous development potential, which can be realized by improving the administrative and legal frameworks to make the latter more conducive of development.

To regulate and make this sector transparent, large-scale activities have been carried out, including the streamlining of the mine use licensing processes and ensuring their publicity. Nevertheless, measures will be implemented to improve the efficiency of cooperation between state bodies related to this sector and to clarify their powers, which will contribute to improving accountability and achieving faster growth.

To this end, it is important:

- To eliminate a number of inconsistencies in the legislation in order to make the legal framework more appealing for investment;
- To implement specific measures to increase the efficiency of the mining and processing industries and to boost volumes;
- To increase the volumes of geological surveys in order to ensure the productive use of new mines; and
- Developing processing with a view to generating end-products, and supporting the development of cooperation within sectors.

Considering the role of IT development not only as a separate sector, but also as an important factor for achieving general economic growth, raising productivity, and maintaining competitiveness in the global economy, the Government will remain focused on the implementation of IT products and services, as well as the formation of “e-society” in the country.

4.3.7.2. Agriculture

Agriculture is vital for Armenia's economy, as it currently accounts for around 18% of GDP and 45% of employment.

In recent years, the share of agriculture in GDP has continuously fallen due mainly to faster growth of other sectors, such as construction and trade; however, the share of agriculture in the economy will remain significant, as it is projected to account for about 14% of GDP in 2012.

Considering the peculiarities of this sector, the Government plans to carry out a well-balanced policy by combining private and public investments to raise productivity of labor, on the one hand, and providing targeted State assistance to the small production companies in the sector, on the other.

The Government will be consistent with the removal of obstacles to agriculture lending and to increase access to credit. The Government will support the creation of preconditions for implementing a system of insurance against climate and nature risks co-financed by the State and agricultural entities.

The Government will take all possible means to support local agricultural producers to increase competitiveness and food security of the country.

In view of the importance of introducing new methods and technologies in agriculture, the Government will focus especially on the training of highly-qualified human resources in this sector.

The Government will sustain and, in some respects, increase financial support to this sector through already existing targeted programs; the priorities will include programs with an economic impact and the implementation of modern technologies.

The Government plans to make considerable investments in infrastructure that supports the development of agriculture, with a focus primarily on the restoration, modernization, and expansion of irrigation

systems, and reinforcing participatory governance of irrigation systems.

With a view to making irrigation water accessible to small agricultural producers, the Government will continue to subsidize irrigation systems, while improving the targeting of the subsidy. Moreover, the Government plans to make gradual improvements in cost-recovery of irrigation water and to apply subsidization methods, which, in the context of participatory governance, will encourage greater efficiency in the supply and use of irrigation water.

The Government plans to develop and approve an integrated program of State support to small and medium-sized agricultural producers, which will aim at developing modern forms of cooperation in rural areas and boosting private sector initiative.

The Government will increase the amount of State support to this sector, with a special preference for programs that contribute to overcoming rural poverty.

An essential policy priority of the Government is the improvement of state programs on forest conservation, protection, regeneration, and utilization in the country.

4.3.8. Foreign Trade Policy

To achieve strong economic growth, it is necessary to increase exports and to access external markets. Higher exports will facilitate not only economic growth and increased employment, but also world integration, a better international image for Armenia, cultural and technological development, and improved domestic capacity.

A proactive external economic policy is the only means of capitalizing on the advantages of an open economy. To access external markets today, there are information, infrastructure, human resource, and other constraints, which need to be overcome by using all possible means of external trade regulation.

The Government's export promotion policy implies:

- Actively establishing foreign trade relations;
- Introducing simplified administrative procedures for exports;
- Making effective use of international trade treaties;
- Improving the image of Armenian and Armenian products and brands; and
- Removing financial constraints and implementing appropriate export financing and lending schemes.

Another key advantage of the external trade policy is that it helps attract FDI in the real sector of the economy. Organization of production, product exports, and advertisement by world-known companies in Armenia, will result in a considerable change in the world market's attitudes to products produced in Armenia.

4.3.9. Consumer Interests Protection System

In 2008, the Government will adopt a concept paper for the protection of consumer interests, in which it will present clear approaches to consumer interests protection and quality control of goods, services, and works. The adoption and implementation of this concept paper will help to achieve the following main objectives related to consumer interests protection:

- Consumer safety;
- Economic and legal protection of consumers;
- Applying an effective system of consumer interests protection as a means of boosting the competitiveness of local products;
- Improving the State control system;
- Developing organizations engaged in consumer awareness and consumer rights protection; and
- Improving the information and education system.

