

# EASTERN PARTNERSHIP

The Role and Significance  
in the Process  
of Transformation  
of the Countries  
of Eastern Europe  
and the South Caucasus

EDITED BY  
PIOTR BAJOR





# **EASTERN PARTNERSHIP**



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**133**

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of Eastern Europe and the South Caucasus**

**edited by  
PIOTR BAJOR**




**Kraków**

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Piotr Bajor

Jagiellonian University in Kraków, Poland

 <https://orcid.org/0000-0003-2569-2552>

 [piotr.bajor@uj.edu.pl](mailto:piotr.bajor@uj.edu.pl)

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SAMVEL HOVHANNISYAN  
*Brusov State University*

## The Role and Significance of the Eastern Partnership Program in Achieving Armenian Economic Priorities

**ABSTRACT:** In July 2021, the European Commission and the EU High Representative for Foreign Affairs and Security Policy outlined a proposal on how to take forward priorities for cooperation with the Eastern Partners in the years to come. The economic and investment plan will support post-COVID-19 pandemic recovery using specific EU tools, including blending and guarantees, to foster sustainable development and leverage public and private investment. The plan contains a set of flagship initiatives for each of the partner countries. These are concrete priority projects with tangible results that have been jointly identified with the partner countries, taking into account their priorities, needs and ambitions. On July 9 in Yerevan, the EU Commissioner for Neighborhood and Enlargement Oliver Varhelyi announced that the new aid package would total 2.6 billion euros over five years, or \$3.1 billion.

This report aims at outlining economic priorities for Armenia and possible investment directions under the EU economic and investment plan for the next five years.

**KEYWORDS:** Eastern Partnership, Armenian economic priorities, Armenia flagship actions, EU role in Armenia, economic development of Armenia

## Introduction

The Eastern Partnership (EaP) was launched in 2009 with the aim of strengthening and deepening the political and economic relations between the EU, its Member States and six Eastern European and South Caucasus partner countries: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine. The Partnership has developed according to each partner's interests, ambitions, and progress, allowing for differentiation in a flexible and inclusive way, to tackle common and global challenges and foster regional integration jointly.<sup>1</sup>

Through its ambitious '20 deliverables for 2020' agreed on at the 5th Eastern Partnership Summit in 2017, the EaP has delivered tangible results and improved people's lives. Work on a successor agenda began in 2019 with broad and inclusive consultation. The resulting Joint Communication: Eastern Partnership Policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all and Council Conclusions on the Eastern Partnership policy beyond 2020 set out a new vision for the partnership, with resilience as the overarching policy framework and five long-term policy objectives (economy and connectivity, good governance and the rule of law, environmental and climate resilience, support for digital transformation, and fair and inclusive societies), acknowledged at the EaP Leaders' Videoconference held in June 2020.<sup>2</sup>

## Analysis

In July 2021, the European Commission and the EU High Representative for Foreign Affairs and Security Policy outlined a proposal on how to take forward priorities for cooperation with the Eastern Partners in the years to come. This agenda is based on the five long-term objectives, with resilience at its core. The comprehensive agenda aims at increasing trade, growth and jobs, investing in connectivity, strengthening democratic institutions and the rule of law, supporting the green and digital transitions, and promoting fair, gender-equal and inclusive societies. This proposal will contrib-

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<sup>1</sup> European Commission, *Joint Staff Working Paper. Recovery, Resilience and Reform: Post 2020 Eastern Partnership Priorities*, SWD (2021) 186 final, Brussels: European Commission, July 2, 2021. At: [https://eeas.europa.eu/headquarters/headquarters-homepage/101173/joint-staff-working-document\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/101173/joint-staff-working-document_en), last accessed November 19, 2021.

