



Board of Directors

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## Country Operations Business Plan: Armenia, 2019–2021

Attached for information is a paper on the above subject.

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# Country Operations Business Plan

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October 2018

Armenia  
2019–2021

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 5 September 2018)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.0021
\$1.00	=	AMD482.82

## ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CPS	–	country partnership strategy
OCR	–	ordinary capital resources
TA	–	technical assistance

## NOTE

In this report, "\$" refers to United States dollars.

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## **I. CONSISTENCY OF BUSINESS PLAN WITH COUNTRY PARTNERSHIP STRATEGY**

1. The country operations business plan (COBP), 2019–2021 of the Asian Development Bank (ADB) for Armenia aligns with ADB's country partnership strategy (CPS), 2014–2018 for Armenia and is in line with the government's priority areas as articulated in its program for 2018.<sup>1</sup> The COBP is consistent with the strategic priorities set out in ADB's Strategy 2030 and takes into account the transition to CPS, 2019–2023.<sup>2</sup> The COBP also reflects government plans for medium-term fiscal consolidation and expects balanced sovereign and nonsovereign lending.

2. The overarching goal of CPS, 2014–2018 is to help Armenia achieve regional economic integration and rebalance its economy toward more resilient, inclusive, and environmentally sustainable growth. CPS, 2019–2023, which will align closely with the government's long-term development strategy, is expected to continue support for core infrastructure priorities, including transport, urban infrastructure, and energy; it will combine sovereign and nonsovereign financing, public–private partnerships, and other innovative solutions.<sup>3</sup> The upcoming CPS will also increase support for human capital, including education and health. An expanded nonsovereign portfolio and the inclusion of social sectors will transform ADB's relationship to one suited for a growing middle-income country.

3. This COBP supports government efforts to strengthen transparency, accountability, and public services by supporting reforms in public sector management, finance, education, and health. The main cross-cutting strategic priorities of the CPS—private sector development, knowledge solutions, regional cooperation, environmental sustainability, gender mainstreaming, governance, and institutional strengthening—are also promoted.

## **II. INDICATIVE RESOURCE PARAMETERS**

4. Higher public debt,<sup>4</sup> high undisbursed balance of loan projects committed by the government, and the medium-term fiscal consolidation process affect the government's borrowing capacity and ADB's portfolio performance. No new project loans are envisaged under the government's medium-term expenditure framework for 2019–2021 and debt management strategy program for 2019–2021.<sup>5</sup>

5. Armenia, a group C developing member country, is eligible for regular ordinary capital resources lending. The indicative resources available for commitment during 2019–2021 for sovereign operations amount to \$650 million. However, given the country's debt situation, the total firm lending pipeline for 2019–2021 is only \$220 million for selected priority programs.

6. ADB will expand nonsovereign operations and maximize the synergies between sovereign and nonsovereign operations. ADB's private sector operations can help companies play a greater role in the development of energy, transportation, and other infrastructure; agribusiness; health; education; export-oriented industries; trade; and logistics. Support for infrastructure will leverage

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<sup>1</sup> ADB. 2014. *Country Partnership Strategy: Armenia, 2014–2018*. Manila; and Government of Armenia. 2018. *Government Program for 2018*. Yerevan.

<sup>2</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>3</sup> Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan.

<sup>4</sup> Armenia's public and publicly guaranteed external debt increased sharply after the onset of the 2008–2009 global financial and economic crisis and has continued to grow moderately since then. The ratio of public debt to gross domestic product increased from 16.4% in 2008 to 40.6% in 2009 and stood at 58.8% by the end of 2017.

<sup>5</sup> Government of Armenia. 2018. *Medium-term Expenditure Framework, 2019–2021*. Yerevan.

private sector expertise and investments to enhance the effectiveness of public investments, strengthen services, and promote sustainability. Investments in agribusinesses help increase agricultural productivity, improve farmers' livelihoods, and create job opportunities. Financial intermediation through local banks and nonbanks—targeted at improved access to finance for micro, small, and medium-sized enterprises—will continue to be pursued.