4.3.10. Environmental Protection

Based on the national security and sustainable development interests, and guided by the international integration and domestic reform strategy, the Government's key objectives in environmental protection are as follows:

- Minimizing and preventing harmful impact on the environment, including the atmosphere, water, sub-soil resources, the flora, the fauna, and special protected areas of nature;
- Ensuring the conservation, renewal, reproduction, and efficient use of natural resources;
- Ensuring the protection, efficient use, and reproduction of sub-soil resources;
- Creating a system for monitoring, studying, forecasting, reporting, and responding to the environmental situation and dangerous hydro-meteorological phenomena;
- Safe use of nuclear energy and training competent experts for this sector;
- Preventing environmental pollution (including radioactive pollution), managing hazardous chemical and radioactive substances and waste, and developing a system to forecast natural and human impact; and
- Creating an integrated national system for environmental education and awareness.

Particular attention will be paid to restoring the ecological balance of Lake Sevan, comprehensively implementing the Republic of Armenia water and forest national programs, ensuring an increase in volumes of forest planting and recovery, preventing illegal logging, fighting against desertification, ensuring state protection of special protected areas of nature, maintaining the biological and landscape diversity, and minimizing harmful emissions from automobile transport.

The natural resource recording system will be improved, and measures will be implemented to improve the procedures of licensing and paid use of natural resources, as well as the procedures of compensating harm caused to the environment and making a targeted use of compensation proceeds. Programs will be developed to improve the environmental monitoring system, to develop and implement innovative technologies and project financing for environmental protection and to build private-public collaboration for improving environmental management. Compliance with the environmental legislation will be monitored more tightly, and the honoring of Armenia's obligations under international treaties will be ensured.

4.3.11. Infrastructure

4.3.11.1. Fuel and Energy

Government policies in the energy sector will aim at increasing the level of energy security, which implies an expansion on the ways of importing energy inputs and generation of energy, creation of new, including nuclear energy capacities, primarily selling own renewable energy resources and building a sound and reliably export-oriented energy system and integration with the regional energy system.

One of the main objectives of the energy policy conducted is to promote the development of the energy system at minimum cost through the use of modern energy technologies by meeting the requirements of security, reliability and environmental sustainability of energy supply. The Government will also promote increased efficiency of the use of the existing hydro-potential in Armenia and conducting of scientific and engineering and technical research aimed at creating alternative energy sources.

Up-grading and modernization of industrial capacities is an urgent

issue requiring solution to be achieved by using the credit funds provided by foreign countries and international financial organizations. The Government's policy will be implemented by reducing State ownership and using different ways of attracting private investment.

Expansion of the gas supply network and safety of gas equipment used for household consumption is considered by the Government as another priority.

Among the issues in the fuel and energy system the Government places importance on promoting private investment in those sectors, where it can result in energy savings and increased efficiency by introducing more efficient heating systems.

4.3.11.2. Water Supply and Sewerage

In water supply and sewerage sector the Government focuses on improving the quality of supplied water, sustainable water supply, reduction in water losses and a gradual provision of 24-hour water supply.

Public investments are planned to be mainly funded under bilateral and multi-lateral donor support from concessional loans and grants. Special importance is attached to proper maintenance and up-keep of the existing and newly-operated capacities in the system, for which direct allocations will be planned in the state budget of the Republic of Armenia.

In the meantime, given that State funding is limited compared to the needs of the sector and with a view to ensuring the attractiveness of the sector for private investors in future, the Government will continue and will deepen the reform in the sector. The furtherance of water management reforms is seen by the government by continued and expanded process of decentralization of system management.

A longer-term reform program for potable water and irrigation will aim at increasing the reliability, efficiency of these systems and targeted state support for the irrigation system. Reducing water losses and improving the quality of sewerage systems. Issues of proper maintenance, renovation

and reinforcement of hydro-technical structures, ensuring the safe and uninterrupted operation of these structures are attached importance to.

Placing importance on the provision of safe potable water throughout Armenia, the Government will approve an investment plan for water supply in rural areas and public investments will primarily used to address issues identified in the program.

