



## Concept Paper

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Project Number: 51060-002  
June 2017

# Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 Armenia: Public Efficiency and Financial Markets Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 09 May 2017)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.0021
\$1.00	=	AMD486.90

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBA	–	Central Bank of Armenia
GDP	–	gross domestic product
IT	–	information technology
MOF	–	Ministry of Finance
PPP	–	public–private partnership
TA	–	technical assistance

## NOTE

In this report, "\$" refers to US dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51060-002</b>	
<b>Project Name</b>	Public Efficiency and Financial Markets Program, Subprogram 1	<b>Department /Division</b>	CWRD/CWPF
<b>Country Borrower</b>	Armenia, Republic of Ministry of Finance	<b>Executing Agency</b>	Ministry of Finance and Economy
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Finance</b>	Finance sector development		37.50
	Money and capital markets		30.00
<b>Public sector management</b>	Public expenditure and fiscal management		22.50
		<b>Total</b>	<b>90.00</b>
<b>3. Strategic Agenda</b>		<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	<b>Subcomponents</b> Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>		<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD) Partnerships (PAR)	<b>Components</b> Institutional development	No gender elements (NGE)	✓
Private sector development (PSD)	Implementation International finance institutions (IFI) Private Sector Public sector goods and services essential for private sector development		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>90.00</b>	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan): Ordinary capital resources		90.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>90.00</b>	



## I. THE PROGRAM

### A. Rationale

1. The proposed public efficiency and financial markets program aims to strengthen fiscal sustainability and deepen financial markets in Armenia. The program will have three outputs. Output 1 will strengthen the public debt and fiscal risk management, support fiscal consolidation, and add transparency to debt operations. Output 2 will deepen the government securities market and improve the financial market infrastructure. Output 3 will enhance investor base and corporate transparency laying the foundations of corporate market development. The benefits extend to improve (i) debt management capability of the Ministry of Finance (MOF) and investor confidence in MOF's debt program, (ii) fiscal risk assessment and monitoring capacity of the MOF, (iii) money market liquidity and financial market transparency, and (iii) the base of investors and mobilization of private investment as a basis for capital market development. The programmatic approach and policy-based loan will support two subprograms for implementation during 2017–2018. A transaction technical assistance (TA) will facilitate program preparation and implementation.<sup>1</sup>

2. The economic contraction in the Russian Federation continued to be a drag on Armenia's economic performance in 2016, through financial, trade, and remittance channels. Economic growth slowed substantially to 0.2% in 2016 from 3.0% in 2015. These pressures led to an increase in the fiscal deficit to 5.4% of gross domestic product (GDP) in 2016 from 4.8% in 2015 and to further substantial 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 source of risk exposure of public debt to exchange rate movements. To reduce such debt vulnerabilities and contain fiscal risks, the state budget envisages a substantial reduction in the budget deficit to 2.8% of GDP in 2017, mainly through cuts in capital spending and by containing the wage bill and public pensions. Armenia, however, faces the challenge of being fiscally responsible amid slowing economic growth and a limited scope of further spending cuts. With the regional slowdown and total public debt surpassing 50.0% of GDP, the next round of fiscal consolidation will have to be based on domestic revenue mobilization and public spending efficiency.<sup>2</sup>

3. The current economic environment is also creating pressure on the country's financial system. Currency depreciation expectations are factored in the pricing of financial contracts and increase perception of solvency risks. The slowing of economic growth is heightening credit risk. Increasing foreign inflows, exchange rate developments, and underdeveloped capital markets played an important role in increasing dollarization in the aftermath of the global financial crisis. Since financial markets in local currency are not developed, the financial sector is characterized by high dollarization and limited mobilization of long-term dram financing for investment by the private and public sectors. Financial dollarization of banks' assets and liabilities exposes banks to foreign exchange and refinancing risks.<sup>3</sup> With the limited use of the dram, both fiscal and monetary policies have little maneuvering space to tackle external macroeconomic shocks and to ensure financial stability. Consequently, the role of exchange rate in macroeconomic and financial

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<sup>1</sup> The program was initially called Financial Sector Strengthening Program, Subprogram 1 and is included in: Asian Development Bank (ADB). 2016. *Country Operations Business Plan: Armenia, 2017–2019*. Manila; and ADB. 2014. *Country Partnership Strategy: Armenia, 2014–2018*. Manila. The change in name reflects an enlargement in the scope and breadth of the conducive reforms that the government is committed to take on, but the emphasis on financial markets development remains. The transaction technical assistance (TA) is in Appendix 3.

<sup>2</sup> When the debt-to-GDP ratio is above 50.0%, the law stipulates a fiscal rule must be enforced that requires the budget deficit to be reduced as per a specific formula. For 2017, the fiscal rule requires the budget deficit to be reduced by approximately 3.0% of GDP.

<sup>3</sup> Financial dollarization remains above 60% of deposits and credits—one of the highest levels in the region.

stability remains a core concern during external shocks. The deepening of financial intermediation in the dram thus assumes paramount importance.

