



Completion Report

Project Number: 46220-001
Loan Number: 3155
June 2017

Armenia: Infrastructure Sustainability Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – dram (AMD)

| | | At Appraisal (15 November 2013) | At Program Completion (11 November 2015) |
|---------|---|---|--|
| AMD1.00 | = | \$0.0025 | \$0.0021 |
| \$1.00 | = | AMD405.89 | AMD478.47 |

ABBREVIATIONS

| | | |
|------|---|---|
| ADB | – | Asian Development Bank |
| DMF | – | design and monitoring framework |
| GDP | – | gross domestic product |
| ISSP | – | Infrastructure Sustainability Support Program |
| KPI | – | key performance indicators |
| MOF | – | Ministry of Finance |
| MOTC | – | Ministry of Transport and Communication |
| MTA | – | Ministry of Territorial Administration |
| MTEF | – | medium-term expenditure framework |
| PSRC | – | Public Sector Regulatory Commission |
| RAMS | – | road asset management |
| SCWE | – | State Committee for Water Economy |
| TA | – | technical assistance |

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars.

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BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|---|
| 1. | Country | Armenia |
| 2. | Loan Number | 3155 |
| 3. | Program Title | Infrastructure Sustainability Support Program |
| 4. | Borrower | Armenia |
| 5. | Executing Agency | Ministry of Finance |
| 6. | Amount of Loan | SDR-31,770,000 (\$49 million equivalent) |
| 7. | Program Completion Report Number | 1691 |

B. Loan Data

| | | |
|----|----------------------------------|--|
| 1. | Fact Finding | |
| | – Date Started | 4 November 2013 |
| | – Date Completed | 15 November 2013 |
| 2. | Loan Negotiations | |
| | – Date Started | 25 June 2014 |
| | – Date Completed | 25 June 2014 |
| 3. | Date of Board Approval | 28 August 2014 |
| 4. | Date of Loan Agreement | 3 October 2014 |
| 5. | Date of Loan Effectiveness | |
| | – In Loan Agreement | 1 January 2015 |
| | – Actual | 19 December 2014 |
| | – Number of Extensions | 0 |
| 6. | Closing Date | |
| | – In Loan Agreement | 30 September 2015 |
| | – Actual | 11 November 2015 |
| | – Number of Extensions | 1 |
| 7. | Terms of Loan | |
| | – Interest Rate | 2% per year during the grace period and thereafter |
| | – Maturity (number of years) | 25 years |
| | – Grace Period (number of years) | 5 years |
| 8. | Terms of Relending (if any) | Not applicable |
| 9. | Disbursements | |
| a. | Dates | |

| Initial Disbursement | Final Disbursement | Time Interval |
|----------------------|-----------------------|---------------|
| 22 December 2014 | 21 October 2015 | 10 months |
| Effective Date | Original Closing Date | Time Interval |
| 19 December 2014 | 30 September 2015 | 9 months |

b. Amount (SDR'000)

| Category or Subloan | Original Allocation | Amount Disbursed |
|---------------------|---------------------|------------------|
| First Tranche | 12,967 | 12,967 |
| Second Tranche | 18,803 | 18,803 |
| Total | 31,770 | 31,770 |

C. Program Data

1. Program Cost (SDR'000)

| Cost | Appraisal Estimate | Actual |
|-----------------------|--------------------|---------------|
| Foreign Exchange Cost | 31,770 | 31,770 |
| Local Currency Cost | 0 | 0 |
| Total | 31,770 | 31,770 |

2. Financing Plan (SDR'000)

| Cost | Appraisal Estimate | Actual |
|--------------------------|--------------------|---------------|
| Implementation Costs | | |
| Borrower Financed | 0 | 0 |
| ADB Financed | 31,770 | 31,770 |
| Other External Financing | 0 | 0 |
| Total | 31,770 | 31,770 |

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component (SDR'000)

| Component | Appraisal Estimate | Actual |
|----------------|--------------------|---------------|
| First Tranche | 12,967 | 12,967 |
| Second Tranche | 18,803 | 18,803 |
| Total | 31,770 | 31,770 |

4. Program Schedule (SDR'000)

| Item | Appraisal Estimate | Actual |
|-----------------------------|--------------------|--------|
| First Tranche ^a | 12,967 | 12,967 |
| Second Tranche ^b | 18,803 | 18,803 |

^a Released on 22 December 2014.^b Released on 21 October 2015.

5. Program Performance Report Ratings: Not Applicable

D. Data on Asian Development Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person-Days | Specialization of Members ^a |
|------------------|------------------------|----------------|--------------------|--|
| Reconnaissance | 25 July–13 August 2013 | 3 | 25 | a, b, c |
| Fact Finding | 4–15 November 2013 | 1 | 10 | a |
| Consultation | 9–16 September 2014 | 3 | 18 | a, c, d |
| Review Mission 1 | 6–12 December 2014 | 2 | 12 | a, c |
| Review Mission 2 | 2–6 February 2015 | 1 | 5 | c |
| Review Mission 3 | 1–5 June 2015 | 1 | 5 | c |

^a a = principal public management specialist, b = financial sector specialist, c = economist (public finance), d = associate economics officer

I. PROGRAM DESCRIPTION

1. On 28 August 2014, the Asian Development Bank (ADB) approved a loan for SDR31,770,000 (\$49 million equivalent) from the Asian Development Fund and a technical assistance (TA) grant of \$0.9 million to Armenia for the Infrastructure Sustainability Support Program (ISSP).¹ The program loan was disbursed in two tranches after specific policy actions were completed.

2. The program was to help improve service delivery in the road transport and water supply sectors through public expenditure management and financing reforms. The expected outcome was the implementation of results-based management systems in these sectors. The program focused on prioritizing critical expenditures, improving their sustainability, and life-cycle costing to improve the maintenance of infrastructure to improve users benefit from more reliable and expanded services. The expected program outputs include (i) management systems improved, (ii) strategies and processes to allocate investments more efficiently developed, (iii) regulatory frameworks improved, and (iv) monitoring systems strengthened. This report presents the program results. The design and monitoring framework (DMF) is in Appendix 1.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

3. After the recession triggered by the global financial crisis in 2009 when Armenia's gross domestic product (GDP) contracted by 14.1%, the economy grew at an average 4.7% from 2010 to 2012 before declining to an average of 3.3% from 2013 to 2015. Since 2009 public debt to GDP increased substantially from 36% to 48.8% in 2015 and further to 57.0% in 2016.