7. The indicative nonlending technical assistance (TA) program is \$3.4 million for 2019–2021. The nonlending program was prioritized and realigned to support the lending program. The main focus will be on supporting project preparation and providing capacity building and advisory support for the implementation of reforms.

### III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

8. **Lending products.** Changes in the COBP, 2018–2020 lending program are as follows:<sup>6</sup>

- (i) **Transport.** In response to the government's request, the COBP team dropped tranche 3 of the Sustainable Urban Development Investment Program (firm in 2018) from the pipeline and added the Secondary Towns Urban Development Project (\$50 million) to improve the urban environment in secondary towns as standby in 2021.<sup>7</sup>
- (ii) **Water supply and other municipal infrastructure and services.** The COBP team dropped the Water Supply and Sanitation Improvement Project (standby in 2018, firm in 2019) from the pipeline, as the government is exploring expanded public–private partnership opportunities for the sector.
- (iii) **Education.** The COBP team increased the allocation for subprogram 1 (education) of the Social Sectors Reform Program from \$30 million to \$50 million.
- (iv) **Finance.** In response to the government's emerging needs, the COBP team added a policy-based loan to the pipeline. The Second Public Efficiency and Financial Markets Program will comprise two subprograms: \$60 million for subprogram 1 (firm in 2019) and \$80 million for subprogram 2 (firm in 2020).
- (v) **Industry and Trade.** The COBP team dropped the policy-based loan for Investment Climate and Private Sector Development (\$50 million in 2020) because it is no longer required.

9. **Nonlending products.** The COBP team revised the nonlending program to reflect changes in the lending pipeline and requests for knowledge products. One transaction TA project was added for the preparation of the Second Public Efficiency and Financial Markets Program. The transaction TA project for the Investment Climate and Private Sector Development Program was converted to a knowledge and support TA project. Two knowledge and support TA projects for Agriculture Value Chain Development and Regional Integration Strengthening were added to the pipeline.

10. The country results areas and the indicative resource allocation for each sector are in Appendix 1. The projects in the pipeline are detailed in Appendix 2. The assistance program for 2018 is in Appendix 3, and the list of indicative knowledge publications and events for 2018–2019 is in Appendix 4.

<sup>6</sup> ADB. 2017. *Armenia: Country Operations Business Plan, 2018–2020*. Manila.

<sup>7</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to Armenia for the Sustainable Urban Development Investment Program*. Manila.

## COUNTRY ASSISTANCE RESULTS AREAS

Key Country Development Outcomes that ADB Contributes to	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in 2019–2021	Changes from Last COBP
<b>1. Finance</b>			
Strengthened financial intermediation	Finance sector development Money and capital markets	Amount: \$140 million (regular OCR) Share of COBP envelope: 63.6%	Added the Second Public Efficiency and Financial Markets Program, with two subprograms: \$60 million for subprogram 1 (2019 firm) and \$80 million for subprogram 2 (2020 firm)
<b>2. Education</b>			
Increased efficiency and quality of the education system	Education sector development Secondary education	Amount: \$50 million (regular OCR) Share of COBP envelope: 22.7%	Increased the allocation for subprogram 1 (education) of the Social Sectors Reform Program from \$30 million to \$50 million
<b>3. Health</b>			
Improved outpatient and inpatient health care services	Health system development Health sector development and reform	Amount: \$30 million (regular OCR) Share of COBP envelope: 13.6%	No change
<b>4. Water supply and other municipal infrastructure and services</b>			
More people use improved water supply, sanitation, and municipal services	Urban infrastructure (water supply, solid waste management, urban transport) Urban governance, planning, and environmental policies Pilot projects and other KPS on seismic safety and rural waste management	Amount: 0 Share of COBP envelope: 0%	Dropped from the pipeline. Hence, no project under the sector.
<b>5. Industry and Trade</b>			
Improved competitive business environment	Trade and services Industry and trade sector development	Amount: 0 Share of COBP envelope: 0%	Dropped from the pipeline. Hence, no project under the sector.
<b>6. Transport</b>			
Increased, more efficient, and safer movement of goods and people	Interstate and local roads Road transport policies and reforms Pilot projects and other KPS on road safety	Amount: 0 Share of COBP envelope: 0%	Tranche 3 of the MFF for the Sustainable Urban Development Investment Program (firm in 2018) was dropped from the pipeline.