4. **Public debt and fiscal sustainability.** As Armenia moves to middle-income country status, it can no longer easily access concessional financing and will have to increasingly rely on mobilizing debt from capital markets, especially from its domestic securities market. A transition from external, predominantly concessional, sources of finance to local currency-denominated government securities is required over the medium term. A prudent debt-management policy is thus needed to ensure that the government's financing needs are met at a minimum cost and at a manageable foreign-exchange risk exposure. Implicitly, this will ensure that new debt issuance also reflects an objective to adjust the risks and costs of the existing debt portfolio over time. The government is increasingly developing public-private partnerships (PPPs) to attract private expertise for the provision of public services and infrastructure. This may, depending on contractual arrangements and the regulatory regime, introduce contingent liabilities with fiscal significance, but for which there is no vetting mechanism or methodology to assess and manage risks. Depending on how PPP contracts are structured, they can have direct liabilities (e.g., fixed payments), contingent liabilities (e.g., payments if a risk occurs), and implicit service delivery risks to the government. The lack of a framework for fiscal risk in Armenia means the contingent liabilities of existing and future PPP contracts are not known and hence not well managed by the government. As the PPP development process is fragmented across ministries, this exposes them to the risk of entering into new contracts without an accurate assessment of affordability or fiscal risk.

5. **Government securities and local currency financial markets.** The government securities market is still at a nascent stage. Its development is essential in supporting the government's objective of generating additional investment opportunities in the economy. A shift to domestic securities market not only provides government financing but will also reduce exposure to exchange-rate risks and support the development of Armenia's bond and equity markets. Generally, stimulating financial markets requires a predictable and stable government debt-issuance program that meets the government's financing needs while keeping currency, interest, and refinancing risks at manageable levels. Specifically, structuring public debt issuance is crucial in (i) the development of a government securities market that can become more liquid over time and thereby provide investment opportunities to financial institutions, pension and other investment funds, and retail investors; and (ii) the establishment of reliable pricing benchmarks for private debt and equity markets to take off.

6. Armenia's money markets are underdeveloped and unable to provide the necessary liquidity to support the development of secondary markets. Secured interbank trading is shallow, while the unsecured trading is minimal, as perception of counterparty risks in the banking sector remains high. Promoting less credit-intensive products such as repurchase agreements (repos) will mitigate the credit risk and is a crucial step forward for money-markets development. The development of the repo market is hindered by the short supply of marketable securities to use as collateral in transactions. The few ongoing interbank repo transactions are based on non-standardized contractual terms, which are not comparable to each other, and hence involve high transaction costs. The absence of settlement finality and netting, and of standard repo documentation also reduces the "secured" nature of these interbank contracts. The development of liquid money markets is crucial for capital markets development, and requires establishing the legal and regulatory framework for secured interbank trading, and addressing information technology and institutional gaps in the system.

7. **Investor base and corporate financial transparency.** Several factors contribute to investors' reluctance to participate in the Armenian financial market. There are only a few institutional investors, such as pension funds, and insurance companies investing in the domestic capital market. As a result, savings are not effectively channeled from the public to the capital market through institutional investors. There is a lack of domestic retail investors who can trade in small quantities of shares. This is because of a dearth of retail access outside Yerevan and the absence of internet-trading facilities that lower the transaction costs for small-volume trading. Foreigners are reluctant to invest in a market where transparency and liquidity are low. Because of the shadow economy and historically low corporate transparency, there is a general mistrust in companies' reliability. The absence of effective investor protection undermines retail investments. Weak corporate governance and the lack of complete and reliable financial information on domestic companies dissuade investors from participating in private financial markets. To broaden the investor base, new types of securities, private equity opportunities, and infrastructure investors must be tapped.

8. Armenia's long-term development vision, as articulated in the Armenia Development Strategy 2025, prioritizes modernizing public administration and governance, and developing money and capital markets.<sup>4</sup> The strategic directions developed by the Central Bank of Armenia (CBA) postulate efforts to develop money and capital markets and to introduce international practices to promote diversification and growth.<sup>5</sup> CBA and MOF are initiating several reforms covering legal, regulatory, and institutional development in what constitutes a wide reform program. International donors have been providing TA for different aspects of this reform agenda. Specifically, the European Union for debt management; and the European Bank for Reconstruction and Development, World Bank, and International Monetary Fund for capital market development. But gaps remain and coordination is challenging. The programmatic approach proposed by the Asian Development Bank (ADB) can both complement and leverage other international donors' TA initiatives. It can constitute a multiyear integrated framework to coordinate and maintain momentum in implementing challenging reforms. The government-devised institutional arrangements (para. 17) are optimal to ensure commitment and full complementarity of proposed financial market reform solutions and assistance.

## **B. Impacts, Outcome, and Outputs**

9. The program impact will be increased fiscal sustainability and resilience in the financial sector of Armenia by 2020. The outcome will be increased depth of financial markets in Armenia. The outputs will be (i) public debt and fiscal risk management strengthened, (ii) government securities market and money-market infrastructure deepened, and (iii) base of instruments and investors broadened.

