

Chair's Summary of Meeting of the Board Directors

25 August 2006

Armenia: Economic Report and Interim Operational Strategy (2006-2009) and Country Classification Paper

1. The Board of Directors endorsed the Armenia Economic Report and Interim Operational Strategy (ERIOS) for 2006-2009 and approved the Country Classification Paper recommending a Group B1 classification for the country. Two Directors, on behalf of some of their constituents, did not endorse the ERIOS; and one Director, on behalf of one constituent, did not support the Country Classification. Directors noted the comments distributed by some Board chairs prior to the meeting and stressed that ADB should observe political impartiality as a principle in its documents.
2. Directors noted the good economic and social performance Armenia has achieved to date and the challenges of sustaining economic growth and making greater strides in poverty reduction. They endorsed the three strategic priorities that the interim strategy proposed for ADB to assist Armenia in addressing its development challenges.
3. Directors supported the “learning by doing” approach to commencing operations in Armenia, a new DMC. They suggested that in implementing the interim strategy, ADB start on a small scale, work with development partners, and build country knowledge. Sector selectivity should be in line with the MTS II priorities. Directors also noted the need to carry out careful situation and risk analysis when planning operations in the area of regional cooperation and integration. They appreciated the detailed and clear analysis of governance and corruption issues and encouraged staff to strengthen the governance focus when implementing the interim strategy.
4. Some Directors stated that the three year implementation period proposed for the interim strategy was long. They recommended that staff undertake a mid-term review during the interim strategy period with a view to developing a comprehensive medium term country strategy and program within the three year period.
5. One Director advised that country classification should be based only on per capita GNP and debt repayment capacity. Another Director noted that remittance may significantly affect per capita GNP figure and that this factor should be taken into consideration and that ADB should harmonize the country classification with that of the World Bank. One Director noted that Armenia's debt repayment capacity is likely to strengthen further and requested that country classification be kept under review.
6. Staff thanked the Directors for their constructive comments and advice and responded that (i) the spirit of an interim operational strategy is to learn and build relationships; (ii) the proposed three-pronged strategy will be implemented in close coordination with key development partners and add value by building upon the existing institutional set-up, (iii) the assistance pipeline will be small to start with, (iv) the sector selection will be based on the Government's priorities, ADB's potential value addition, and follow MTS-II guidelines, (v) governance issues would be

addressed at the project and sector level, given that other development partners have well established assistance programs to tackle broad governance issues, and (vi) ADB will examine elements of closer alignment of its graduation policy with the World Bank, and a working paper on review of graduation policy will be submitted to the Board in October, and country classification will be reviewed in 2007/2008 when ADB undertakes preparations for ADF X replenishment exercise.