<sup>2</sup> European Commission, *Eastern Partnership: A Renewed Agenda for Recovery, Resilience and Reform Underpinned by an Economic and Investment Plan [Press release]*, July 2, 2021. At: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_3367](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3367), last accessed November 19, 2021.

ute to the discussions on the future EaP policy, including at the Eastern Partnership Summit planned for December 2021.<sup>3</sup>

Proposed post-2020 priorities:<sup>4</sup>

- Investing in competitive and innovative economies: 500 000 small and medium-sized enterprises (SMEs) supported.
- Investing in sustainable and smart connectivity: 3 000 km of priority roads and railways built or upgraded.
- Investing in people and knowledge societies: 70 000 individual mobility opportunities for students and staff, researchers, youth and youth workers.
- Investing in the rule of law: All high-level officials declare their economic assets and these declarations are verified.
- Investing in security and cyber resilience: A strengthened framework in place for identifying and addressing hybrid threats; strengthened partners' capacities to increase cyber resilience and tackle cybercrime, including through fully implementing the Council of Europe Budapest Convention on Cybercrime.
- Investing in sustainable energy: 250 000 households reduce energy consumption by at least 20%.
- Investing in environment & climate: Another 3 million people gain access to safe water supplies, with quality monitored and improved in 300 cities.
- Investing in digital transformation: 80% of households have affordable access to high-speed internet.
- Investing in inclusive, gender equal and diverse societies, and strategic communication: 2 500 local Civil Society organizations, 120 independent media outlets and 2 000 journalists supported.
- Investing in health resilience: 850 000 health-care workers vaccinated and benefiting from improved therapeutics, equipment and working conditions.

This plan contains a set of flagship initiatives for each of the partner countries.

These are concrete:

- priority projects with tangible results that have been identified jointly with the partner countries,
- taking into account their priorities, needs and ambitions.

<sup>3</sup> European Commission, *Joint Staff Working Paper. Recovery...*

<sup>4</sup> *Ibid.*

## EIP flagship initiatives for Armenia (European Commission, 2021)<sup>5</sup>

### **Flagship 1: Supporting a sustainable and innovative and competitive economy – direct support for 30 000 SMEs**

Economic recovery from the COVID-19 pandemic is a key priority for Armenia. Promoting and diversifying SMEs' access to finance and boosting their export capacities will be important with a view to supporting jobs, growth and innovation, and, more broadly, for the country's sustainable socioeconomic recovery.

Priority will be given to access to financing schemes for greening of micro, small and medium-sized enterprises (MSMEs), particularly those in the regions and those led by women. The large Armenian diaspora offers important economic opportunities for the country, and this will be leveraged for impact investment and trade networks. The EU will aim to leverage IFI and private-sector funding that would allow it to support 30 000 Armenian SMEs and self-employed people.

*The overall support for SMEs is estimated up to €500 million. The EU will use various instruments to support the implementation of this flagship in cooperation with IFIs: grants, loans, guarantees, and blending.*

### **Flagship 2: Boosting connectivity and socio-economic development – the north-south corridor**

Strengthening connectivity and transport corridors is high on the national agenda. Improving the transport infrastructure will improve connections between the different regions of the country, and with neighboring countries and the EU.

Building on the indicative extension of the TEN-T core network agreed on in 2017 and ongoing works across the network, EU investment will focus on remaining segments of the north-south highway (as identified in the Indicative TEN-T Investment Action Plan), including further supportive infrastructure and logistics. Improved links will boost trade and value chain integration and improve access to services and markets, thus enhancing Armenia's resilience and reducing vulnerability. Investments will include planned work on the Sisian/Kajaran section of road, including a tunnel that is expected to cut travel time substantially.

*The overall investment is estimated up to €600 million. The EU will use various instruments to support the implementation of this flagship in cooperation with IFIs: grants, loans, guarantees, and blending.*

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<sup>5</sup> *Ibid.*

**Flagship 3: Investing in digital transformation, innovation, science and technology**

Armenia has strong digital potential, with the sector growing by around 20% in recent years, and digitalization has been highlighted as a cross-cutting issue. Additional support is required to fully unleash its potential. Resilient digital transformation of the public sector is also crucial for Armenia's long-term competitiveness. The EU has supported e-governance in the past, but further investments are needed to expand public service delivery to regional and municipal levels.