## **C. Investment and Financing Plans**

10. To support the financial markets development, the government has requested a policy-based loan for 2017–2018 of \$90 million equivalent, which will be disbursed in two subprograms with chronologically sequenced reforms. The loan size is justified based on the development financing needs, particularly the budget deficit and the limited alternative financing available to the government for the reforms. The subprogram amounts will be discussed and firmed up during the fact-finding mission.

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<sup>4</sup> Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan.

<sup>5</sup> CBA. 2014. *Strategy of the Central Bank of Armenia 2015-2017*. Yerevan.

#### D. Indicative Implementation Arrangements

11. MOF will be the executing agency. CBA and MOF will be the implementing agencies. MOF has been the executing agency in prior program loans.<sup>6</sup>

### II. DUE DILIGENCE REQUIRED

12. Due diligence in several areas will be carried out during program preparation:
- (i) **Economic and financial.** An assessment of the program's economic and financial viability and sustainability will be done, as well as an evaluation of the financial and economic benefits of the proposed policy reforms. The economic analysis will also provide a justification of the loan size based on the government's development financing needs, the macroeconomic context, and any incremental costs.
  - (ii) **Governance.** Public financial management, procurement, anticorruption, and capacity issues and mechanisms will be agreed with the government as part of the program design.
  - (iii) **Poverty and social.** No poverty, social, or gender issues requiring specific attention have been identified. The program impact will indirectly benefit the poor, with no gender impacts.
  - (iv) **Safeguards.** The program will have no impact on the environment or on indigenous peoples, and will not entail any involuntary resettlement.

### III. PROCESSING PLAN

#### A. Risk Categorization

13. The proposed program is categorized as complex since the aggregate loan amount is over the \$50 million threshold.

#### B. Resource Requirements

14. The project team comprises ADB sector staff with expertise in the public sector, financial sector, and capital market. Staff will dedicate an estimated total of 8 person-months to process the program. A staff consultant for 2 person-months will be required to assess the reforms' economic and financial viability. A transaction TA is required to support the ongoing policy dialog and assist in the preparation and implementation of subprograms.

#### C. Processing Schedule

15. The indicative processing schedule is in Table 1.

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<sup>6</sup> Key lessons from previous program implementation have highlighted the importance of continuous and long-term engagement with implementing agencies, as well as the key role that capacity development efforts play in enhancing trust in the policy dialogue process.

**Table 1: Proposed Processing Schedule (2017)**

<b>Milestones</b>	<b>Expected Completion Date</b>
Consultation mission	May
Concept paper and TA approval	June
Fact-finding mission	June
Management review meeting	August
Loan negotiations	September
Board consideration	October
Loan signing	November

TA = technical assistance.

Source: Asian Development Bank staff.

#### **IV. KEY ISSUES**

16. Several issues can affect processing and implementation efforts:
- (i) Armenia is moving from a semi-presidential system to a parliamentary republic through amendments to its Constitution. Revisions to the electoral law were made operational in the 2 April 2017 parliamentary elections, and the President will be elected by Parliament rather than by popular vote in 2018. Ongoing policy dialog must be reconfirmed with the new government, making the processing timeline for a 2017 approval challenging. This can be mitigated by providing adequate staff and consulting resources for the intensive preparatory work.
  - (ii) A steering committee on capital markets development—housed in the CBA and comprising development partners and government officials—provides strategic direction to these reform efforts. It is important for ADB to keep participating in its deliberations to ensure coordination with all stakeholders. This requires a continuous effort by the ADB team to remain in close contact with agencies and development partners during the preparation phase.

## INDICATIVE DESIGN AND MONITORING FRAMEWORK

<b>Impact the Program is Aligned with:</b> Fiscal sustainability and resilience in the financial sector increased (measured by the Financial Sector Development Index) by 2020 <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines<sup>b</sup></b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> Depth of financial markets increased	By 2020 1. Percentage of domestic securities in total public debt outstanding increased to x% (2016 baseline: TBD)  2. Turnover volume in [TBD] government securities markets increased by [x%] (2016 baseline: turnover volume: TBD)	Central Bank of Armenia; Ministry of Finance	External shocks trigger financial instability and new dollarization sprees
<b>Outputs</b> 1. Public debt and fiscal risk management strengthened	1a. Public debt management department strengthened by MOF issuing procedures for (i) issuing Eurobonds, (ii) contracting external loans, and (iii) enacting payments for domestic and external debt by December 2018 (baseline: none)  1b. Framework approved by MOF to (i) identify, vet, and prepare PPPs (based on risk profiling, fiscal affordability, and financial viability); (ii) regulate unsolicited proposals and procurement with sole bidders; and (iii) monitor PPP performance approved and operational guidelines developed by December 2018 (baseline: none)	1a–b. MOF decrees	Fiscal instability and foreign-currency debt servicing affect efforts to stabilize the domestic debt issuance program
2. Government securities market and money-market infrastructure deepened	2a. Number of government securities auctions per year increased by public debt management department by December 2017 (baseline: 8 auctions per year)  2b. Legal amendments for secured interbank lending based on standardized repos approved by Parliament by December 2017 (baseline: none)	2a. MOF decree  2b. Revised law on government website	Insufficient market demand for increased government securities auctions
3. Base of instruments and investors broadened	3a. Law for Residential Mortgage Lending and amendments to the Covered Bonds Law forwarded to the government for its consideration by December 2017 (baseline: none)  3b. Legal amendments to introduce mandatory requirement for large firms to be externally audited submitted to Parliament by December 2018	3a. CBA decree  3b. Government decree	New government and Parliament does not prioritize these reforms