4.3.11.3. Transport and Communications

The Government views development and increase in the effectiveness of the transport sector as a prerequisite for ensuring high rates of economic growth.

The Government plans to make significant investments for improving the road network as road transport represents about 59 percent of total cargo transportation and about 90 percent of total passenger traffic. Priority will be given to investments in works on road segments used more intensively. With a view to increasing accessibility of social services and labor mobility, as well as mitigating economic and social inequalities between regions, it is planned to significantly increase the volume of public investment for roads to rural areas. It is expected that by 2012 all areas will have at least one improved road connecting to inter-state roads. In order to prevent accelerated depreciation of the road network and ensure a more secure, fast and easy transporting, the Government plans to increase public funding for road maintenance and up-keep and increase the efficiency of its spending.

The Government will continue improving the management arrangements of the Armenian Railways through decentralization of governance and introduction of elements of competitiveness in line with international practice and discussing the appropriateness of an alternative mechanism for handover of Armenian Railways for management by concession.

In the air transport sector priority issues for the Government are

establishing and developing a national carrier, continued up-grading of fleet, staff development and training, supporting the national carrier's foreign operations, increasing the regulatory role and supervision by state authorities over strict compliance with flight and aviation safety requirements. As a result, Armenia's air communications will be expanded and the technical capacities and service quality in Zvartnots and Shirak airports will be brought into conformity with international standards to a maximum extent. This will contribute to addressing strategic and socio-economic development issues in Northern marzes.

The Government will pursue introduction of digital radio and television broadcast systems, development of a concept of e-society, full implementation of market relations in the telecommunications and postal communications, broadening of TV-programs' broadcasting radius and improving service quality, accessibility and access to internet, ensuring sound competition in the market and conducting an anti-monopolistic policy.

4.3.12. Urban Development

The Government's urban development policy will aim at designing and implementing sustainable urban development projects. There will be a special focus on reducing regional inequalities, neutralizing potential threats of unmanageable urbanization, creating a sound, secure and comfortable living environment in Yerevan and other areas through consistent introduction of special development principles. To this end, the Government will continue to implement efficient measures aimed at creating full database of normative and technical documents on area planning, site planning and supervision.

The Government will focus on ensuring the seismic security and reliability of structures through increased seismic preparedness projects,

reduction of the impact of dangerous estrogenic geological processes and man-made phenomena, including through development and implementation of the necessary, mainly preventive, engineering and protective measures in landslide areas.

Targeted State assistance programs for addressing housing issues of the homeless people will continue. In the meantime, measures aimed at improving the housing conditions of the socially vulnerable families, improving housing conditions, maintenance, use and management of housing stock in apartment buildings, introducing social housing stock and developing systems for managing apartment buildings.

An important urban development policy direction will be addressing urban development issues related to restoration of architectural and of natural heritage.

Measures aimed at improving investment attractiveness and business environment will continue with continued high pace of capital construction and promoting investment initiatives specifically in weakly developed areas.

4.4. Social Sector

4.4.1. Health

Reforms implemented in the sector will aim at increasing the accessibility and quality of healthcare services.

The Government will encourage steps contributing to Armenia's becoming a regional health center for health areas with special demand.

Medium-term health sector financing will become the first priority for the Government's spending policy. Increase in government expenditures in the sector will be on the Government agenda and it is planned to ensure a level of expenditures equal to at least at 2.2 percent of the Gross

Domestic Product in 2012. At the intra-sectoral level priority will be given to primary (ambulatory-polyclinic) health care, attaching importance to the development of the family medicine system. In the meantime, increasing the accessibility and quality of hospital care will also be among medium-term priorities. It is especially important to modernize hospitals in marzes and ensure their staffing with specialized medical personnel.

The Government will specifically focus on maintaining the capital assets in the system and operation of new capacities in the sector. In the medium term it is planned to use 6-8 percent of state funding for capital expenditures, measures aimed at increasing the efficiency of capital expenditures and introduction of respective mechanisms for funding capital expenditures given organizational features of primary and hospital care will be taken.

The Government will focus on reforms in polices in the drug sector and medical education.

In terms of the programs ensuring the hygienic and epidemic security of the population, maternity health, prevention of socially important and communicable diseases, early detection and increase in the efficiency of Medicare is the Government's priority.

The Government attaches special importance to increasing access to medical services for the vulnerable population, providing a broad range of preventive, diagnostic and Medicare services for the main disease categories.

