



Country Operations Business Plan

September 2017

Armenia
2018–2020

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 August 2017)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.0021
\$1.00	=	AMD478.52

ABBREVIATIONS

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

NOTE

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

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I. CONSISTENCY OF THE BUSINESS PLAN WITH THE COUNTRY PARTNERSHIP STRATEGY

1. The country operations business plan (COBP), 2018–2020 of the Asian Development Bank (ADB) for Armenia is aligned with the government’s Armenia Development Strategy, 2014–2025¹ and the government’s program for 2017–2022.² The COBP is consistent with the strategic priorities set out in ADB’s Midterm Review of Strategy 2020,³ and is in line with the main directions and strategic priorities outlined in ADB’s country partnership strategy (CPS) for Armenia, 2014–2018.⁴ The COBP also takes into account the government’s plans for medium-term fiscal consolidation, while ensuring a balanced approach to potential public sector lending.

2. The overarching goal of the CPS is to help Armenia integrate its economy regionally and rebalance it toward more resilient, inclusive, and environmentally sustainable growth. This COBP supports the CPS’s strategic directions on (i) transport, by focusing on improving urban roads in secondary cities; and (ii) water and other urban infrastructure and services, by focusing on improving water supply and sanitation in selected areas. It also supports the current and emerging development priorities of the government, by focusing on reforms in the education and health sectors. In addition, the COBP promotes the main cross-cutting strategic priorities of the CPS—private sector development, knowledge solutions, environmental sustainability, gender, governance, and institutional strengthening.

II. INDICATIVE RESOURCE PARAMETERS

3. 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.⁵ Consistent with Armenia’s fiscal rule, the government envisages a significant fiscal consolidation in 2017 and over the medium term to achieve a fiscal deficit below the debt-stabilizing level.⁶ The government underscores the importance of further improving the portfolio performance of the existing lending projects.

4. Armenia, a group C developing member country, is eligible for lending from ADB’s regular ordinary capital resources (OCR).⁷ The indicative resources available during 2018–2020 for sovereign operations amount to \$630.0 million. However, given the country’s debt situation, the total firm lending pipeline proposed for Armenia in 2018–2020 amounts to \$260.0 million for selected priority programs.

5. ADB will continue to maximize synergies between sovereign and nonsovereign operations. Support for infrastructure will leverage private sector expertise and investments to enhance the effectiveness of public investment, strengthen services and promote sustainability.

¹ Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan.

² Government of Armenia. 2017. *Government Program for 2017–2022*. Yerevan.

³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁴ ADB. 2015. *Country Partnership Strategy: Armenia, 2014–2018*. Manila.

⁵ The ratio of public debt to gross domestic product increased from 16.4% in 2008 to 40.6% in 2009 and stood at 56.7% by the end of 2016. The ratio of public debt to gross domestic product of the previous year stood at 57.1% at the end of 2016.

⁶ According to the Law on Public Debt, the government debt outstanding on December 31 of a given year shall not exceed 60% of gross domestic product of the previous year. Should the government debt at the end of a given year exceed 50% of gross domestic product of the previous year, then the state budget deficit of the next year should not exceed 3% of average gross domestic product over the past 3 years. According to this rule, the 2017 state budget envisages a fiscal deficit equivalent to 2.8% of 2017 gross domestic product.

⁷ The terminology reflects the combination of Asian Development Fund lending operations with the OCR balance sheet that took effect on 1 January 2017. Effective on 1 January 2017, Armenia was reclassified as a group C country with access to regular OCR only.

ADB's private sector operations will aim to help the private sector play a greater role in the development of export-oriented industries, trade, logistics, and infrastructure.

6. The indicative nonlending technical assistance program is \$3.6 million for 2018–2020. The nonlending program was prioritized and realigned to support the lending program. The main focus will be on supporting project preparation and on providing capacity building and advisory support for the implementation of related reforms.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