<b>Inputs</b> ADB: \$90 million loan (Ordinary Capital Resources)
<b>Assumptions for Partner Financing</b> Not Applicable

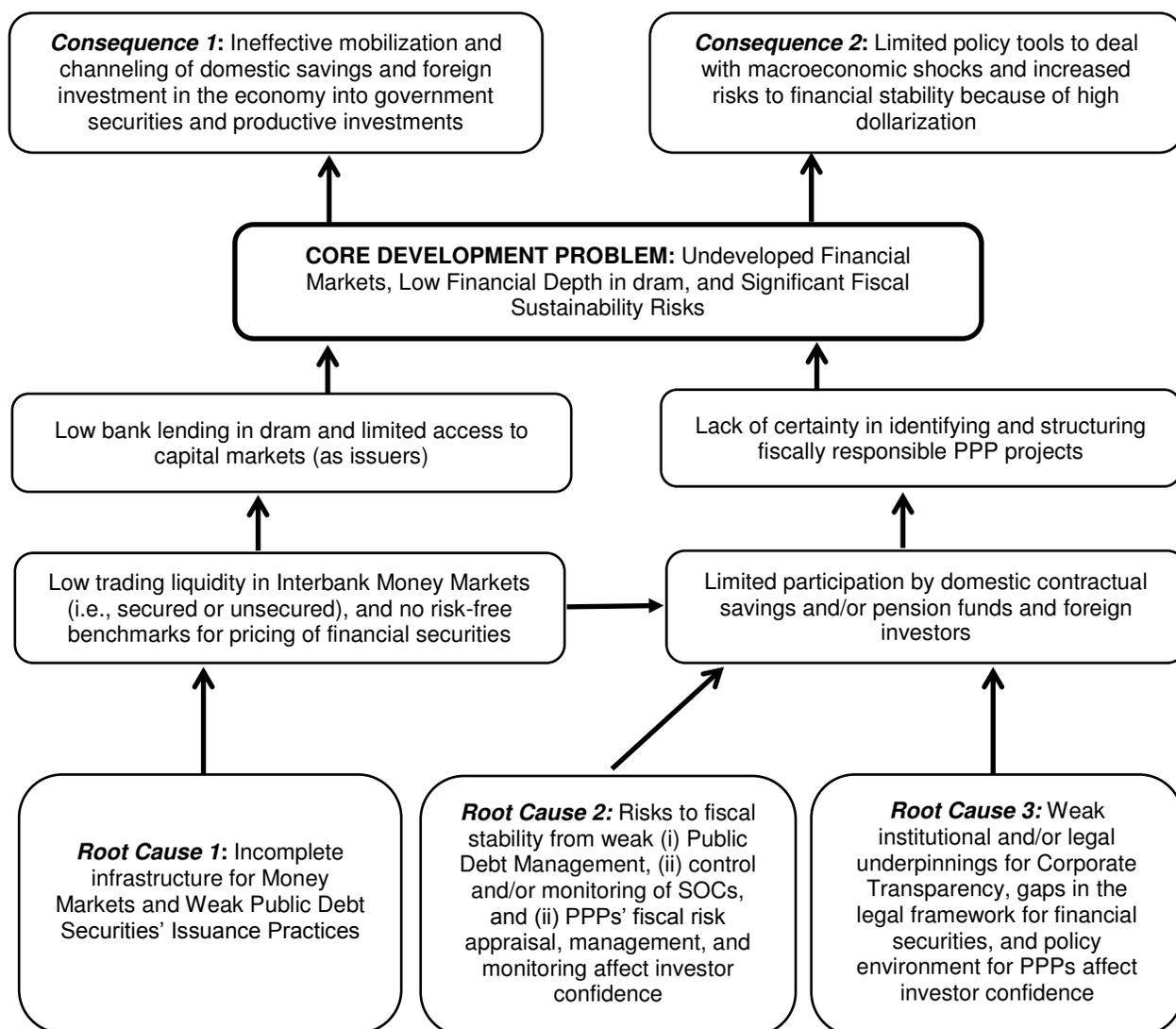
ADB = Asian Development Bank, CBA = Central Bank of Armenia, MOF = Ministry of Finance, PPP = public–private partnership.

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

<sup>b</sup> Targets and baseline information will be confirmed during the project preparation stage.

Source: Asian Development Bank.