4. Since 2009 public spending for infrastructure declined sharply. Armenia's road and water infrastructure assets deteriorated substantially due to limited budgets for maintenance, rehabilitation and replacement. However, road and water infrastructure is vital for the economy and the population. Armenia's rural population relies on well-maintained road networks to connect with urban markets and essential health and education facilities. Reliable access to clean water is also an important factor for household well-being.

5. The program was consistent with ADB's interim country partnership strategy for Armenia, Midterm Review of Strategy 2020, Water Operational Plan 2011–2020, Sustainable Transport Initiative Operational Plan, and priorities identified in the country operations business plan, 2014–2016.² The program was aligned with the government's Armenia Development Strategy, 2014–2025 and medium-term expenditure framework (MTEF), 2014–2016.

6. In this framework Armenia aimed to prioritize infrastructure expenditure toward the areas of greatest need, improve the life of infrastructure assets, and realize important economic benefits. Well performing public financial management systems are essential to enhance service delivery to the public. During program design, the government and ADB conducted broad consultations to encourage ownership within relevant agencies and recognize the value of the proposed reforms. Consultation with community service organizations focused on technical aspects of the program including internal audit reforms. Overall, the program was highly relevant.

¹ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Technical Assistance Grant for the Infrastructure Sustainability Support Program*. Manila.

² The program was also consistent with the goals of the first country partnership strategy for Armenia, 2014–2018.

This is evidenced by the government's commitment to a second program, the Infrastructure Sustainability Support Program (Phase 2) (ISSP2), to entrench the proposed reforms, improve the water and road sectors further, and extend the reforms to the power sector which ADB approved on 10 November 2016.³

B. Program Outputs

7. The program delivered four outputs: (i) sector management systems improved, (ii) strategies and processes to allocate investments more efficiently developed, (iii) regulatory frameworks improved, and (iv) monitoring systems strengthened.

8. **Output 1: Sector management systems improved.** Multiple agencies with overlapping functions is a common binding constraint of both the road and water sectors. Under this output, efforts were made to integrate sector management and delineate more clearly the responsibilities of specific agencies in the road and water sectors.

9. To improve coordination among the multiple agencies operating in the road sector, the program established a multi-agency road council. The coordination entailed harmonizing road maintenance policies and prioritizing investment decisions across the country based on sound technical and economic analysis. The road council includes decision-makers from the ministries of economy, finance, nature protection, and territorial administration and is meeting regularly.

10. In the water sector, the Ministry of Territorial Administration (MTA) led a multi-agency working group in reviewing the roles of key water sector agencies to align their responsibilities and functions more effectively. This led to two critical developments: (i) amendment of the Water Code (2002) and related legal acts to reduce the duplication of functions among agencies operating in the water sector; and (ii) government approval of a new water sector strategy and financing plan to guide future investments.

11. By the end of the program, all output 1 policy actions were fully implemented, except for the amendments to the Water Code (2002) and related legal acts related to sanitation subsector reforms which is now being addressed under the ISSP2 (Appendix 1). The government is expected to consider amendments to the Water Code (2002) in June 2017, and then by the National Assembly in late 2017. Overall, the objective of improving sector management systems has been achieved. The water sector strategy and financing plan, guided the restructuring of key water agencies including MTA, State Committee for Water Economy (SCWE) and the Ministry for Nature Protection.

12. **Output 2: Strategies and processes to allocate investments more efficiently developed.** This output aimed to improve planning, transparency, and accountability in both the transport and water sectors based on sound asset management. The program helped the government to adopt a road maintenance financing strategy in June 2015 to improve prioritization and allocation of expenditure the road sector. The strategy can only be implemented gradually due to the tight fiscal situation that limits expenditure since 2017. Under ISSP2, government is committed to gradually increase the budget allocation for road maintenance beginning 2016. The government adopted key performance indicators (KPIs) for the road sector that were included in the MTEF, 2015–2017. The strategy and KPIs provide a tangible mechanism for tracking the quality of road maintenance expenditure. However, the quality of data collection needs to be

³ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Technical Assistance Grant for the Infrastructure Sustainability Support Program (Phase 2)*. Manila.

substantially improved to fully realize the benefits of modern road asset management outlined under the strategy. Government efforts and the support of development partners (including ADB) are changing this situation, as modern techniques are introduced to ensure that timely and accurate data are made available.

13. In the water sector, financial planning, transparency, and accountability was improved under the program with the government now requiring the water operator to publish financial reports in accordance with international standards. The government estimated its investments needs based on the water strategy, with water subsidies explicitly disclosed in the budget publications. Due to water sector, financial information being more freely available and a better understanding of future financial needs as well as of both explicit and implicit financial support to the water sector, the procurement for the single water operator was much more comprehensive and should yield well-reticulated water services over the life of the contract.

14. All policy actions under output 2 were fully implemented except for upgrading the road asset management system (RAMS), to an IT-based system. The procurement of the system was delayed due to insufficient vendor interest and the adaptation of specifications that meet vendor interest. However, the policy action was partially completed by upgrading the RAMS by its integration with the road network video inventory system.

15. **Output 3: Regulatory frameworks improved.** In the road sector, to improve service standards and safeguard user rights, the MOTC established a regulatory department covering Armenia's entire road network, including state, republic, and local roads. The MOTC also adopted a streamlined user feedback and grievance redress system, with the results published on its website. While the road regulator provided for a public grievance mechanism, in the future it should be separated from MOTC to ensure its independence.

16. In the water sector, the Public Sector Regulatory Commission (PSRC) is reasonably well structured and has robust processes for making regulatory decisions. But it lacked a direct user feedback system to incorporate feedback in its regulatory decisions. Feedback could only be provided through formal hearings. Under the program the PSRC adopted a streamlined user feedback and grievance redress system (available on its website) to address water user concerns and service delivery failures. All output 3 policy actions are fully implemented.

17. **Output 4: Monitoring systems strengthened.** The quality of policy and regulation depends on results, which should be monitored through complete, verifiable, and up-to-date information. A geo-referenced video inventory of the country's road network was completed in 2014 and is now used by the MOTC to prioritize expenditure decisions. Standardized benchmarks of road quality (the international roughness index) were used across the road network, and the video inventory made it possible to compare road sections more efficiently.