7. Changes in the lending program from the COBP for 2017–2019 are as follows:⁸

- (i) **Transport.** The allocation for tranche 3 of the multitranche financing facility for the Sustainable Urban Development Investment Program, to improve the urban environment in secondary cities, was increased from \$40 million to \$50 million.⁹
- (ii) **Water supply and other municipal infrastructure and services.** The Water Supply and Sanitation Improvement Project was rescheduled from firm in 2017 to firm in 2019 (standby in 2018).
- (iii) **Finance.** The allocation for subprogram 2 of the policy-based lending for the Public Efficiency and Financial Markets Program was decreased from \$60 million to \$50 million.
- (iv) **Health.** The Health Sector Support Project (\$35 million) included in the 2019 firm pipeline was replaced with policy-based lending for the Social Sector Reform Program, with two subprograms (\$30 million each) in education and health (firm in 2019 and in 2020). The program will support the government in further implementation of education and health reforms aimed at (i) filling gaps in education access, quality, relevance, and management; and (ii) improving the efficiency of the health system and access to quality health services.
- (v) **Energy.** Phase 2 of the Power Transmission Rehabilitation was deferred from firm in 2019 (standby in 2018) to standby in 2020.
- (vi) **Industry and Trade.** New policy-based lending for Investment Climate and Private Sector Development (\$50 million) was added to the 2020 firm pipeline, to support reforms for creating an enabling environment for private sector development.

8. The summary of changes to the lending and nonlending programs is reflected in the revised results framework in Appendix 1. The indicative lending and nonlending program is in Appendix 2, the assistance program for 2017 in Appendix 3, and a list of indicative knowledge publications and events in Appendix 4.

⁸ ADB. 2016. *Armenia: Country Operations Business Plan, 2017–2019*. Manila.

⁹ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to the Republic of 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 2018–2020	Changes from Last COBP
1. Transport			
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: \$50 million Share of COBP envelope: 19.2%	Allocation for tranche 3 of the MFF for the Sustainable Urban Development Investment Program increased from \$40 million to \$50 million.
2. Water and other urban infrastructure and services			
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: \$50 million Share of COBP envelope: 19.2%	The Water Supply and Sanitation Improvement Project was moved from 2017 firm to 2019 firm (2018 standby).
3. Finance			
Strengthened financial intermediation	Finance sector development Money and capital markets	Amount: \$50 million Share of COBP envelope: 19.2%	The allocation for subprogram 2 of the policy-based lending for the Public Efficiency and Financial Markets Program was decreased from \$60 million to \$50 million.
4. Industry and Trade			
Improved competitive business environment	Trade and services Industry and trade sector development	Amount: \$50 million Share of COBP envelope: 19.2%	New policy-based lending for the Investment Climate and Private Sector Development (\$50 million) was added to the 2020 firm pipeline.
5. Education			
Increased efficiency and quality of the education system	Education sector development Secondary education	Amount: \$30 million Share of COBP envelope: 11.6%	The Health Sector Support Project (\$35 million) included in the 2019 firm pipeline was replaced with policy-based lending for the Social Sector Reform Program, with two subprograms (\$30 million each) in education and health (firm in 2019 and in 2020).
6. Health			
Improved outpatient and inpatient health-care services	Health system development Health sector development and reform	Amount: \$30 million Share of COBP envelope: 11.6%	The Health Sector Support Project (\$35 million) included in the 2019 firm pipeline was replaced with policy-based lending for the Social Sector Reform Program, with two subprograms (\$30 million each) in education and health (firm in 2019 and in 2020).

ADB = Asian Development Bank; COBP = country operations business plan; KPS = knowledge products and services, MFF = multitranchise financing facility.
Sources: Asian Development Bank estimates; Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan.

INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Lending Products, 2018–2020

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/PDA	Cost (\$ million)						
						ADB						
						Total	Regular OCR	COL	ADF Grants	Total	Gov't	Co-finance
2018 Firm												
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
MFF Sustainable Urban Development Investment Program (tranche 3) (Secondary cities)	TRA, WUS	GI	IEG, ESG, GCD, PAR, SGE	CWUW	2011	55.0	50.0			50.0	5.0	0.0
Total						105.0	100.0			100.0	5.0	0.0
2018 Standby												
Water Supply and Sanitation Improvement Project	WUS	TI-M	IEG, ESG, GCD, PAR, SGE	CWUW	2016	55.0	50.0			50.0	5.0	0.0
Social Sector Reform Program, subprogram 1 (PBL)	EDU, HLT, PSM,	GI	IEG, GCD, PAR, KNS	CWSS	2018	30.0	30.0			30.0	0.0	0.0
Total						85.0	80.0			80.0	5.0	0.0
2019 Firm												
Water Supply and Sanitation Improvement Project	WUS	TI-M	IEG, ESG, GCD, PAR, SGE	CWUW	2016	55.0	50.0			50.0	5.0	0.0
Social Sector Reform Program, subprogram 1 (PBL)	EDU, HLT, PSM,	GI	IEG, GCD, PAR, KNS	CWSS	2018	30.0	30.0			30.0	0.0	0.0
Total						85.0	80.0			80.0	5.0	0.0
2020 Firm												
Social Sector Reform Program, subprogram 2 (PBL)	EDU, HLT, PSM,	GI	IEG, GCD, PAR, SGE, KNS	CWSS	2018	30.0	30.0			30.0	0.0	0.0
Investment Climate and Private Sector Development (PBL)	IND, PSM, FIN	GI	IEG, PSD, PAR, KNS	CWPF	2019	50.0	50.0			50.0	0.0	0.0
Total						80.0	80.0			80.0	0.0	0.0