### PROBLEM TREE



PPP = public-private partnership, SOC = state-owned corporations.  
 Source: Asian Development Bank

## TRANSACTION TECHNICAL ASSISTANCE

### A. Justification

1. To prepare the Public Efficiency and Financial Markets Program, a transaction technical assistance (TA) is required. Through this TA, the Asian Development Bank (ADB) will flexibly provide strategic policy advice to the Government of Armenia in preparing the program and meeting the conditions to process the loan. As the policy conditions for the loan must be in place at the time of approval, this TA will provide the government the needed assistance to meet the conditions in time.

### B. Major Outputs and Activities

2. **Assessing the financial sector, including capital markets, in Armenia to determine the gaps and binding constraints to develop the sector.** The TA will work to build capacity in the Ministry of Finance (MOF) on debt issuance and public-private partnerships (PPPs). Empirical analysis shows that countries' economic development and financial depth are highly correlated. The most robust path to financial development requires building on fundamental layers of the financial system. Even though each country tends to pursue unique paths, these tend to be similar with a well-known sequencing pattern. Prerequisites for domestic capital markets development are robust benchmarks provided by the money market and government securities. Interest rates in the money market provide a benchmark for short-term maturities. A robust yield curve for government securities sets the risk-free rate in the economy for longer maturities, which serves as a benchmark for pricing private debt. MOF's public debt management department is missing tools to safeguard its operations, better integrate the government's debt-issuance program with the financial sector development, and improve its operations. With the Central Bank of Armenia (CBA), the TA will focus on improving the infrastructure for the money market, specifically for interbank lending and developing the information technology (IT) infrastructure for these transactions. Work on debt management will improve the legal and regulatory framework, improve the operations framework to better assess risks from different forms of borrowing, introduce new risk-based policies (i.e., business continuity and disaster risk recovery plans), and improve the predictability and issuances of tenors in government securities to develop a risk-free yield curve.

3. **The government has signaled its intention to mobilize more private finance to help build critical infrastructure.** However, it needs to build its capacity in "upstream" work to better identify and prepare a PPP pipeline, including understanding and managing the fiscal risks from potential PPPs. As a first step, a framework will be developed to help MOF identify, assess, value, and monitor PPP-related fiscal risks.

4. **Developing a program and policy actions for the Public Efficiency and Financial Markets Program based on international best practice.** Alongside the analysis work, the ADB team and TA consultants will recommend some actions based on international best practice that align with the development priorities of the government, CBA, and MOF and that support activities of other development partners. From the assessment work and recommended reform actions, a draft policy matrix will be developed with policy actions to help Armenia achieve greater financial deepening. Once the matrix is developed, the ADB team and TA consultants will undertake preliminary discussions with the government on the program design. The reform program will include a draft policy matrix and an indication of the resources required by the government to meet the policy actions, and how ADB can support program implementation.

5. **Supporting the government in implementing the Public Efficiency and Financial Markets Program policy actions.** The government will be responsible to meet the policy actions. However, some of these will require technical skills and expertise, which may not be readily available within the government agencies. Further, international experience and alternative perspectives can help the government agencies find optimal solutions and overcome any issues that inhibit progress. Finally, implementing the policy conditions builds capacity within these government agencies, and this support can help entrench the reforms.

6. The major activities are summarized in Table A3.1.

**Table A3.1: Summary of Major Activities**

<b>Major Activities</b>	<b>Expected Completion Date</b>
Assess the financial sector to get an understanding of the level of development in the money market and its interactions with the government's debt-issuance program.	July 2017
Review international best practice in financial sector and capital market development to understand the gaps and binding constraints in the Armenian context.	July 2017
Work with MOF to improve its PPP capacity and improve operations in debt management.	July 2017
Suggest strengthening of the draft policy matrix on the basis of discussions with the government.	August 2017
Work with government agencies to support implementing the policy actions necessary for subprogram 1.	August 2017–Dec 2017
Build institutional and individual capacity in government agencies to ensure that policy actions will continue after the program has finished.	August 2017–Dec 2017
Work with the government agencies to support implementing the policy actions necessary for subprogram 2.	Dec 2017–Aug 2018
Report to ADB on progress of each of the major activities listed.	Jun 2017–Dec 2018

ADB = Asian Development Bank, MOF = Ministry of Finance, PPP = public-private partnership.  
Source: Asian Development Bank.

### C. Cost Estimate and Proposed Financing Arrangement

7. The TA is estimated to cost \$550,000 equivalent, of which \$500,000 equivalent will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-Others). The government will provide counterpart support in the form of counterpart staff, domestic transportation, provision of office space, communication facilities for consultants, and other in-kind contributions. The detailed cost estimate is presented in Table A3.2.

**Table A3.2: Cost Estimates and Financing Plan**  
(\$'000)

<b>Item</b>	<b>Total Cost</b>
<b>Asian Development Bank<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (15 person-months)	300.0
ii. National consultants (18 person-months)	130.0
b. International and local travel	40.0
c. Reports and communications	5.0

Item	Total Cost
2. Workshops, training, seminars, and conferences	3.5
3. Survey <sup>b</sup>	3.5
4. Contingencies	18.0
<b>Total</b>	<b>500.0</b>

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-Others).