18. In the water sector, the following policy actions to improve transparency and the disclosure of information by SCWE, PSRC, and MOTC were fully implemented: (a) the SCWE published annual audit reports of all five water operators, (b) the PSRC adopted a public information plan, and (c) a new disclosure policy composition and comparison of tariffs among various operators was adopted. Work also began on an asset management system in preparation for the move to a single operator who will lease the assets from the government.

19. To support the transition from traditional line item budgeting to program budgeting, the qualifications and capacity of internal auditors were strengthened by participation in annual professional development programs. The MOTC and SCWE internal audit units were

strengthened to meet program budgeting requirements, and dedicated local audit support was provided to develop risk-based audit plans, and develop policies and procedures for the internal audit units.

20. Overall, the program supported improved quality and timeliness of information disclosure to ensure efficient monitoring and decision making. This work was particularly helpful in the water sector in preparing for the procurement of a new single water operator. In the road sector, information gaps remain and more effort is required to ensure that data remain current. Improving these monitoring systems are further supported under ISSP2.

C. Program Costs

21. There were no unforeseen program costs during the implementation of the ISSP, and no cost overruns preventing the program from being implemented in a timely manner. The size of the loan was appropriate based on the original justification of (i) the nature and sequence of the required reforms, (ii) the cost of implementing these reforms, (iii) government resources for development expenditure and financing needs, and (iv) the time required to undertake the reforms. From these four items, development expenditure needs were calculated and this program financed a proportion of this expenditure.

D. Disbursements

22. The program loan was disbursed in two tranches after loan effectiveness conditions and policy actions were met in line with ADB's disbursement procedures for policy-based loans.⁴ The loan became effective on 19 December 2014, the first tranche of SDR12,967,000 (\$20 million equivalent) was disbursed on 22 December 2014, and the second tranche of SDR18,803,000 (\$29 million equivalent) was disbursed on 21 October 2015.⁵

E. Program Schedule

23. The program was implemented with a small extension of the closing date by 7 weeks. The original closing date was 30 September 2015. The extension from 30 September 2015 to 11 November 2015 was required to permit the approval of the second tranche report and the subsequent disbursement of funds for the second tranche.

F. Implementation Arrangements

24. The Ministry of Finance (MOF) was the executing agency and responsible for overseeing, coordinating, and reporting on the program's implementation. The program had five implementing agencies: the MOF, MOTC, MTA, PSRC, and SCWE. Each implementing agency was responsible for meeting policy actions while the MOF coordinated their delivery. Implementation arrangements were adequate to the program's size and context. No significant changes were made during implementation.

⁴ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

⁵ ADB. 2015. *Progress Report on Tranche Release: Armenia: Infrastructure Sustainability Support Program (Second Tranche)*. Manila.

G. Conditions and Covenants

25. There were no delays in meeting the conditions for effectiveness. The loan covenants were relevant to meet program requirements. Throughout the program the Borrower, EA and IAs complied with the loan covenants as detailed in Appendix 3.

H. Related Technical Assistance

26. A capacity development technical assistance was approved with the loan and helped the government implement the policy actions of the ISSP's second tranche in an effective and timely manner. The TA also provided training and advisory to MOF, MOTC, PSRC, and SCWE regarding (i) designing results-based budgeting in the water and road sectors; (ii) disseminating public information for road and water users; (iii) establishing and managing a water asset registry; and (iv) carrying out risk-based audits in both sectors. A technical assistance completion report carried out in 2016 rated the technical assistance as highly successful.⁶

I. Performance of the Borrower and the Executing Agency

27. The performance of the borrower and executing agency was *satisfactory*. The MOF successfully carried out program administration, including (i) oversight and coordination of the timely implementation of the policy actions across MOF, MOTC, MTA, PSRC, and SCWE; (ii) providing timely reporting; and (iii) managing disbursements. When required, the Cabinet of Ministers successfully coordinated relevant government agencies to ensure the timely completion of agreed policy actions. Top-level stewardship was critical in keeping implementation on track. The government's commitment to the program is also highlighted in the successful design and implementation of reforms under the subsequent ISSP2.

J. Performance of the Asian Development Bank

28. ADB's performance was *satisfactory*. The program was monitored by a team from ADB headquarters and its resident mission. ADB fielded three review missions for a total of 22 person-days. The review missions followed up on implementation progress effectively and provided timely feedback to the government. The team and implementing agencies established effective program communication enabling timely identification and resolution of issues with the support of consultants. ADB responded effectively to requests for assistance by providing the implementing agencies with additional support through the TA consultants (Section H).

III. EVALUATION OF PERFORMANCE

A. Relevance

29. The program was *highly relevant* (para. 5). Since its independence, Armenia has endured a significant deterioration of its road and water supply infrastructure. The backlog of maintenance resulted in poor service delivery. Rehabilitating the dilapidated assets is costly, and the government remains unable to secure sufficient funds for proper maintenance. Enhancing the efficient use of existing limited funds will simultaneously improve the status of maintenance, and enhance the depreciation of assets. This program focused on improving the efficient use of funds and better targeting areas of intervention via prioritization of investments through sector strategies

⁶ ADB. 2016. *Technical Assistance Completion Report: Strengthening Sector Management Capacity in Road and Water Sectors*. Manila.

and public financial management reforms. Given the complexity of issues and the budget limitations, improvements can only be expected to be gradual. The absence of sufficient budgets has delayed actions in the sanitation sector which is now being addressed under ISSP2.

30. The program supported a build-up of line agency functions of investment and annual budget planning in line with the roll-out of reforms to introduce program budgeting. In particular, KPIs in the road and water sectors were introduced to measure expenditure effectiveness. The MOTC and PSRC improved transparency and accountability by establishing user feedback and grievance redress mechanisms. Public disclosure of (i) internal audit reports by SCWE and MOTC, and (ii) water sector government subsidies enhanced transparency. While the design of the program is highly relevant to achieve the outcome, the government must continue improving its results-based management systems to ensure sustainability.

B. Effectiveness in Achieving Outcome

31. The program was *effective*, with its outcome and outputs being substantially achieved. Results-based management systems require relevant, accurate, and timely data to make informed decisions, particularly regarding the allocation of resources. Through its outputs, the program supported the introduction of results-based management systems. The program not only provided the legal foundations in the water sector, but also introduced new techniques to generate essential data for the results-based management system in the road sector such as the road video inventory.