The EU will provide further support for a nationwide roll-out of e-government, the development of digital skills, and tech start-ups, and improve information and communication technologies (ICT) companies' access to financing, thus boosting competitiveness and employment.

*The overall investment is estimated up to €300 million. The EU will use various instruments to support the implementation of this flagship in cooperation with IFIs: grants, loans, guarantees, and blending.*

**Flagship 4: Building resilience in the southern regions**

The Government of Armenia has pinpointed decentralization and support for the country's southern regions as a priority. The Syunik region, in particular, needs support to tackle chronic underdevelopment, poor links and a deteriorating environment. It was particularly affected by recent hostilities, and it has witnessed an influx of displaced people in need of housing, jobs and access to education.

Building on experiences in the northern regions, and taking account of the local needs, the EU will invest in a holistic approach to strengthen the Syunik region's resilience and help with sustainable socio-economic recovery. Priority sectors could include: housing, infrastructure, tourism, agriculture, education, health, renewable energy and support for local SMEs.

*The overall investment is estimated up to €80 million. The EU will use various instruments to support the implementation of this flagship in cooperation with IFIs: grants, loans, guarantees, and blending.*

**Flagship 5: Investing in a green Yerevan – energy efficiency and green buses**

The Government of Armenia is committed to a green transition. In order to enhance the people's quality of life, Yerevan's air quality, waste management and energy situation need to be addressed. The EU and IFIs are ready to invest in a 'smart-city' package that will bring energy efficient solutions to the city, together with green mobility and investments in waste management.

Energy efficiency investments will cover internal lighting and energy infrastructure, heating, cooling and ventilation systems, and on-site use of renewable energy sources in key public buildings. Investment in smart mobility and urban transport, such as the ‘green buses for Yerevan’ initiative, will improve and modernize public transport in the capital. Significant quality-of-life investments, including in the city’s waste management capacities, are also in the pipeline.

*The overall investment is estimated up to €120 million. The EU will use various instruments to support the implementation of this flagship in cooperation with IFIs: grants, loans, guarantees, and blending.*

On July 9, in Yerevan the EU Commissioner for Neighborhood and Enlargement Oliver Varhelyi announced that the new aid package will total 2.6 billion euros over five years, or \$3.1 billion. This was 62 percent more than previously promised in an earlier draft proposal. This is thought to be in the wake of fair elections and as the country tries to recover from defeat in the war with Azerbaijan of the previous year.<sup>6</sup>

At the time of writing this paper, there is no public information about the flagship initiatives to which the additional funding will be directed. The experts in the field are hinting at the following two possible flagships:

**Flagship 6: Support for accessibility to education in Armenia.<sup>7</sup>**

**Flagship 7: Construction of water dams, irrigation water systems and waste disposal sites.<sup>8</sup>**

The potential and high-priority action directions under each flagship are presented below.

Flagship 1: Supporting a sustainable and innovative and competitive economy – direct support for 30 000 SMEs

1.1 Young people’s involvement in entrepreneurship and social engagement.<sup>9</sup>

Armenian youth and other stakeholders identified a range of unmet needs and gaps in information and services that would enable them to contribute more meaning-

<sup>6</sup> A. Mejlumyan, “Armenia Gets Aid Boost from EU”, *Eurasianet*, July 15, 2021. At: <https://eurasianet.org/armenia-gets-aid-boost-from-eu>, last accessed November 19, 2021.

<sup>7</sup> A. Wiktorin, “Explaining the €2.6 Billion EU Package for Armenia”, *Civilnet*, September 29, 2021. At: <https://www.youtube.com/watch?v=b5mAYM6x3i4>, last accessed November 19, 2021.

