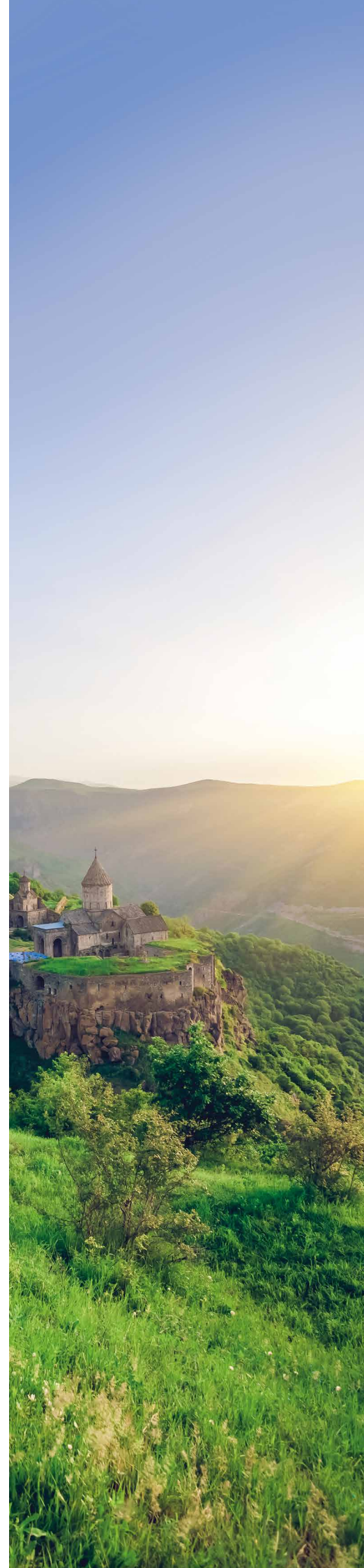




Eurasian
Development
Bank

**Eurasian
Development Bank**
Country strategy
for the Republic
of Armenia
2022–2026



Acronyms and abbreviations

ADB	– Asian Development Bank
AFD	– Agence française de développement
Bank, EDB	– Eurasian Development Bank
BSTDB	– Black Sea Trade and Development Bank
CIP	– current investment portfolio
Development Strategy	– Armenia Development Strategy for 2014–2025
EAEU, Union	– Eurasian Economic Union
EBRD	– European Bank for Reconstruction and Development
EDB	– Eurasian Development Bank
EEC	– Eurasian Economic Commission
EFSD	– Eurasian Fund for Stabilization and Development
EIB	– European Investment Bank
EU	– Eurasian Union
GDP	– gross domestic product
HPP	– hydropower plant
IBRD	– International Bank for Reconstruction and Development
ICT	– information and communication technology
IDA	– International Development Association
IEA	– International Energy Agency
IFC	– International Finance Corporation
IMF	– International Monetary Fund
KfW	– Kreditanstalt für Wiederaufbau
KIMP	– key investment mega-project
MDB	– multilateral development bank
NPP	– nuclear power plant
PPP	– purchasing power parity; public-private partnership
RES	– renewable energy sources
SDG	– Sustainable Development Goals
SME	– small and medium-sized enterprises
SPP	– solar power plant
TAF	– EDB Technical Assistance Fund
UNDP	– United Nations Development Programme
UNIDO	– United Nations Industrial Development Organisation
WB	– World Bank
WEF	– World Economic Forum

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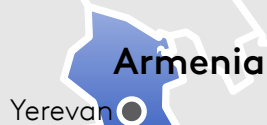
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Executive summary

1. Armenia's economy is expected to recover quickly after the decline caused by the COVID-19 pandemic.

In the strategy period to 2026, economic and investment growth rates in Armenia are projected to reach pre-crisis levels seen in 2015 to 2019. Recovery in industrial production will be driven by the strengthening of external food and extractive markets. Armenia is building a platform for sustained economic growth in the medium term with tourism and digital technology acting as major catalysts for growth through increased productivity.

2. The EDB's strategy for Armenia involves the Bank taking a leading MDB role in boosting non-sovereign financing for investment projects.

The EDB is prioritising projects that will maximise its contribution to the national development agenda. The Bank will focus on promoting the country's energy and food security, economic potential and digital transformation. Armenia's key digitalisation objectives will be the creation of digital public services, digital solutions and projects in different economic sectors and the development of an electronic record management system for foreign trade.

3. The EDB, through its Country Strategy for Armenia, is aiming to increase the Bank's cumulative investment in the country more than threefold.