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/PDA	Cost (\$ million)						
						ADB						
						Total	Regular OCR	COL	ADF Grants	Total	Gov't	Co-finance
2020 Standby												
Power Transmission Rehabilitation Project, phase 2	ENE	GI	IEG, ESG, GCD, RCI	CWEN	2020	90.0	80.0			80.0	10.0	0.0
Total						90.0	80.0			80.0	10.0	0.0

ADB = Asian Development Bank; ADF = Asian Development Fund; COL = concessional OCR lending; CWEN = Energy Division; CWPF = Public Management, Financial Sector, and Trade Division; CWSS = Social Sectors Division; CWUW = Urban Development and Water Division; EDU = education; ENE = energy; ESG = environmentally sustainable growth; FIN = finance; GCD = governance and capacity development; GI = general intervention; Gov't = government; HLT = health; IEG = inclusive economic growth; IND = industry and trade; KNS = knowledge solutions; MFF = multitranches financing facility; OCR = ordinary capital resources; PAR = partnerships; PBL = policy-based lending; PDA = project design advance; PSD = private sector development; PSM = public sector management; RCI = regional cooperation and integration; SGE = some gender elements; TI-M = MDG targeting; TRA = transport; TRTA = transaction technical assistance; WUS = water and other urban infrastructure and services.

Source: Asian Development Bank estimates.

Table A2.2: Nonlending Products and Services, 2018–2020

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2018 Firm								
Public Efficiency and Financial Markets Development Program	FIN, PSM	CWPF	TRTA	TASF	500.0		0.0	500.0
Total					500.0		0.0	500.0
2018 Standby								
Social Sector Reform Program	EDU, HLT, PSM	CWSS	TRTA	TASF	800.0		0.0	800.0
Total					800.0		0.0	800.0
2019 Firm								
Social Sector Reform Program	EDU, HLT, PSM	CWSS	TRTA	TASF	800.0		0.0	800.0
Investment Climate and Private Sector Development	IND, FIN, PSM	CWPF	TRTA	TASF	750.0		0.0	750.0
Total					1,550.0		0.0	1,550.0
2020 Firm								
Promoting Private Investment for Export-Led Industrial Development	IND, PSM	ARRM	KSTA	TASF	500.0		0.0	500.0
Power Transmission Rehabilitation Project, phase 2	ENE	CWEN	TRTA	TASF	1,000.0		0.0	1,000.0
Total					1,500.0		0.0	1,500.0

ADB = Asian Development Bank; ARRM = Armenia Resident Mission; CWEN = Energy Division; CWPF = Public Management, Financial Sector, and Trade Division; CWSS = Social Sectors Division; EDU = education; ENE = energy; FIN = finance; HLT = health; IND = industry and trade; KSTA = knowledge and support technical assistance; PSM = public sector management; TASF = Technical Assistance Special Fund; TRTA = transaction technical assistance.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A3.1: Lending Products, 2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of TRTA/PDA	Cost (\$ million)						
						ADB						
						Total	Regular OCR	COL	ADF Grants	Total	Gov't	Co-finance
2017 Firm												
Public Efficiency and Financial Markets Development Program, subprogram 1 (PBL)	FIN, PSM	GI	IEG, PSD, GCD, PAR	CWPF	2017	40.0	40.0			40.0	0.0	0.0
Total						40.0	40.0			40.0	0.0	0.0

ADB = Asian Development Bank; ADF = Asian Development Fund; COL = concessional OCR lending; CWPF = 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.

Source: Asian Development Bank estimates.