32. Investment and maintenance allocation decisions become more complex as sector needs grow and fiscal conditions become more constrained. The water and road strategies provide an example of future requirements, as well as the consequences of under-investment or poor expenditure allocation decisions. There is evidence that the government is continuing to use these systems, particularly in the second program phase that is building on what the first achieved. Future reforms should make the PSRC more independent and accountable, which should lead to better regulatory decisions in the water and power sectors. Overall, the completed policy actions accomplished the program outputs successfully and laid a foundation for the more effective and predictable use of Armenia's budget resources.

33. The implementation status of the policy actions is in Appendix 2. All actions were fully met, except for (i) the selection of the recommendations of the sanitation sector strategy in the water code and (ii) the automation of the RAMS in the road sector. International specialist expertise was particularly useful in (i) preparing a water supply and sanitation strategy, (ii) preparing a road maintenance strategy, (iii) integrating KPIs into the MTEF for the road and water sectors, (iv) providing support to the internal audit units in SCWE and MOTC, and (v) providing legal drafting support.

34. TA resources were used effectively. The program successfully supported the implementing agencies in meeting the targeted policy actions.

C. Efficiency in Achieving Outcome and Outputs

35. The program was *efficient*. Thanks to high level stewardship, the policy actions were implemented on time. The government provided sufficient staff resources. No other government resources were required to implement the program. The loan funds were disbursed in a timely manner that met government financing needs. The achievement of the outputs and outcomes was facilitated by thorough program preparation and a strong commitment by all implementing

agencies. Throughout the program MOF ensured that reform efforts stayed on track. Proactive support by the ADB project team and TA consultants ensured efficient implementation.

D. Preliminary Assessment of Sustainability

36. The program is *likely to be sustainable*. While the implementation of new policies, and systems are being implemented gradually, the reforms under the program provided the framework for strengthening the government's public finances, and water and road sector management.

37. Armenia's declining GDP growth 3.0% in 2015 to 2.2% in 2016, was associated with a widening of the fiscal deficit to 5.4% of gross domestic product (GDP) in 2016 from 4.8% in 2015 and to further substantial external debt accumulation to 57.0% of GDP from 48.8% in 2015. This fiscal position and the prevalence of foreign-currency public debt pose a significant risk of public debt to exchange rate movements. To contain fiscal risks, the budget envisages a substantial reduction in the budget deficit to 2.8% of GDP in 2017. Armenia, however, faces the challenge of managing fiscal responsibility against a backdrop of slowing economic growth and a limited ability of further spending cuts. With the total public debt surpassing 50% of GDP, the next round of fiscal consolidation should be based on domestic revenue mobilization and public spending efficiency. Fiscal consolidation will tightly limit budgetary increases for maintenance and investments in the road and water sectors in the foreseeable future, and underscores the need for improving cost recovery in the water sector and alternative funding in the road sector as well as better management of limited fiscal resources supported under this program.

38. The successful implementation of sustainable policy actions is largely due to strong government commitment to bring about essential reforms. To maintain this momentum, ADB processed ISSP2 in 2016 which maintains strong policy dialogue and work in partnership with the government, and its development partners. Despite the deteriorating macro and fiscal situation, the government has signaled a clear commitment to further reforms.

E. Impact

39. The program's impact on institutional development was *satisfactory*. During implementation, the program played a critical role in building consensus on reform directions among relevant government agencies. The program helped restructure line agencies, reduce duplication of functions, and improve the operational efficiency of PSRC, MOTC, and SCWE. The support in enhancing internal audit was also essential to prevent fraud in the agencies.

40. The implementation of policy reforms including this program is normally a gradual long-term process. Under the subsequent ISSP2, the government has committed to further reforms that will likely improve service delivery in the road and water sectors. A new water service lease contract was signed in late 2016 (supported under ISSP2) providing for explicit maintenance expenditures by the operator throughout the concession period. However, while the targeted impact indicators for the water sector had been met at end 2016, the road sector target indicators proved unrealistic as these were based on baseline information that proved to be incorrect based on recent available information at MOTC.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

41. Overall, the program was *successful*. It achieved all its objectives. The program was
- (i) *highly relevant* in addressing public financial management and challenges in maintaining service delivery in the water and road sectors under tightening fiscal constraints;
 - (ii) *effective* in fully achieving targeted outputs and outcomes;
 - (iii) *efficient* in achieving outputs within the expected implementation period; and
 - (iv) *likely to be sustainable* due to strong government support, as witnessed by the ongoing ISSP2.
42. The program's impact is preliminarily assessed as satisfactory witnessed by continued commitment and actions taken by the government in ISSP2 in line with its strategy.

B. Lessons

43. Lessons from the program include the following:
- (i) Seeking stakeholders feedback is vital to ensure strong commitment for reforms.
 - (ii) The policy reform agenda benefited from active consultation within ADB's infrastructure divisions in the Central and West Asia Department incorporating lessons from previous ADB funded projects, and recognizing issues identified in the preparation of new projects, ensuring that the reforms were responsive to Armenia's needs and implementable given the fiscal and institutional constraints.
 - (iii) The program successfully supported high-level policy dialogue between the government and ADB that otherwise would have been difficult to achieve.
 - (iv) Reforms in the sanitation sector proved unrealistic due to fiscal constraints.
 - (v) Policy actions related to procurement bear the risk that bids are not responsive.
 - (vi) The fiscal and economic downturn may provide opportunities for involved agencies to improve their management in line with international good practice.

C. Recommendations

1. Program Related

44. Recommendations related to the program:
- (i) **Encourage further private sector participation in infrastructure services' provision.** The successful conclusion of the water lease contract, road work execution by private service providers, and private participation in the power sector should encourage further private sector involvement in infrastructure services' provision and investment. The tight fiscal situation requires alternative ways to mobilize private capital and funding for commercially viable infrastructure projects.
 - (ii) **Road regulation.** The road sector regulator should become independent from MOTC to improve its effectiveness.
 - (iii) **Future monitoring.** ADB will benefit from continued monitoring of the program

impact via ISSP2. Given ADB's significant presence in road transport, water supply, and recently the power sector, continued policy dialogue with the government is essential to further deepen infrastructure sector reform.

- (iv) **Additional assistance.** To ensure the sustainability of future projects, it will be essential to emphasize the focus on the efficient use of scarce fiscal resources. Under ISSP2, ADB can provide additional policy-based assistance to support reforms in the road, water, and power sectors.
- (v) **Timing of the program performance evaluation report.** Considering the gradual nature of policy reforms the program's performance may be evaluated in conjunction with that of ISSP2 after 2022 to assess the overall impact.