4.4.2. Social Security and Social Insurance

The Government policy in this sector will aim at:

- providing social services, financial assistance and consistently improving the scope, accessibility, efficiency and quality of social services;

- Further improving of the existing pension scheme bringing it in line with other social protection programs;
- Developing a sustainable development strategy for labor and social protection system and its implementation with a view to adopting a Social Code.

Funding of this sector in the medium-term will be a priority in the Government's expenditure policy in the medium-term. The Government intends to significantly increase the expenditures in the sector, the bulk of which will be the funds for pension security. In parallel the Government will continue measures at introduction of a funded pension scheme.

In 2007-2012 it is planned to increase allocations from the consolidated budget to the sector by 2.2 times to 6.2 percent of GDP. The Government plans to use around 90 percent of increased funds for increasing pensions as a result of which average pensions in 2012 will equal to over 150 percent of the poverty line.

In order not to risk Armenia's economic competitiveness, the Government plans to ensure the increase in the mentioned funds from the consolidated revenues of the State budget and mandatory social insurance budget refraining from increasing the tax burden on salaries within the targeted range of the state budget deficit in the Republic of Armenia.

The Government will continue and improve the family benefit policy by ensuring that the program is more targeted. Due to the program, poverty level may decline by six percentage points in 2012, and by about 12 percentage points in rural areas.

The one-time benefit provided for a child birth was increased in the Government program effective from 2008 and a full system of incentives for subsequent child births will be introduced.

The Government will continue to focus on the social protection issues of groups requiring special protection: disabled people, children without parents, families with many children, families of veterans of wars, refugees and displaced people.

4.4.3. Education and Science

Increased efficiency of reforms in education and science is an important guarantee for ensuring State, public and individual security and sustainable development, and preserving Armenian identity.

One of the important indicators will be the increase in the years of education and in the medium-term it will be achieved by an increased high school enrollment. In 2012 it is expected to increase the duration of education in the period from 6-21 years of age to an average of 12.5 years.

In terms of improving the quality of educational services the basis for modernization of the educational techniques in general education and school premises and other conditions for improving other technical conditions of the academic process will be important. In particular, the Government plans to renovate all general education schools (including proper heating mechanisms) by 2012 spending 8-10 percent of the total public expenditures in the sector for capital expenditures over the medium-term.

In order to increase the efficiency in the education sector and address the inconsistencies with the quality of education in developed countries, the Government attaches importance to developing a national center for assessment of the quality of vocational education and a relevant legislative package.

New qualitative education requirements call for a substantial improvement in the effectiveness of training mechanisms for the teaching staff.

In order to meet the need for qualified staff with modern skills the Government will support ensuring of a link between the education system and the real sector of the economy.

Attaching importance to the issues of education and nurturing, normal development and social integration of children with special needs, the Government will create the necessary conditions for the education of these children.

The development of pre-school education will be targeted at modernization of the system and creation of prerequisites for development.

4.4.4. Culture

The main priorities of the Government's policy in culture are:

Preservation of Cultural Heritage

Studying, conservation, reinforcement, renovation, restoration, improvement and use of immovable historical and cultural monuments, development and implementation of a comprehensive program on conservation of cultural values, creating mechanisms for recording cultural values in the territory of the Republic of Armenia and abroad, publicity of cultural heritage and accessibility for the public.

Developing Modern Art and Cultural Infrastructure and Promoting Cultural Processes

Ensuring freedom of cultural and creative activities by promoting debut processes, supporting theatrical and concert organizations in their creative activities, including competitive orders for art work and through ensuring logistical support for halls.

Use of IT in Culture

Introduction of new ICT and electronic management systems in culture, and promotion of the process of digitalizing cultural values.

Staff policy in the Culture Sector and Education in Culture

Improving the mechanisms of state-funded training of staff in the culture sector, ensuring the continued education of specialists and developing a cadre of managers.

Development of Cultural Relations in Armenia and Foreign Countries

Promoting cultural cooperation between marzes, expanding the cultural dialogue with foreign countries, active involvement of the Diaspora in Armenia's culture, developing and implementing a targeted advocacy program on Armenian culture in foreign countries.

In order to ensure the effectiveness of reforms the legislative framework for the development of culture will be improved bringing it in line with European standards and requirements to the extent possible, and the improvement of the management of cultural structures and institutions, clarification of powers of management, separation and removal of duplicating functions will continue.