<sup>8</sup> *Ibid.*

<sup>9</sup> United Nations Department of Economic and Social Affairs, *World Youth Report: Youth and the 2030 Agenda for Sustainable Development*, United Nations Publications 2018. At: <https://www.un.org/development/desa/youth/wp-content/uploads/sites/21/2018/12/WorldYouthReport-2030Agenda.pdf>, last accessed November 19, 2021.

fully to the development of their country. Respondents identified skill-critical needs to support youth livelihoods as well as performance gaps in the education system and the labor market. While some of the momentum from the revolution has ebbed, about half of the youth respondents also demonstrated a willingness to engage in civic and political activities if it would be productive.<sup>10</sup>

## 1.2 Enhancing women's economic empowerment through entrepreneurship and business leadership.<sup>11</sup>

In its cooperation with Armenia, the EU is driving real change by strengthening women in business, providing opportunities for quality education and promoting a fair society.<sup>12</sup>

## 1.3 Promotion of energy efficiency.<sup>13</sup>

The EU4Energy Programme, funded by the European Union, has been working with Armenia since 2016, helping to strengthen legislative and regulatory frameworks, improving the quality of data and statistics, and supporting evidence-based policymaking. The support of the International Energy Agency, Energy Charter and the Energy Community Secretariat will lay the groundwork for the country's energy security, sustainable energy and energy markets in the years to come.<sup>14</sup>

Promoting energy efficiency and renewable energy solutions is a high priority.<sup>15</sup>

<sup>10</sup> Making Cents International, *Armenia Youth Situation Analysis*, The United States Agency for International Development (USAID), October 2019. At: [https://pdf.usaid.gov/pdf\\_docs/PA00WBW7.pdf](https://pdf.usaid.gov/pdf_docs/PA00WBW7.pdf), last accessed November 19, 2021.

<sup>11</sup> W. Adema, N. Ali et al., *Enhancing Women's Economic Empowerment Through Entrepreneurship and Business Leadership in OECD Countries. Background Report to China Development Research Foundation Project Enhancing Women's Economic Empowerment Through Entrepreneurship and Leadership in the Midst of China's Urbanization*, OECD, 2014. At: [https://www.oecd.org/gender/Enhancing%20Women%20Economic%20Empowerment\\_Fin\\_1\\_Oct\\_2014.pdf](https://www.oecd.org/gender/Enhancing%20Women%20Economic%20Empowerment_Fin_1_Oct_2014.pdf), last accessed November 19, 2021.

<sup>12</sup> European Commission, *Stronger Women: Stronger Armenia – Factsheet*, March 7, 2021. At: <https://euneighbourseast.eu/news-and-stories/publications/stronger-women-stronger-armenia-factsheet/>, last accessed November 19, 2021.

<sup>13</sup> International Energy Agency, *Energy Efficient Buildings in Armenia: A Roadmap. Insights and Pathways for Better Buildings in Armenia: 2020–2040*, Paris: IEA 2020. At: <https://www.iea.org/reports/energy-efficient-buildings-in-armenia-a-roadmap>, last accessed November 19, 2021.

<sup>14</sup> EU Neighbours East, *EU4Energy in Armenia*. At: <https://euneighbourseast.eu/news-and-stories/publications/eu4energy-in-armenia/>, last accessed November 19, 2021.

<sup>15</sup> UN–Armenia Sustainable Development Cooperation Framework 2021–2025. At: <https://unsdg.un.org/resources/un-sustainable-development-cooperation-framework-armenia-2021-2025-final-draft>, last accessed November 19, 2021.

#### 1.4 Improving competitiveness of export-oriented industries in Armenia.<sup>16</sup>

The lessons learned from the implications of the global crisis for the Armenian economy led the Government of Armenia to refine its approach to economic development policy. The business environment, the market structure, and the incentive pattern had not fostered reallocation of resources into more productive areas or the emergence of internationally competitive products and services.<sup>17</sup>

#### 1.5 Promotion of smart and intensive agriculture.<sup>18</sup>

There are a number of interesting opportunities in Armenia's agricultural sector, despite the country's difficult geographical position, distance from other markets, and a relatively small domestic market with limited buying power. The government has placed a great deal of emphasis on developing the sector, to include devising policy reforms and extending benefits such as subsidized lending facilities and tax and customs exemptions. Armenia is eager to introduce more modern technology to move agricultural products up the value chain, increase exports (especially to Europe), and expand economic opportunities for rural populations. Armenia's inability to satisfy local demand for some foodstuffs, notably wheat, through domestic production alone, means securing investment is also important for ensuring food security. Wine stands out as an exciting opportunity, given the combination of Armenia's indigenous varieties, moderate land and labor costs, favorable climatic conditions, and excellent terroir.<sup>19</sup>