2. General

45. When strong government support for policy-level reforms exists, it can be helpful to combine ADB's investment projects with sector assistance thorough policy-based lending. Sector development programs can make funding more efficient, and improve the sustainability of infrastructure projects by incentivizing the government to undertake challenging reforms, such as institutional reforms.

46. ADB should continue to seek synergies with other development partners in designing and implementing policy-based loans.

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets and Indicators with Baselines | Status Update | Data Sources and Reporting Mechanisms |
|---|--|---|--|
| <p>Impact Improved service delivery in the road transport and water supply sectors</p> | <p>At least 50% of the road network (interstate, republic, and local roads in km) is satisfactory or better in riding quality (as measured by IRI \leq 4) by 2020 (2012 baseline: 41%)</p> <p>65% of households have access to 24-hour water supply in 2020 (2012 baseline: 59%)</p> | <p>Not yet due.</p> <p><i>Unlikely to be achieved. In 2016 at least 21% of road network is in satisfactory condition</i></p> <p>Not yet due.</p> <p><i>Likely to be achieved. In 2016 at least 65% of households have access to 24 hour water supply.</i></p> | <p>Long-term development strategy of the government</p> <p>Annual budgets</p> <p>MOTC, SCWE annual reports</p> <p>Poverty and social snapshot reports of the National Statistics Service</p> |
| <p>Outcome Results-based management systems implemented in the road transport and water supply sectors</p> | <p>MTEF and budget processes, outturn reporting, and audit processes incorporate sector performance targets by September 2015</p> | <p>Achieved. MOTC and SCWE produced risk-based audit plans for 2015, 2016 and 2017.</p> <p>The MTEF for 2015-2017, and 2016-2018 included performance indicators for the roads and water sectors.</p> | <p>Internal audit annual plans of MOTC and SCWE for 2015</p> <p>MOTC's and SCWE's 2015–2017 MTEF submission to MOF</p> <p>MTEF 2016–2018</p> <p>2015 budget message</p> |
| <p>Outputs 1. Sector management systems improved</p> | <p>1.1 Road council, a ministerial body on national road maintenance, established with clearly identified mandate for allocative efficiency by March 2014</p> <p>1.2 Organogram and departmental terms of reference to streamline road sector agencies approved by MOTC by March 2014</p> <p>1.3 MTA-led functional review of key water sector agencies initiated by March 2014 and completed by December 2014</p> <p>1.4 Water supply and sanitation sector strategy with financing plan approved by December 2014</p> <p>1.5 Government decision taken to align the Water Code 2002 and related legal acts with the functional review recommendations and the water sector strategy by June 2015</p> | <p>Achieved.</p> <p>Achieved.</p> <p>Achieved.</p> <p>Achieved.</p> <p>Partially achieved. <i>New chapter on sanitation to Water Code was recommended by the SCWE.</i></p> | <p>Published government decision</p> <p>MOTC organogram; updated departmental terms of reference by function and accountability</p> <p>MTA reviewed organogram and agencies' terms of reference by function and accountability</p> <p>Published government decision</p> <p>Published government decision</p> |

| Design Summary | Performance Targets and Indicators with Baselines | Status Update | Data Sources and Reporting Mechanisms |
|--|--|--|---|
| 2. Strategies and processes to allocate investments more efficiently developed | 2.1 Financing strategy for road maintenance 2015 budget targets adopted by December 2014 2.2 RAM-based road maintenance expenditure validated by the road council by September 2015 2.3 A KPI-based MTEF adopted for road and water sector with quality indicators by August 2014 2.4 An explicit policy statement on government's shareholder role in the water sector included in the MTEF by July 2014 2.5 Water sector subsidy objectives explicitly stated in the budget, and classified accurately by August 2014 | Achieved. Partially achieved. Achieved. Achieved. Achieved. | Official Gazette of the Republic of Armenia Road council letter endorsed by all council members MTEF 2015–2017 MTEF 2015–2017 2015 budget message |
| 3. Regulatory frameworks improved | 3.1 Regulator functions of MOTC specified for state, republic and local roads by March 2014 3.2 Sector regulator set up by MOTC for the entire road network of Armenia by April 2014 3.3 A streamlined user feedback and grievance redress system adopted in PSRC and MOTC regulatory body by March 2014 | Achieved. Achieved. Achieved. | Government decision Government decision MOTC, PSRC orders on adopting the system; MOTC, PSRC websites |
| 4. Monitoring systems strengthened | 4.1 Video inventory of 1,500 km of all interstate and republic roads maintained, and 100% of rehabilitated roads in Armenia prepared by March 2014 and the entire road network by January 2015 4.2 SCWE approved calculation framework for water sector's financial position and financing flows (cash and noncash) by February 2014 4.3 Risk-based audit planning adopted in road and water sectors by February 2015 4.4 Road asset management system, including a road video inventory, adopted as a tool for investment decisions by November 2014 4.5 Annual IRI monitoring process adopted by April 2014 and implemented from 2015 onwards 4.6 Action plan for water supply asset management approved by January 2014 4.7 Water asset register protocol for assets managed by state-regulated operators completed by December 2014 4.8 Budget-linked regular road and water sector KPI monitoring (including IRI) endorsed by the government by January 2015 | Achieved. Achieved. Achieved. Achieved. Achieved. Achieved. Achieved. Achieved. | Video library maintained by the Armenia road directorate and transport project implementation unit SCWE instruction Budget documents MOTC and SCWE audit plans Government decision Geo-referenced asset management database videos available on the MOTC website Government decision SCWE's action plan Water asset register screenshots Government decision |

| Design Summary | Performance Targets and Indicators with Baselines | Status Update | Data Sources and Reporting Mechanisms |
|----------------|---|---------------|--|
| | 4.9 Audit committees appointed in MOTC and SCWE with independent non-executive members by January 2015 | Achieved. | MOF order on audit committee staff requirements; audit committee meeting minutes |
| | 4.10 Enhanced internal auditors qualification procedures adopted from February 2014 | Achieved. | MOF order |
| | 4.11 A practice-based component in the certification for the internal auditors of MOTC piloted from July 2014 | Achieved. | Government decision |
| | 4.12 The latest complete audited financial statements of the water operators (closed joint stock companies) published on the SCWE website from March 2014 | Achieved. | SCWE website |
| | 4.13 Public information plan adopted and implemented for roads and water sectors from March 2014 | Achieved. | Public information plans Updated websites |
| | 4.14 Explicit composition and inter-utility comparison of water supply tariffs made publicly available by February 2014 | Achieved. | Revised PSRC website |

ADB = Asian Development Bank, IRI = international roughness index (meter/kilometer), KPI = key performance indicator, MOF = Ministry of Finance, MOTC = Ministry of Transport and Communication, MTA = Ministry of Territorial Administration, MTEF = medium-term expenditure framework, PSRC = Public Services Regulatory Commission, RAM = road asset management, SCWE = State Committee on Water Economy, TA = technical assistance.