The Government will ensure targeted and efficient spending of budget funds allocated for the development of culture through the use of the program budgeting system.

4.4.5. Physical Education and Sports

The Government's policy objectives in physical education and sports are population's health improvement, creating conditions for harmonious development of individuals, continuous physical education for different age and social groups and access to physical education and sports, physically fit young people ready to protect their country, as well as preparing highly skilled sportsmen and ensuring effective participation of teams and sportsmen from the Republic of Armenia in Olympic games, world and European championships.

The Government policy will be implemented by training a new Olympic shift strong with high-class sportsmen, improving the social condition of couch-pedagogues and managerial staff working in children and teenager

sports schools in the Republic of Armenia for ensuring physical education of the population, training them, holding mass and country-wide physical and healthful and sports events, sports for disabled people, state support for sports public organizations and schools of general education through provision with the necessary sports outfit.

4.4.6. Youth

The Government will take steps to ensure socioeconomic, legal and political, spiritual and cultural, organizational conditions and guarantees for social well-being of the young, making a full use of their creative potential for public benefit.

Objectives of public policies for the young people are to:

- Have psychically and physically fit young people;
- Create equal starting conditions for all young people for entry into scientific and social life, contribute to development and manifestation of human and institutional capacities of all young people;
- Increase their involvement in public and political developments;
- Promote participation of young people in decision-making processes.

4.4.7. The Diaspora

The Government gives priority to development and implementation of a comprehensive conceptual framework for Armenia-diaspora relations, and comprehensive consolidation of diaspora's potential, and a dedicated agency for dealing with diaspora relations will be set up in order to fully and effectively achieve that goal.

In terms of addressing issues of maintaining Armenian identity in the Diaspora the Government's as greater as possible involvement in solving of issues of the Diaspora educational institutions is specifically important, particularly:

- Development of curricula and manuals for Armenian schools in the Diaspora, and provision of textbooks;
- Training of Armenian teachers from the Diaspora in Armenia;
- Expansion of satellite broadcasting of the programs on public television, improvement of their quality and content.

Considering the Diaspora as a reliable and effective bridge for world integration, sustainable and effective mechanisms will be put in place for involvement of powerful diasporan forces in Armenia's domestic life and for improvement of the work of domestic agencies with international bodies with their support. To this end, it is necessary to create mechanisms for assessment of the existing potential in scientific, educational, economic, cultural and other sectors and a unified database.

Committees will be set up with a view to increasing the effectiveness of Armenia-Diaspora conferences, other all-Armenian events in order to clarify priorities and develop a conceptual approach for addressing them.

A scheme facilitating repatriation of our compatriots living in foreign countries will be developed and introduced enabling these people to directly contact Armenian State governance bodies electronically. A body comprised of representatives of state authorities dealing with repatriation processes will be formed for developing and using the scheme, and as a result of its activities:

- Reforms will be implemented in the area of entry of foreign citizens, processes of issuing residence status to them and registration as well as in developing and introducing regulations on their employment activities in Armenia;

- The Government will focus on issues of improvement of border control, legislative solutions will be provided with a view to regulating relations arising in the process of exit and entry of the citizens of the Republic of Armenia from and into Armenia.
- Practical steps will be taken in order to introduce dual citizenship as provided by the Constitution of the Republic of Armenia.

To this end, the Government will initiate drafting of legislation conducive to repatriation and a comprehensive plan of immigration will be implemented.

The Government views protection of interests of Armenians in foreign countries as its most important objective.

4.4.8 Migration

The Government will continue the process of integration of refugees deported from Azerbaijan in 1988-1992 with the society. To this end, addressing the problem of housing for refugees is of special importance, as it is the main condition precedent for full integration of refugees.

The Government will continue the process of establishing a uniform system of registration of movement directions and numbers of the population, which will enable assessing the migration situation and developing measures to prevent the negative impact of individual migration flows.

Targeted steps will be made for the civilized integration of the Republic of Armenia into international labor markets. There will be a focus on issues on legislative regulation of labor emigration, issues of protection by state of rights and legitimate interests of emigrants for employment.

The system of defense offered by the State to foreign citizens and persons without citizenship for humanitarian considerations will be improved to bring it into conformity with international standards.