#### 1.6 Improvement, modernization and promotion of development programs in the field of agriculture.<sup>20</sup>

#### 1.7 Promotion of organic agriculture produce.<sup>21</sup>

#### 1.8 Promotion of standardization and automation of accounting and internal processes of enterprises.<sup>22</sup>

<sup>16</sup> World Bank Group, *Republic of Armenia: Export-Led Industrial Development Strategy: Implementation Review and Recommendations on New Toolset*, Washington, DC 2015. At: <https://openknowledge.worldbank.org/handle/10986/22273>, last accessed November 19, 2021.

<sup>17</sup> *Ibid.*

<sup>18</sup> A. Melkonyan, "Climate Change Impact on Water Resources and Crop Production in Armenia", *Agricultural Water Management*, vol. 161 (2015), pp. 86–101.

<sup>19</sup> International Trade Administration, *Armenia – Country Commercial Guide*, September 16, 2021. At: <https://www.trade.gov/country-commercial-guides/armenia-agriculture>, last accessed November 19, 2021.

<sup>20</sup> A. Melkonyan, "Climate Change Impact...".

<sup>21</sup> *Ibid.*

<sup>22</sup> U.S. Department of State, *2021 Investment Climate Statements: Armenia*, July 21, 2021. At: <https://www.state.gov/reports/2021-investment-climate-statements/armenia/>, last accessed November 19, 2021.

### 1.9 Promotion of corporate governance and access to capital markets for enterprises.<sup>23</sup>

Major pillars of corporate governance in Armenia include the Law on Joint Stock Companies, the Law on Banks and Banking Activity, the Law on Securities Market, and a Corporate Governance Code. International observers note inconsistencies in this legislation and generally rate corporate governance practices as weak to fair. Specific areas for potential improvement cited by the local business community include improving internal and external auditing for firms, enhancing the powers of independent directors on company boards, and boosting shareholders' rights. Armenia has outlined commitments to corporate governance reforms, including with regard to mandatory audits, accounting, and financial reporting, within the context of an ongoing Stand-By Arrangement with the International Monetary Fund.<sup>24</sup>

### 1.10 Modernization of quality infrastructure.

### 1.11 Modernization of quality assurance state monitoring mechanisms.

Flagship 2: Boosting connectivity and socio-economic development – the north-south corridor.<sup>25</sup>

2.1 Construction of a 60-km section of the north-south road corridor from Sisian to Kajaran.

2.2 Construction of Kajaran Tunnel for the north-south road corridor.

2.3 Construction of a 175-km section of the north-south road corridor from Artashat to Sisian.

2.4 Construction of a 37-km section of the north-south road corridor from Gyumri to Bavra (border of Georgia).

2.5 Construction of a 23-km section of the north-south road corridor to bypass Gyumri.

The construction of this highly important strategic road will ensure easier traffic from the southern border of Armenia to the Georgian border and up to Black Sea ports and will allow passenger and cargo transportation in accordance with European standards. The highway will also provide serious development opportunities for all communities from the north to the south of Armenia.

Project implementation will result in the following outcomes:

- Improved road corridor in compliance with international standards;
- Four-lane Category 1 road on Yerevan-Gyumri and Yerevan-Ararat sections;

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> Government of the Republic of Armenia, *Programme of the Government of the Republic of Armenia 2021–2026*, 2021. At: <https://www.gov.am/am/gov-program/>, last accessed November 19, 2021.

- Other road sections meeting international standards with the possibility to be widened to four-lane roads in the future;
- Efficient and safe road corridor traffic management.

Flagship 3: Investing in digital transformation, innovation, science and technology.