ADB = Asian Development Bank, COBP = country operations business plan, KPS = knowledge products and services, MFF = multitranchise financing facility, OCR = ordinary capital resources.

Note: Percentages may not total 100% because of rounding.

Sources: ADB estimates; and Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan.

## INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Lending Products, 2019–2021

Table A2.1: Lending Products, 2019-2021											
Project/Program Name <sup>a</sup>	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/ PDA	Cost (\$ million)					
						Total	ADB		Gov't	Co-finance	
							Regular OCR	COL			ADF Grants
<b>2019 Firm</b>											
Social Sectors Reform Program, Subprogram 1 (education) (SDP)	EDU, PSM	GI	IEG, GCD, PAR, KNS	CWSS	2017	50.0	50.0			50.0	0.0
Second Public Efficiency and Financial Markets Program, Subprogram 1 (PBL)	FIN, PSM	GI	IEG, PSD, GCD, PAR	CWPF	2019	60.0	60.0			60.0	0.0
<b>Total</b>						<b>110.0</b>	<b>110.0</b>			<b>110.0</b>	<b>0.0</b>
<b>2020 Firm</b>											
Social Sectors Reform Program, Subprogram 2 (health) (SDP)	HLT, PSM	GI	IEG, GCD, PAR, KNS	CWSS	2017	30.0	30.0			30.0	0.0
Second Public Efficiency and Financial Markets Program, Subprogram 2 (PBL)	PSM, FIN	GI	IEG, PSD, GCD, PAR	CWPF	2019	80.0	80.0			80.0	0.0
<b>Total</b>						<b>110.0</b>	<b>110.0</b>			<b>110.0</b>	<b>0.0</b>
<b>2021 Standby</b>											
Education Sector Strengthening Program (SDP)	EDU, PSM	GI	IEG, GCD, PAR, KNS	CWSS	2020	20.0	20.0			20.0	0.0
Secondary Towns Urban Development Project	TRA, WUS	GI	IEG, ESG, GCD, PAR	CWUW	2020	55.0	50.0			50.0	5.0
<b>Total</b>						<b>75.0</b>	<b>70.0</b>			<b>70.0</b>	<b>5.0</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; COL = concessional OCR lending; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWSS = Central and West Asia Social Sector Division; CWUW = Central and West Asia Urban Development and Water Division; EDU = education; ESG = environmentally sustainable growth; FIN = finance; GCD = governance and capacity development; GI = general intervention; Gov't = government; HLT = health; IEG = inclusive economic growth; KNS = knowledge solutions; OCR = ordinary capital resources; PAR = partnerships; PBL = policy-based lending; PDA = project design advance; PSD = private sector development; PSM = public sector management; SDP = sector development program; TRA = transport; TRTA = transaction technical assistance; WUS = water and other urban infrastructure and services.

<sup>a</sup> Given the provisional nature of the indicative lending program, the composition of lending instruments in the actual loan delivery may change.

Source: ADB estimates.



**Table A2.2: Nonlending Products and Services, 2019–2021**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding			
				ADB		Others	
				Source	Amount (\$'000)	Source	Amount (\$'000)
<b>2019 Firm</b>							
Agriculture Value Chain Development	ANR, PSM	CWER	KSTA	TASF	800.0		0.0
Second Public Efficiency and Financial Markets Program (for program preparation and implementation)	FIN, PSM	CWPF	TRTA	TASF	800.0		0.0
<b>Total</b>					<b>1,600.0</b>		<b>0.0</b>
<b>2019 Standby</b>							
Secondary Towns Urban Development Project	TRA, WUS	CWUW	TRTA	TASF	500.0		0.0
<b>Total</b>					<b>500.0</b>		<b>0.0</b>
<b>2020 Firm</b>							
Regional Integration Strengthening	TRA, ENE	CWTC, CWEN	KSTA	TASF	500.0		0.0
Investment Climate and Private Sector Development	IND, PSD	CWRC, CWPF	KSTA	TASF	500.0		0.0
Secondary Towns Urban Development Project	TRA, WUS	CWUW	TRTA	TASF	500.0		0.0
<b>Total</b>					<b>1,500.0</b>		<b>0.0</b>
<b>2021 Firm</b>							
Education Sector Strengthening Program (for program implementation)	EDU, PSM	CWSS	TRTA	TASF	300.0		0.0
<b>Total</b>					<b>300.0</b>		<b>0.0</b>