Table A3.2: Nonlending Products and Services, 2017

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2017 Firm								
Public Efficiency and Financial Markets Development Program	FIN, PSM	CWPF	TRTA	TASF	500.0		0.0	500.0
Preparing the Social Sector Reform Program	EDU, HLT, PSM	CWSS	TRTA	TASF	800.0		0.0	800.0
Total					1,300.0		0.0	1,300.0

ADB = Asian Development Bank; CWPF = Public Management, Financial Sector, and Trade Division; CWSS = Social Sectors Division; EDU = education; FIN = finance; HLT = health; PSM = public sector management; TASF = Technical Assistance Special Fund; TRTA = transaction technical assistance.
Source: Asian Development Bank estimates.

INDICATIVE KNOWLEDGE PUBLICATIONS AND EVENTS

Table A4.1: Knowledge Publications and Events for 2018

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Fund Source
1. Vocational training for construction managers and workers on seismic safety construction technologies, techniques, and skills	Urban development	Training and capacity development	CWRD	Non-TA
2. Inclusive and sustainable growth assessment	Economics	Publication and documentation	CWRD	Non-TA
3. Energy Sector Assessment	Energy	Publication and documentation	CWRD	TA 8936
4. Policy Brief and Country Background Paper on Inclusive Economic Development in Armenia	Economics	Publication and documentation	CWRD	TA 8936
5. Policy Brief and Country Background Paper on Employment and Labor Market Policies in Armenia	Economics	Publication and documentation	CWRD	TA 8936
6. Policy Brief and Country Background Paper on Enabling Inclusive Growth through IFI Operations in Armenia	Economics	Publication and documentation	CWRD	TA 8936
7. Country Background Paper on Policy Responses to External Macroeconomic Shocks in Armenia	Economics	Publication and documentation	CWRD	TA 8936
8. GJIG Study Corporate Report: Good Jobs for Inclusive Growth in Central Asia and the South Caucasus	Economics	Publication and documentation	CWRD	TA 8936
9. GJIG Study Volume 1: Inclusive Growth in Central Asia and the South Caucasus	Economics	Publication and documentation	CWRD	TA 8936
10. GJIG Study Volume 2: Employment and Labor Markets in Central Asia and the South Caucasus	Economics	Publication and documentation	CWRD	TA 8936
11. GJIG Study: Guidelines for Improving Project Design and Implementation to Enhance the Inclusive Growth and Good Jobs' Creation Impact of ADB Operations in Central and West Asia	Economics	Publication and documentation	CWRD	TA 8936
12. Asian Development Outlook 2018 (chapter on Armenia) and Asian Development Outlook 2018 Update (Armenia country highlights)	Economics	Publication and documentation	ERCD	Non-TA
13. Country Fact Sheet 2018	Economics	Publication and documentation	DER	Non-TA
Total number of publications = 12				
Total number of events = 1				

ADB = Asian Development Bank, CWRD = Central and West Asia Department, DER = External Relations Department, ERCD = Economic Research and Regional Cooperation Department, GJIG = Good Jobs for Inclusive Growth, IFI = international financial organization, 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: Asian Development Bank.

Table A4.2: Additional Knowledge Publications and Events Delivered in 2017

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Fund Source
1. Non-Revenue Management Action Plan	Urban development	Publication and documentation	CWRD	Non-TA
2. Assessment of Textile Sector	Private Sector	Publication and documentation	CWRD	TA 9045
3. Armenia Competitiveness Report	Private sector	Publication and documentation	CWRD	TA 9045
4. Project management training for implementing and executing agencies	Governance and public sector management	Training or capacity development	CWRD	TBD
5. Procurement training for implementing agencies	Governance and public sector management	Training or capacity development	CWRD	TA 8926
6. Training on public-private partnership	Private sector	Training or capacity development	CWRD	Non-TA
7. Armenia's Integration with Regional Transport Network	Transport	Publication and documentation	CWRD	TA 8936
8. Financial Programming and Policies: Database for Armenia	Economics	Database	CWRD	Non-TA
9. Wine sector workshop	Private sector	Event organization	CWRD	TA 9045
10. Financial and economic analysis training for the staff of the Ministry of Finance	Governance and public sector management	Training or capacity development	CWRD	TA 9065
Total number of publications = 5				
Total number of events = 5				

CWRD = Central and West Asia Department, TA = technical assistance, TBD = to be determined.

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

Source: Asian Development Bank.