<sup>b</sup> Company survey for tax gap analysis.

Source: Asian Development Bank estimates.

## D. Consulting Services

8. A team of eight specialists, plus some specific specialists (para. 13) who can be called upon for discrete technical tasks, are required to meet the program's outputs and activities. Individual consultants will include at least five international experts (for a total of 15 person-months) and three national experts (for a total of 18 person-months). ADB will engage the services of international and national consultants on an individual basis, as the required consultants' skills mix and qualifications are diverse and difficult to source from one consulting firm. Consultants will be considered for engagement on output-based (lump-sum) contracts following the Midterm Review Action Plan. All consultants will be required to assess the gaps in and binding constraints to the financial sector development within their area of expertise, assess the arrangements in their particular area, and compare these with international best practice to help strengthen the policy matrix for consultations with the government. After the policy matrix has been agreed, the consultants will support the government in implementing the program.

9. **Public debt management expert** (international, 4 person-months, intermittent). The specialist will work closely with MOF's public debt management department to achieve the policy outputs. The expert will support the public debt management department in improving its operations, with a focus on developing analytical capacities for the back and middle offices, documenting procedures for debt management activities, and recommending legislative and regulatory changes to improve debt management operations. A critical element of the expert's inputs will be ensuring reforms in debt management practices streamline issuance of securities by identifying impediments and support money market development. This will require the expert to work closely with other departments in MOF (treasury and the state revenue committee), CBA officials, and other ADB specialists supporting money market reforms. The expert will have a postgraduate degree in economics, public policy, or a related field, and at least 10 years of relevant sector experience.

10. **Fiscal risks expert** (international, 2 person-months, intermittent). The specialist will work with MOF's fiscal risk assessment division to review its fiscal risks framework, and make recommendations to improve and expand it as necessary. Focus of the support will be on expanding fiscal risk disclosure to non-financial corporations, and ensuring that methodologies and manuals are revised accordingly. Training will need to be provided on any changes made. The expert will also need to work with other divisions in MOF responsible for PPPs, as well as the PPP Policy and Institutional expert, to ensure any reforms are aligned with work being undertaken to improve the "upstream" work for PPPs. The specialist will have a postgraduate degree in economics, public policy, or a related field, and at least 10 years' relevant experience.

11. **Accounting and auditing expert** (international, 2 person-months, intermittent). The specialist will work closely with MOF and the national accounting and auditing development expert to help the government achieve policy outputs under discussion. Close engagement with the accounting and auditing professions will be crucial, and support for MOF's discussions with the

Association of Accountants and Auditors of Armenia is a fundamental task of the assignment. The consultancy will produce concrete proposals for the forthcoming Chamber of Accountants and Auditors of Armenia's governance structure, quality assurance and penalty framework, and necessary internal regulations. The expert will be CPA certified and have an extensive financial, auditing, and accounting background, with relevant international experience in supporting the development of self-governing professional bodies.

12. **Accounting and auditing expert** (national, 6 person-months, intermittent). The specialist will support the accounting and auditing expert (international) in meeting his or her outputs, with a focus on ensuring that pertinent information on the Armenian context is fully incorporated. The expert will assist with meeting policy output objectives and veracity of translated documents. The specialist will have an accounting and auditing degree, and at least 6 years' relevant experience. Public accounting certification is desirable.

13. **Money Market Development Advisors** (international, 2 person-months, intermittent). A flexible number of specialists with international experience in designing, implementing, and analyzing operational frameworks for systemic liquidity management (and interest rate targeting in money markets) will be required for this assignment. These specialists will help the CBA improve the set of instruments and liquidity forecasting frameworks at its disposal. The specialists will also produce concrete proposals for systematizing and institutionalizing CBA's communication practices about its money-market activity, especially in terms of process, frequency, and the scope of information. The expert will have a postgraduate degree in economics or finance and professional experience (at least 10 years) in money-market operations in the context of monetary policy implementation.

14. **Capital markets specialist** (international, 2 person-months, intermittent). The expert will assess issues in several elements of money and capital markets infrastructure (mapping the different IT platforms and qualifying the effectiveness of interconnections) and submit concrete IT-enhancement proposals. The expert will also review capital markets listing and issuance processes and regulations, and legislation related to capital and money markets, as well as prepare proposals for improvement. The expert will have a post-graduate degree in economics or finance and experience improving capital market infrastructure in developing countries.

15. **Capital Market Legal specialist** (national, 6 person-months, intermittent). The national expert is to work in close connection to the international capital markets specialist in reviewing capital markets listing and issuance processes and regulations, legislation related to capital and money markets, and prepare proposals for improvement. The expert will have a post-graduate degree in economics or finance, and experience in working in the finance sector in Armenia.