4.5. Defense, Public Order, and Security

The Government will focus primarily on issues related to country's defense: i.e. further strengthening of the country's defense ability, improving the army's fighting ability and conducting a policy aimed at preservation of patriotism.

In the area of defense a *Military Doctrine* will be drafted and published aiming at establishing the framework for the national defense structure, infrastructure and governance in the time of a war , emergencies and peace. In parallel to drafting the Military Doctrine, a package of a number of legislative initiatives will be submitted to the National Assembly, in particular amendments to the Laws of the Republic of Armenia on Defense, on Conscription, on Preparation of Mobilization and Mobilization. The Government will introduce a legislative initiative to increase democratic and civil oversight over the military forces.

The Government will continue to focus on critical problems of veterans, their families and military retirees and efficient measures will be taken to address social problems of the professional staff of the military forces.

Main objectives of the national security and authorities in charge of preserving public order are:

- Protecting individual person's life and health, rights, freedoms and legitimate interests from criminal and other illegal violations;
- Ensuring national security and State guarding;
- Ensuring constitutional order;
- Defending State borders;
- Preventing the activities of foreign special services in the territory of the Republic of Armenia;
- Protecting public and State interests;
- Preventing crime, and improving the effectiveness of measures aimed at ensuring security;

- Increasing cyber-security significantly;
- Organizing and implementing protection of population from the consequences of emergencies and wars.

The Government will complete reforms in the road police system.

4.6. Foreign Policy

The Government, together with the President of the Republic of Armenia, will conduct the foreign policy of the Republic of Armenia in line with the provisions of the strategy for National Security of the Republic of Armenia.

REPUBLIC OF ARMENIA
MINISTER – CHIEF OF
GOVERNMENT STAFF

M. TOPUZYAN

TABLE OF CONTENTS

STATEMENT MADE BY RA PRIME MINISTER
SERZH SARGSYAN IN THE RA NATIONAL.....3

RA GOVERNMENT DECREE
ON RA GOVERNMENT PROGRAM.....14

RA GOVERNMENT PROGRAM

1. PREFACE.....16

2. MAIN PRIORITIES OF THE GOVERNMENT ACTIVITIES.....17

3. MAIN RESULTS EXPECTED FROM THE
GOVERNMENT’S ACTIVITIES.....20

4. MAIN AREAS OF THE GOVERNMENT’S ACTIVITIES.....21

 4.1. Significant Reduction of Poverty and Lowering Inequalities.....21

 4.2. Reforms of Governance System and Fight against Corruption....22

 4.2.1. Government Effectiveness.....22

 4.2.2. Territorial Administration and Local Self-Government...24

 4.2.3. Fight against Corruption.....25

 4.3. Economy.....27

 4.3.1. Economic Development.....27

 4.3.2. Business and Investment Climate.....29

4.3.3.	Financial Intermediation.....	31
4.3.4.	Budgetary System.....	32
4.3.5.	Tax and Customs Systems.....	34
4.3.6.	Copyright and Property Rights.....	35
4.3.7.	Main Sectors of the Economy.....	37
4.3.7.1.	Industry.....	37
4.3.7.2.	Agriculture.....	39
4.3.8.	Foreign Trade Policy.....	40
4.3.9.	Consumer Interests Protection System.....	41
4.3.10.	Environmental Protection.....	42
4.3.11.	Infrastructure.....	43
4.3.11.1.	Fuel and Energy.....	43
4.3.11.2.	Water Supply and Sewerage.....	44
4.3.11.3.	Transport and Communications.....	45
4.3.12.	Urban Development.....	46
4.4.	Social Sector.....	47
4.4.1.	Health.....	47
4.4.2.	Social Security and Social Insurance.....	48
4.4.3.	Education and Science.....	50
4.4.4.	Culture.....	51
4.4.5.	Physical Education and Sports.....	52
4.4.6.	Youth.....	53
4.4.7.	The Diaspora.....	53
4.4.8.	Migration.....	55
4.5.	Defense, Public Order and Security.....	56
4.6.	Foreign Policy.....	57

RA Government Information and Public Relations Department

Information-Analytical Centre for Economic Reforms

Published with the support of



**Federal Ministry
for Economic Cooperation
and Development**

gtz

German Technical Cooperation

Design by: Michael Mirijanyan

Printed at: GASPRINT Printing House

Photos from: ARMENPRESS and PHOTOLOUR news agencies

Copies printed: 500