^a ADB. 2012. *Technical Assistance to Armenia for the Infrastructure Sustainability Support Program*. Manila (TA 8249-ARM, approved 10 December, \$500,000).

Source: Asian Development Bank.

POLICY MATRIX

| TRANCHE 1 | | | TRANCHE 2 | | |
|---|--|---|---|--|---|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| Output 1: Improved sector management systems | | | | | |
| <p>Roads: To enable informed and efficient management of the road sector, (i) the Government establishes the Road Council, the MOTC-led advisory body for coordination of road maintenance (1.1) and (ii) MOTC organogram and departmental terms of reference are each updated to streamline the road sector agencies (1.2)</p> <p>Water: To streamline water supply agencies' responsibilities and functions, MTA initiates a review of key water sector agencies by function and accountability (1.3)</p> | <p>(1.1)^a Complied with. The Government Decree #264-A on the establishment and the charter of the road council was approved on 13 February 2014.</p> <p>(1.2) Complied with. The Government Decree #268-N was approved on 13 March 2014 and published in the Official Gazette on 26 March 2014. MOTC ministerial order N132-A was signed upon promulgation of the decree, as per government procedures. MOTC provided the updated organogram, departmental terms of reference.</p> <p>(1.3) Complied with. The Government approved a resolution mandating the MTA to conduct a review of the functions performed by key water sector agencies and the terms of reference for the review as per the Prime Minister's Order N134-A</p> | <p>(i) Published Government decision</p> <p>(ii) Published Government decision approving the establishment of a regulatory body in MOTC, and MOTC ministerial order approving updated organogram and departmental terms of reference by function and accountability</p> <p>Government resolution mandating MTA to conduct the review (including MTA terms of reference)</p> | | | |
| | | | <p>Water: To facilitate long-term planning for the water supply sector, the Government approves each of (i) a sector strategy with financing plan (1.4); (ii) the streamlining of water sector agencies' functions (1.3); and (iii) alignment of the Water</p> | <p>(1.4) Complied with. The government approved the water and sanitation strategy with financing plan on 13 August 2015 as per Government Decree N38.</p> <p>(1.3) Complied with. Recommendations of</p> | <p>(i) Published Government protocol decision</p> |

| TRANCHE 1 | | | TRANCHE 2 | | |
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| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| | dated 24.02.2014 and a working group established with Government Decree #192-A on 17 March 2014. The working group held its first meeting on 17 March and the meeting minutes were provided to ADB. | | Code 2002 and related legal acts with the functional review recommendations and sector strategy (1.5) | functional review approved by the government on 11 December 2014 as per Government Protocol Decision 52-37. (1.5) Partially complied with. Government decision on 22 May 2015 taken to align Water Code (2002) from function review as per Government decree N29.6. Government yet to take decision on aligning Water Code (2002) to water strategy. Government informed ADB it will make this decision in 2015, after work on new sanitation chapter is drafted and consulted on. | (ii) Published Government protocol decision (iii) Published Government protocol decision |
| Output 2: - Strategies and processes for greater allocative efficiency in investment decisions | | | | | |
| | | | Roads: To improve the allocative efficiency of investment decisions in the road sector, the government adopts a financing strategy for road maintenance with 2015 budget targets (2.1) | (2.1) Complied with. Government approved the road maintenance strategy with financing plan on 25 June 2015 as per government decree 873-N. | Government protocol decision; Annex to 2015 road maintenance program submitted to MOF/Government |

| TRANCHE 1 | | | TRANCHE 2 | | |
|----------------|--------------------------|----------------------|---|--|--|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| | | | <p>Road council, the MOTC-led advisory body, validates RAM-based road maintenance expenditure (2.2)</p> <p>The Government adopts a key performance indicator (KPI)-based MTEF 2015-2017 for road sector with quality indicators (2.3)</p> <p>Water: To improve policy effectiveness, transparency and accountability in the water sector, (i) the Government explicitly presents in its budget message a policy statement on its shareholder role (including its financial objective as shareholder) in the water sector and the objectives of the water sector subsidies (2.4), (ii) SCWE and MOF develop actions and targets with tariffs based on its shareholder role and the sector's financial position (2.5) and (iii) the Government adopts a KPI-based MTEF 2015-2017 for water</p> | <p>(2.2) Complied with. On 30 September 2014, the roads council approved the 2015 road maintenance program. Minutes of road council meeting provided.</p> <p>(2.3) Complied with. Government adopted new KPIs for the road sector and were published in the 2015 – 2017 MTEF.</p> <p>(2.4) Complied with. MOF included a policy statement on its shareholder's role in the water sector in the 2015-2017 MTEF and budget message.</p> <p>(2.5) Complied with. MOF included a policy statement on its subsidy objectives in the water sector in the 2015-2017 MTEF.</p> | <p>Signed copy of road council minutes.</p> <p>Published 2015-2017 MTEF.</p> <p>Published 2015-2017 MTEF.</p> <p>Published 2015-2017 MTEF.</p> |