ADB = Asian Development Bank; ANR = agriculture, natural resources, and rural development; CWEN = Central and West Asia Energy Division; CWER = Central and West Asia Environment, Natural Resources, and Agriculture Division; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWRC = Central and West Asia Regional Cooperation and Operations Coordination Division; CWSS = Central and West Asia Social Sectors Division; CWTC = Central and West Asia Transport and Communications Division; CWUW = Central and West Asia Urban Development and Water Division; EDU = education; ENE = energy; FIN = finance; IND = industry and trade; KSTA = knowledge and support technical assistance; PSD = private sector development; PSM = public sector management; TASF = Technical Assistance Special Fund; TRA = transport; TRTA = transaction technical assistance; WUS = water and other urban infrastructure and services.

Source: ADB estimates.

## ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A3.1: Lending Products, 2018

Table A.11: Lending Products, 2018												
Project/Program Name <sup>a</sup>	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/ PDA	Cost (\$ million)						
						Total	ADB		Gov't	Co-finance		
							Regular OCR	ADF Grants			Total	
<b>2018 Firm</b>												
Public Efficiency and Financial Markets Development Program, Subprogram 2 (PBL)	FIN, PSM	GI	IEG, PSD, GCD, PAR	CWPF	2017	50.0	50.0			50.0	0.0	0.0
<b>Total</b>						<b>50.0</b>	<b>50.0</b>			<b>50.0</b>	<b>0.0</b>	<b>0.0</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; COL = concessional OCR lending; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; FIN = finance; GCD = governance and capacity development; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PAR = partnerships; PBL = policy-based lending; PDA = project design advance; PSD = private sector development; PSM = public sector management; TRTA = transaction technical assistance.

<sup>a</sup> Given the provisional nature of the indicative lending program, the composition of the lending instruments actually delivered may change. Investment lending accounted for 42.5% of sovereign lending commitments during 2015–2017, conventional PBL formed 34.1%, and RBL made up 23.4%.

Source: ADB estimates.

Table A3.2: Nonlending Products and Services, 2018

					Sources of Funding			
Assistance Name	Sector	Division	Assistance Type	ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2018 Firm</b>								
Sustainable Urban Development Feasibility Studies	TRA	CWUW	TRTA	TASF	225.0		0.0	225.0
High Voltage Electrical Networks	ENE	CWEN	KSTA	TASF	100.0		0.0	100.0
Seismic Safety Improvement Program (additional financing)	WUS, EDU	ARRM	KSTA			TBD	750.0	750.0
<b>Total</b>					<b>325.0</b>		<b>750.0</b>	<b>1,075.0</b>
<b>2018 Standby</b>								
Second Public Efficiency and Financial Markets Program (for program preparation and implementation)	FIN, PSM	CWPF	TRTA	TASF	800.0		0.0	800.0
<b>Total</b>					<b>800.0</b>		<b>0.0</b>	<b>800.0</b>

ADB = Asian Development Bank; ARRM = Armenia Resident Mission; CWEN = Central and West Asia Energy Division; CWPF = Central and West Asia Public Management, Financial Sector, and Trade Division; CWUW = Central and West Asia Urban Development and Water Division; EDU = education; ENE = energy; FIN = finance; KSTA = knowledge and support technical assistance; PSM = public sector management; TASF = Technical Assistance Special Fund; TBD = to be determined; TRA = transport; TRTA = transaction technical assistance; WUS = water and other urban infrastructure and services.

Source: ADB estimates.