16. **Public–Private Partnership Policy and Institutional Specialist** (international, 3 person-months, intermittent). The expert will prepare an in-depth assessment of national investment planning processes and submit proposals on how to integrate these with improved PPP identification and pipeline development processes. The processes are fragmented, and the expert is required to offer solutions to centralize decisions in PPP project identification, vetting, and approval at both the PPP Unit (in the Department of Investment Policy) and the Fiscal Risk Assessment Division (in connection with the Department for Management of Obligations to State Budget in the Treasury). The expert will also propose concept notes to address the lack of methodologies for (i) value-for-money tests and the development of public sector comparator data; (ii) vetting of PPPs from a fiscal commitments perspective; (iii) up-stream risk identification, allocation, and assessment (e.g., so-called risk matrix templates for the PPP project concept stage); and (iv) financial viability and bankability assessment. The expert will have a post-

graduate degree in economics, finance, or similar discipline. Broad international experience in working with governments on PPPs is required.

17. **Financial sector development expert** (national, 6 person-months, intermittent). The specialist will support the money market development advisors in their deliverables, with a focus on ensuring that pertinent information on the Armenian context is incorporated where necessary. The expert will assist with meeting policy output objectives and veracity of translated documents. The specialist will have a postgraduate degree in economics, public policy, or a related field and at least 6 years of relevant experience.

**Table A3.3: Summary of Consulting Services Requirement**

<b>Positions</b>	<b>Person-Months Required</b>
<b>International</b>	<b>15</b>
Debt management expert	4
Fiscal risks expert	2
Accounting and auditing expert	2
Money Market Development Advisors	2
Capital markets expert	2
PPP Policy and Institutional Specialist	3
<b>National</b>	<b>18</b>
Accounting and auditing expert	6
Capital market legal specialist	6
Financial sector development expert	6

PPP = public-private partnership.

Source: Asian Development Bank.

## **E. Implementation Arrangements**

18. The TA is expected to be implemented from June 2017 to December 2018. The MOF will be the executing agency. MOF and the CBA will be the implementing agencies. All consultants will be engaged following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). All disbursements under the TA will be made following ADB's *Technical Assistance Handbook* (2010, as amended from time to time).

## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 51060-001	
<b>Project Name</b>	Support to Public Efficiency and Financial Markets Program	<b>Department /Division</b>	CWRD/CWPF
<b>Nature of Activity</b>	Project Preparation	<b>Executing Agency</b>	Ministry of Finance (MOF)
<b>Modality</b>	Regular		
<b>Country</b>	Armenia, Republic of		
2. Sector		ADB Financing (\$ million)	
✓ Finance	Finance sector development		0.21
	Money and capital markets		0.17
Public sector management	Public expenditure and fiscal management		0.13
		<b>Total</b>	<b>0.51</b>
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE)	✓
Partnerships (PAR)	Implementation International finance institutions (IFI)		
Private sector development (PSD)	Private Sector Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
<b>6. Risk Categorization</b>	Complex		
<b>7. Safeguard Categorization</b>	Safeguard Policy Statement does not apply		
8. Financing			
Modality and Sources		Amount (\$ million)	
<b>ADB</b>			<b>0.50</b>
	Transaction technical assistance: Technical Assistance Special Fund		0.50
<b>Cofinancing</b>			<b>0.00</b>
	None		0.00
<b>Counterpart</b>			<b>0.00</b>
	None		0.00
<b>Total</b>			<b>0.50</b>

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Armenia	Project Title:	Public Efficiency and Financial Markets Program
Lending/Financing Modality:	Policy-Based Loan	Department/Division:	Central and West Asia Department Public Management, Financial Sector, and Trade Division