| TRANCHE 1 | | | TRANCHE 2 | | |
|---|---|---|--------------------------------------|--------------------------|----------------------|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| | | | sector with quality indicators (2.3) | | |
| Output 3: Regulatory Frameworks | | | | | |
| <p>Roads: To improve service standards and better safeguard user rights, (i) regulatory functions of MOTC specified for interstate, republic and local roads (3.1) and (ii) MOTC formally sets-up a sector regulator for the entire road network of Armenia (3.2)</p> <p>To enhance its role as regulator of the road sector, a streamlined user feedback and grievance redress system adopted by MOTC (3.3)</p> <p>Water: To enhance its role as regulator of the water sector, PSRC adopts a streamlined user feedback and grievance redress system (3.3)</p> | <p>(3.1) Complied with. Government Decree #265-N was approved on 13 February, as amended with Government Decree (#268-N) on 13 March 2014. It was published in the Official Gazette N15 (1028) on 26 March 2014.</p> <p>(3.2) Complied with. MOTC Ministerial Order was adopted by the Order 132-A on 8 April 2014 upon promulgation of Decree #268-N, as per government procedures.</p> <p>(3.3) Complied with. Adopted by the MOTC Order 88-A on 11 March 2014 and posted on their website. (May be accessed at http://mtc.am/pages.php?lang=1&id=196&page_name=seniority_decision)</p> <p>(3.3) Complied with. Adopted by the PSRC Order 56-HN on 20 February 2014, as amended by the PSRC Order 68-HN on 7 March</p> | <p>(i) Published government decree (ii) Published government decree MOTC Order</p> <p>MOTC Order on adoption of the user feedback and grievance redress system MOTC website screenshots showing public disclosure of the system</p> <p>Updated PSRC Order on user feedback and grievance redress mechanism, and PSRC website screenshot showing</p> | | | |

| TRANCHE 1 | | | TRANCHE 2 | | |
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| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| | 2014. It was posted on their website. (May be accessed at http://psrc.am/am/?nid=87) | public disclosure of such mechanism | | | |
| Output 4: Implementation monitoring systems | | | | | |
| <p>Roads: Video inventory created for 1,500km of interstate and republic roads, and 100% of roads rehabilitated in Armenia in 2013, to be maintained by ARD and PIU, MOTC in a video library (4.1)</p> <p>To enable better informed decision-making for policy and investment purposes, annual international roughness index (IRI) monitoring process adopted (4.5)</p> | <p>(4.1) Complied with. CDs with required video samples of geo-referenced road footage and list for 1500 km of maintained and 100% (119 km) of rehabilitated roads were provided by MOTC in February and March 2014, with MOTC Chief of Staff letter 09/17/3231-14 certifying the submission.</p> <p>(4.5) Complied with. Government Decree #263-N was approved on 13 March 2014 and published in the Official Gazette N15 (1028) on 26 March 2014.</p> <p>The process was adopted by the MOTC Order 131-A on 8 April 2014, upon promulgation of Decree 263-N.</p> | <p>CD providing at least 1 minute of video footage of each road section, with each such road section identified</p> <p>Map/list of roads stretches with completed video processing</p> <p>Updated Published Government decision</p> | <p>Roads: Video inventory created of the entire road network, to be maintained by ARD and PIU, MOTC in a video library (4.1)</p> <p>To enable better informed decision-making for policy and investment purposes, (i) road asset management system, including a road video inventory, adopted as a tool for investment decisions (4.4), and (ii) annual IRI monitoring process implemented from 2015 onwards (4.5)</p> | <p>(4.1) Complied with. 7024km of video inventory provided to ADB. 451km not recorded due to security reasons, some roads do not exist and some roads are private roads.</p> <p>(4.4) Partly complied with. New RAMS equipment not procured due to insufficient vendor interest. Current RAMS improved by using new tools developed under ISSP, including the road video inventory</p> <p>(4.5) Complied with. ARD currently conducts IRI monitoring for about 1500 kms annually</p> | <p>Hard drive of 5 minutes of footage from each section provided</p> <p>Government wrote to ADB explaining delays in procurement of new RAMS equipment, but how it used new techniques developed under ISSP to better allocate road maintenance expenditure</p> <p>ADB prepared report on continued ARD implementation of IRI monitoring process.</p> |

| TRANCHE 1 | | | TRANCHE 2 | | |
|--|--|--|--|---|---|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| <p>To improve service provision and transparency, MOTC approves and implements (through corresponding updates to its website) a comprehensive public information plan (PIP) for the road sector (4.13)</p> <p>Water: To improve policy effectiveness, transparency and accountability in the water sector, SCWE approves calculation framework for calculation of water sector's financial position and financing flows (cash and non-cash) (4.2)</p> | <p>(4.13) Complied with. PIP was adopted by the MOTC Order 56-A on 18 February 2014, as amended with the Order 90-A on 13 March 2014.</p> <p>(4.2) Complied with. The framework was adopted by the SCWE Order 208-A on 28 December 2013, as amended by the SCWE Order 33-A on 11 March 2014.</p> | <p>MOTC ministerial order approving PIP, which shall indicate the information to be disclosed and frequency of disclosure; MOTC website screenshots showing disclosure of information pursuant to PIP</p> <p>SCWE Order on calculation framework</p> | <p>Budget-linked regular road sector KPI monitoring (including IRI) endorsed by government (4.8)</p> <p>To improve service provision and transparency, MOTC discloses all required information in accordance with its approved PIP (4.13)</p> <p>Water:</p> | <p>(4.8) Complied with. KPIs have been developed and incorporated into MTEF.</p> <p>IRI measurements are being conducted by ARD in about 1500 kms annually. This is in line with Government decree.</p> <p>(4.13) Complied with. MOTC has started posting information on its website.</p> | <p>Published Government decision.</p> <p>ARD completed this work for 2016.</p> <p>MOTC website screenshots showing actual disclosure of information pursuant to its PIP</p> |

| TRANCHE 1 | | | TRANCHE 2 | | |
|--|---|---|--|--|---|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| To improve oversight and management of drinking water supply assets, SCWE approves an asset management action plan (4.6) | (4.6) Complied with. The action plan was adopted by the SCWE Order 14-A on 31 January 2014. | SCWE Order approving the action plan | To improve oversight and management of drinking water supply assets, SCWE completes assets register of assets managed by state regulated operators (4.7) | (4.7) Complied with. A template for an assets registry was developed and SCWE protocol approved on 2 April 2015 for it to be populated. SCWE has requested data from the water operators and the registry is now being populated. | SCWE protocol with registry template and requirement for data from water operators approved. |
| To improve service provision and transparency, SCWE and PSRC each approves and implements (through corresponding updates to its website) a comprehensive public information plan (PIP) (4.13). PIP for SCWE shall require disclosure of, among others, the latest complete audited financial statements of the water operators (closed joint stock companies) on its website (4.12). | (4.12) Complied with. Most recent audit reports of all 5 operators for FY2012 are published on the SCWE website as of 13 March 2014. (May be accessed at http://www.scws.am/index.php?menu1=240&menu2=241 ; http://www.scws.am/index.php?menu1=240&menu2=244) (4.13) Complied with. PSRC PIP was adopted by the PSRC Order 56-HN on 20 February 2014, as amended by the PSRC Order 68-HN of 7 March 2014. | SCWE and PSRC Orders approving PIPs, which shall indicate the information to be disclosed and frequency of disclosure SCWE and PSRC website screenshots showing actual disclosure of information pursuant to PIP | Budget-linked regular water sector KPI monitoring endorsed by Government (4.8) To improve policy effectiveness, transparency and accountability in the water sector, SCWE and PSRC disclose all required information in accordance with their respective approved PIPs (4.13) | (4.8) Complied with. KPIs have been developed and government decree approved on 18 December 2014. KPIs incorporated into MTEF (4.13) Complied with. SCWE has published the latest audited financial statements (for FY 2013) on its website on February 2015. | Government decree N1515 published and inclusion in MTEF 2015-2017 confirmed. SCWE and PSRC website screenshots showing actual disclosure of information pursuant to respective PIPs. |