## INDICATIVE KNOWLEDGE PUBLICATIONS AND EVENTS

Table A4.1: Knowledge Publications and Events for 2019

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
1. ADB Annual Report	Economics	Publication and documentation	DOC	Non-TA
2. Inclusive and Sustainable Growth Assessment	ADB administration and governance	Publication and documentation	CWRD	Non-TA
3. Energy Sector Assessment	Energy	Publication and documentation	CWRD	Non-TA
4. Asian Development Outlook 2019 and Asian Development Outlook 2019 Update	Economics	Publication and documentation	ERCD	Non-TA
5. Country Fact Sheet 2019	Economics	Publication and documentation	DOC	Non-TA
6. Key Economic Indicators	Economics	Publication and documentation	ERCD	Non-TA
7. Asian Economic Integration Report	Economics	Publication and documentation	ERCD	Non-TA
8. Health Systems Planning for Armenia	Health	Publication and documentation	CWRD	TA 9456
<b>Total number of publications = 8</b>				
<b>Total number of events = 0</b>				

ADB = Asian Development Bank; CWRD = Central and West Asia Department; DOC = Department of Communications; ERCD = Economic Research and Regional Cooperation Department; TA = technical assistance.

Note: "Publications" may include databases, multimedia, and other forms of documentation. "Events" may include event organization and training or capacity development.

Source: ADB.

**Table A4.2: Additional Knowledge Publications and Events Delivered in 2018**

<b>Title of Publication or Event</b>	<b>Subject</b>	<b>Type</b>	<b>Department or Sector Group or Thematic Group</b>	<b>Technical Assistance</b>
1. Non-Revenue Management Action Plan	Urban development	Publication and documentation	CWRD	Non-TA
2. Assessment of Textile and Footwear Sectors	Private sector	Publication and documentation	CWRD	TA 9045
3. Armenia's Export Performance and Export Structure	Private sector	Publication and documentation	CWRD	TA 9045
4. Study of Vertical Mobility and Safety in Yerevan	Urban development	Publication and documentation	CWRD	TA 9494
5. Potential Impact of Fiscal Reforms and Financial Markets Development: An Illustration	Economics, finance	Publication and documentation	CWRD	TA 9332
6. National School Management and Governance Assessment in Armenia	Education	Publication and documentation	CWRD	TA 8774
7. Governance Risk Assessment	Governance and public sector management	Publication and documentation	CWRD	Non-TA
8. Procurement Risk Assessment	Governance and public sector management	Publication and documentation	CWRD	Non-TA
9. Procurement Training for Implementing Agencies	Governance and public sector management	Training or capacity development	CWRD	TA 8926
10. ADB Loan Products, Loan Accounting and/or Servicing and Website Training for the Staff of the Ministry of Finance and Project Implementation Units	Finance	Training and capacity development	CTL	TA 9418-REG
11. Education Financing and Public Financial Management Assessment in Armenia	Education, governance and public sector management	Publication and documentation	CWRD	TA 8774
12. Financial Analysis Training for the Staff of the Ministry of Finance	Governance and public sector management	Training and capacity development	CWRD	TA 9332
13. Asian Development Bank and its Activities in Armenia—media tour		Event organization	CWRD	Non-TA
14. Training on General Master Repo Agreement for Financial Market Participants	Finance	Training and capacity development	CWRD	TA 9332
<b>Total number of publications = 9</b>				
<b>Total number of events = 5</b>				

ADB = Asian Development Bank, CTL = Controller's Department, CWRD = Central and West Asia Department, REG = regional, TA = technical assistance.

Note: "Publications" may include databases, multimedia, and other forms of documentation. "Events" may include event organization and training or capacity development.

Source: ADB.

**Table A4.3: Innovation, Advanced Technology, and Pilot Initiatives to be Implemented in 2019**

<b>Item</b>	<b>Nature</b>	<b>Project Number</b>	<b>Sector or Theme</b>	<b>Division</b>
N/A				
<b>Total number of innovation, advanced technology, and pilot initiatives = N/A</b>				

N/A = not available.

Source: ADB.