3.1 Improving internet connectivity for Armenia.

3.2 Establishment of a technological university in Armenia.

3.3 Establishment of technological centers (TUMO, Armat Laboratories).

3.4 Establishment of a center for cybersecurity and data science.

Armenia's economy is heavily reliant on domestic demand, which is itself driven by remittances that support local construction and consumption. Armenia will need to shift to an export-led strategy if it is to move from middle-income to high-income status. Because Armenia is a landlocked country with comparatively high trading costs in physical goods, high-tech digital exports will continue to be key to Armenia's growth.<sup>26</sup>

Flagship 4: Building resilience in the southern regions.<sup>27</sup>

4.1 Renovation of the bridge in Kajaran city.

4.2 Implementing solar energy heating for the schools of the region that do not have access to natural gas.

4.3 Capital renovation of intercommunity roads.

4.4 Modernization of the drinking water supply system.

4.5 Construction of roads for access to new pastures for cattle.

4.6 Construction of housing for displaced people.

4.7 Establishment of food-processing businesses.

4.8 Development of the waste management system in the region.

4.9 Promotion of intensive agriculture in the region.

Flagship 5: Investing in a green Yerevan – energy efficiency and green buses.<sup>28</sup>

5.1 Reforms in the public transport system.

5.2 Promotion of energy efficiency.

5.3 Waste management system improvements.

5.4 “Smart city” program.

5.5 Rehabilitation and modernization of the metro system.

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<sup>26</sup> World Bank Group, *Realizing Armenia's High-Tech Potential*, Washington, DC 2020. At: <https://openknowledge.worldbank.org/handle/10986/33027>, last accessed November 19, 2021.

<sup>27</sup> Government of the Republic of Armenia, *Programme of the Government...*

<sup>28</sup> *Ibid.*

Flagship 6: Support to accessibility to education in Armenia.<sup>29</sup>

6.1 Construction and renovation of 500 kindergartens.

6.2 Construction and renovation of 300 schools.

Flagship 7: Construction of water dams, irrigation water systems and waste disposal sites.

7.1 Construction of water dams.

7.2 Construction of waste disposal sites.

## Summary and recommendations

Transforming the EaP economies to make them more resilient and integrated has become even more urgent in the context of the post-COVID socio-economic recovery. The plan is directly in line with the long-term policy objectives for EaP policy beyond 2020 as outlined in the Joint Communication of 18 March 2020, which specifically identified investments in access to finance and support to SMEs and start-ups, in the Trans-European Transport Network, in renewable energy and enhanced energy efficiency, and in environmental and digital transition.<sup>30</sup>

The 2.6-billion-euro investment plan package will play a significant role in improving and modernizing the Armenian economy, making it more open and accessible, with more opportunities for entrepreneurship, social and economic growth and regional cooperation.

The following recommendations should be considered when working on implementing the above investment plan:

- The success of the investment plan will enhance Armenia-EU relations, and catalyze the efforts towards deepening the friendly relations and expanding partnership with the EU, its member states and other European countries.
- The successful implementation of the investment will establish Armenia's image of a reliable economic partner and player in the region and will boost further investments from other counterparties.

<sup>29</sup> *Ibid.*

<sup>30</sup> European Commission, *Stronger Women: Stronger Armenia – Factsheet*, March 7, 2021. At: <https://euneighbourseast.eu/news-and-stories/publications/stronger-women-stronger-armenia-factsheet/>, last accessed January 3, 2022.

- The scale of the investment plan is huge and maximum effort should be made by the Government of Armenia to ensure there is enough capacity to absorb it.
- To ensure efficient implementation of the economic and investment plan, the Government of Armenia should make sure to include the best talent available in the country and the diaspora.
- The effective realization of the investment plan would have positive impacts for the political stability of the country.

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The publication contains a collection of articles devoted to the most important aspects related to the process of transformation of the countries of Central and Eastern Europe and the South Caucasus under the Eastern Partnership program. The book covers the results of a research project by an international team of scientists who present their findings on the policy of European integration, the role and importance of the Eastern Partnership in the process of change, and give recommendations for its implementation and activities in the future.



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