| TRANCHE 1 | | | TRANCHE 2 | | |
|---|--|---|--|--|---|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| <p>PIP for PSRC shall require disclosure of, among others, composition, and comparison of tariffs between various operators (4.14)</p> <p>Roads and Water: To improve qualifications of internal auditors, the govt adopts a requirement for all qualified internal auditors to pass continuous professional development (CPD) programs each year, in order to remain qualified (4.10)</p> | <p>SCWE PIP was adopted by the SCWE Order 20-A on 14 February 2014, as amended by the SCWE Order 34-A on 11 March 2014.</p> <p>(4.14) Complied with. PSRC functions and tariff policy set forth with the PSRC Order 56-HN on 20 February 2014, and as amended by the PSRC Order 68-HN on 7 March 2014. (May be accessed at http://psrc.am/am/?nid=87)</p> <p>(4.10) Complied with. Government Decree #176-N was approved on 13 February 2014 and published in the Official Gazette issue N10 (1023) on 5 March 2014.</p> | <p>Published Government decision (www.arlis.am)</p> | <p>Roads and Water: To improve standards of certification for internal auditors, the Government will pilot the inclusion of a practice-based component in the certification for the internal auditors of MOTC (4.11)</p> <p>To improve internal audit effectiveness and oversight, appoint audit committees in MOTC and SCWE and include non-executive members in their composition (4.9)</p> <p>MOTC and SCWE approve risk-based</p> | <p>(4.11) Complied with. MOF decree approved on 27 January 2015 approving inclusion of practice-based component in training for internal auditors.</p> <p>(4.9) Complied with. SCWE and MOTC internal audit committees in place and have non-executive members from a NGO.</p> | <p>- MOF ministerial order 26-N on piloting practical component for certification of internal auditors received.</p> <p>SCWE and MOTC have provided decrees which established the internal audit committees and also the decree for the external member.</p> <p>SCWE and MOTC approved risk based</p> |

| TRANCHE 1 | | | TRANCHE 2 | | |
|----------------|--------------------------|----------------------|---|---|----------------------------------|
| Policy Actions | Status of implementation | Documentary Evidence | Policy Actions | Status of implementation | Documentary Evidence |
| | | | audit annual plans for road and water sectors (4.3) | (4.3) Complied with. Risk-based audit plans developed for 2015. | audit plans and provided to ADB. |

ADB = Asian Development Bank, ARD = Armenia Road Directorate, CDTA = capacity development technical assistance, GPS = global positioning system, IRI = international roughness index (meter/kilometer), KPI = key performance indicator, MOF = Ministry of Finance, MOTC = Ministry of Transport and Communication, MTA = Ministry of Territorial Administration, RAM = road asset management, MTEF = medium-term expenditure framework, PIP = public information plan, PIU = project implementation unit, PSRC = Public Services Regulatory Commission, SCWE = State Committee on Water Economy, TA = technical assistance, TOR = terms of reference

^a The notation (1.1) and subsequent numbering of the same format refer to the policy conditions as listed in the program design and monitoring framework.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

| Reference in Loan Agreement | Covenant | Status of Compliance |
|---|--|----------------------|
| Article 4, Particular Covenants, Section 4.01 | (a) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement. | Complied with. |
| Article 4, Particular Covenants, Section 4.02 | <p>(a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.</p> <p>(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.</p> | Complied with. |
| Article 4, Particular Covenants, Section 4.03 | <p>(a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.</p> <p>(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.</p> | Complied with. |
| Schedule 4, Implementation Arrangements | 1. The MOF shall be the Program Executing Agency and shall be responsible for the overall implementation of the Program, including compliance with all policy actions, disbursements and maintaining records. The MOF, MOTC, SCWE, MTA and PSRC shall be the Implementing Agencies for their respective components under the Program. | Complied with. |

| Reference in Loan Agreement | Covenant | Status of Compliance |
|---|---|----------------------|
| | 2. The Borrower shall form a Program Steering Committee to be chaired by the Executive Director of the Foreign Financing Project Management Center in the MOF and which shall comprise working level implementing representatives from each of the Implementing Agencies. The Program Steering Committee will oversee day-to-day implementation of Program activities. | Complied with. |
| | 3. The Borrower shall ensure that MTA, SCWE and the other Implementing Agencies shall be adequately staffed and provided with the necessary financial, technical and other resources to perform their functions under the Program. | Complied with. |
| Schedule 4, Policy Actions and Dialogue | 4. The Borrower shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program. | Complied with. |
| | 5. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal. | Complied with. |
| Schedule 4, Use of Counterpart Funds | 6. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program. | Complied with. |
| Schedule 4, Governance and Anticorruption | 7. The Borrower, the Program Executing Agency and the Implementing Agencies shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation. | Complied with. |

| Reference in Loan Agreement | Covenant | Status of Compliance |
|-----------------------------------|--|----------------------|
| Schedule 4, Monitoring and Review | 8. The Borrower shall undertake periodic reviews every 3 months during the Program implementation period to evaluate the scope, implementation arrangements, progress and achievement of the objectives of the Program. In addition to the periodic reviews, a midterm review shall take place during the first quarter of 2015. The Borrower shall ensure that ADB shall have the opportunity to participate in such periodic and midterm reviews and, as a part of each such review, the Borrower shall provide a written status report to ADB on the progress and implementation of reforms included in the Program. The policy actions shall be monitored through the Program Steering Committee, which is responsible for ensuring the implementation of policy actions and following-up on progress. | Complied with. |