<b>I. POVERTY IMPACT AND SOCIAL DIMENSIONS</b>
<p><b>A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy</b></p> <p>Armenia experienced a long period of economic growth preceding the 2008–2009 global financial crisis that supported significant poverty reduction. However, the financial crisis and subsequent economic slowdown have negated the gains in improving the lives of the poor. The latest household income and expenditure survey (2015) showed that poverty had decreased marginally from 30.0% in 2014 to 29.8% in 2015 and was still higher than in 2008 (27.6%). The share of the extremely poor was 2.0% in 2015 as compared to 1.6% in 2008.</p> <p>The overarching goal of the Government of Armenia’s long-term strategy—ADS—is to improve the welfare of society.<sup>a</sup> The ADS identifies four priorities for 2014–2025: (i) employment growth, (ii) human capital development, (iii) improvement of the social protection system, and (iv) institutional modernization of public administration and governance.</p> <p>Achieving strong, inclusive economic growth is a core government objective. This requires an ambitious reform agenda to foster private investment, expand the private sector, and increase the public sector’s efficiency and transparency. Developing deep and liquid government debt markets improves budget management and helps finance overall economic development, growth, and poverty reduction. Capital market development will help finance real sector needs and develop a more balanced and stable financial sector, which benefits the poor (as the poor tend to be more adversely affected by financial instability and volatility).<sup>b</sup> It will also contribute to greater social inclusion by expanding the range of investment opportunities for local institutional investors (e.g., pension funds and insurance companies).</p> <p>The proposed program is aligned with the ADS and builds on ADB’s Midterm Review of Strategy 2020.<sup>c</sup> Though financial sector development was not identified as a main strategic priority in ADB’s CPS for Armenia, 2014–2018,<sup>d</sup> it was reflected as an emerging government need in the COBP, 2017–2019.<sup>e</sup></p>
<p><b>B. Poverty Targeting</b></p> <p><input checked="" type="checkbox"/> General Intervention <input type="checkbox"/> Individual or Household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-Income MDGs (TI-M1, M2, etc.)</p> <p>The proposed policy-based program has a broad and nationwide impact on inclusive growth through strengthened public debt management, enhanced access to financial products and services, and improved efficiency in government systems. The proposed program has an indirect impact on poverty.</p>
<p><b>C. Poverty and Social Analysis</b></p> <p>1. Key issues and potential beneficiaries. The potential beneficiaries are (i) the public, who will benefit from greater transparency and improved efficiency in government systems for procurement, audits, and public resource usage that will free public resources to finance public investment; (ii) the Ministry of Finance, through strengthened public debt and financial risk management; (iii) the Central Bank of Armenia, through enhanced money and market tools; (iv) market participants (i.e., public and private corporations, financial institutions, and individuals) through more transparent financial information, higher accounting and auditing quality standards, and additional alternatives to finance their investment needs. The poor and the socially excluded will benefit from the program indirectly, through improved financial sector stability, higher economic growth, and increased employment opportunities.</p> <p>2. Impact channels and expected systemic changes. These would include (i) greater financial sector stability, (ii) improved public budget management; (iii) increased quality and transparency of financial reporting, and (iv) diversified range of funding sources and investment opportunities.</p> <p>3. Focus of (and resources allocated in) the TRTA or due diligence. No poverty, social, or gender issues requiring specific attention have been identified.</p> <p>4. Specific analysis for policy-based lending. The program will benefit all citizens, including the poor, through several channels that will contribute to economic growth and job creation. These include (i) developing deep and liquid government debt markets that will improve public debt management and indirectly help free resources to finance investments in infrastructure investments; (ii) making the financial sector more resilient to financial shocks (making the real sector less dependent on banking sector finance, which tends to be more procyclical), and (iii) providing more varied investment opportunities for local institutional investors, such as pension funds and insurance</p>

companies, and helping safeguard the assets of the elderly and vulnerable groups. The intervention will have a broad, nationwide direct impact on inclusive growth; however, it has an indirect impact on poverty reduction.
<b>II. GENDER AND DEVELOPMENT</b>
1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Not applicable.
2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain.
3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain
4. Indicate the intended gender mainstreaming category: <input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input checked="" type="checkbox"/> NGE (no gender elements)
<b>III. PARTICIPATION AND EMPOWERMENT</b>
1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. Identified stakeholders include (i) government agencies (Ministry of Finance and Central Bank of Armenia); (ii) Nasdaq OMX Armenia and other financial institutions, including banks and non-banks; (iii) the Association of Accountants and Auditors of Armenia; (iv) public and private corporations; and (v) other international development organizations providing assistance in public financial management and financial sector development. The program, including the proposed timetable for implementing the policy actions, is being designed in close consultation with all primary stakeholders.
2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? The proposed policy conditions will (i) improve transparency in public management and public procurement; (ii) help protect the interests of investors and increase transparency of financial reporting (through establishing a Public Oversight Board to ensure quality of the accounting and auditing professions, and a public registry of financial statements); and (iii) protect financial consumers (through reforms to the residential mortgage lending regulation).
3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? L <input checked="" type="checkbox"/> Information generation and sharing L <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership
4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>IV. SOCIAL SAFEGUARDS</b>
<b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. What action plan is required to address involuntary resettlement as part of the TRTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
<b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4. What action plan is required to address risks to indigenous peoples as part of the TRTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input checked="" type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None

<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design? Not applicable.</p> <p><input type="checkbox"/> Creating decent jobs and employment    <input type="checkbox"/> Adhering to core labor standards    <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS    <input type="checkbox"/> Increase in human trafficking    <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration    <input type="checkbox"/> Increase in vulnerability to natural disasters    <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts    <input type="checkbox"/> Others, please specify _____</p>
<p>2. How are these additional social issues and risks going to be addressed in the project design? Not applicable.</p>
<b>VI. TRTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>1. Do the terms of reference for the TRTA (or other due diligence) contain key information needed to be gathered during TRTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes        <input checked="" type="checkbox"/> No        No poverty, social, or gender issues requiring specific attention have been identified.</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the TRTA or due diligence? Not applicable.</p>

ADB = Asian Development Bank, ADS = Armenia Development Strategy, COBP = Country Operations Business Plan, CPS = Country Partnership Strategy, TRTA = transaction technical assistance.

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

<sup>b</sup> S. Jeanneney and K.Kpodar. 2008. International Monetary Fund Working Paper: *Financial Development and Poverty Reduction: Can There Be a Benefit Without a Cost?* Washington, DC.

<sup>c</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>d</sup> ADB. 2015. *Country Partnership Strategy: Armenia, 2014–2018*. Manila.

<sup>e</sup> ADB. 2016. *Country Operations Business Plan: Armenia, 2017–2019*. Manila.

Source: Asian Development Bank.