According to the EDB's baseline strategic growth scenario, the Bank's investment in Armenia will reach US \$287 million between 2022 and 2026.

4. To improve the efficiency of its portfolio management in Armenia, the Bank will adopt measures to reduce borrowing costs, diversify its product offering and share project risks.



The EDB will optimise project risk by using TAF resources to finance project scoping, consultancy and independent expert assessments and will work with the Armenian authorities to develop legislative initiatives aimed at improving the investment and business environment and developing capital market infrastructure and relevant business and financial expertise in the country. The EDB Fund for Digital Initiatives will work with the Armenian authorities to identify priority digital transformation projects to be developed and financed by the fund. To reduce the cost of borrowing, the Bank will leverage tied finance and cooperate closely with development partners. In addition, the EDB will consider equity participation to reduce borrowers' debt burden in initial project stages. It will also develop differentiated lending practices with individual approaches to calculating principal and interest payments and consider equity participation in local financial institutions.

5. To increase the multiplier effect of its investment, the Bank will seek to partner with national development institutions and MDBs in project operations.

The priorities for joint work with the ADB, EBRD, KfW, EIB, BSTDB and UNDP will be projects that improve energy and food security, develop financial institutions and support SMEs, and projects to digitalise the economy and the public administration sector. The EDB will also consider partnering with the World Bank Group on technical assistance and digitalisation.

1

External operating environment

1.1. Armenia's development factors

1.1.1. Social and political factors

Guaranteeing employment is a major development challenge in the context of the overall decline in the country's population. Social factors are critical for the development of Armenia's economy. The country's population has been declining for almost 20 years due to emigration. At the end of 2019, 26.4% of the population were living below the poverty line (less than US \$3 a day according to the national measure), compared to a peak of almost 54% in 2004. According to Armenia's Statistical Committee, unemployment in 2020 declined from 17.2% to 16%, but remained the highest in the EDB region (Table 1). The Statistical Committee's updates for 2021 show that the decline in Armenia's population slowed during the COVID-19 pandemic, due to a positive migration balance among other factors. The pandemic has also slowed the natural population increase and the negative demographic trend remains a medium-term challenge for the country.

Description		2018	2019	2020	Ranking
Key macroeconomic indicators					among EDB countries
Nominal GDP	US \$ billions	12.5	13.6	12.6	4 •
Population	million people	2.97	2.96	2.96	6 •
Unemployment, year-end	%	18.4	17.2	16.0	1 •
Nominal GDP per capita	US \$	4,196	4,597	4,269	4 •
Real GDP growth	% yoy	5.2	7.6	-7.4	—
Government debt	% of GDP	51.2	50.1	63.6	5 •
Sustainable development indicators					
Percentage of the population with access to the Internet	%	68.2	—	—	4 •
Poverty rate, per national measure	%	23.5	26.4	—	—
Individual inward remittances	% of GDP	14	14	15	4 •
World Bank Ease of Doing Business ranking	out of 190	47	41	47	3 •
Corruption Perceptions Index	out of 180	105	77	60	1 •
IMF Financial Development Index		0.26	—	—	3 •
World Bank Logistics Performance Index	out of 190	92	—	—	3 •
Share of RES in the energy mix	%	37.8	38.3	39.1	3 •
Emission intensity	CO ₂ kg per unit of GDP at PPP	0.45	—	—	3 •
WEF Travel and Tourism Development Index	out of 141	—	79	—	2* •
United Nations E-Government Development Index	out of 193	87	—	68	4 •

Sources: ECE, UN, World Bank, IMF, Transparency International, IEA, International Renewable Energy Agency, WEF, Statistical Committee of the Republic of Armenia, EDB estimates;
 * out of five countries, excluding Belarus.

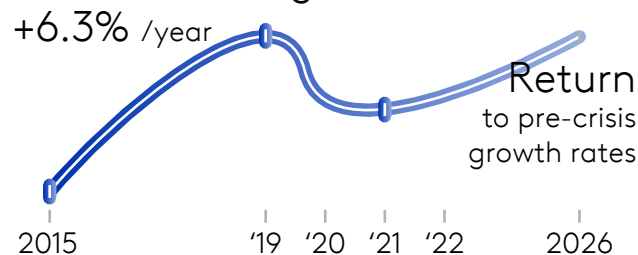
↑ Table 1.
 Armenia's social and economic development indicators

1.1.2. Economic factors

The EDB projects that economic activity in Armenia will recover quickly after the crisis.

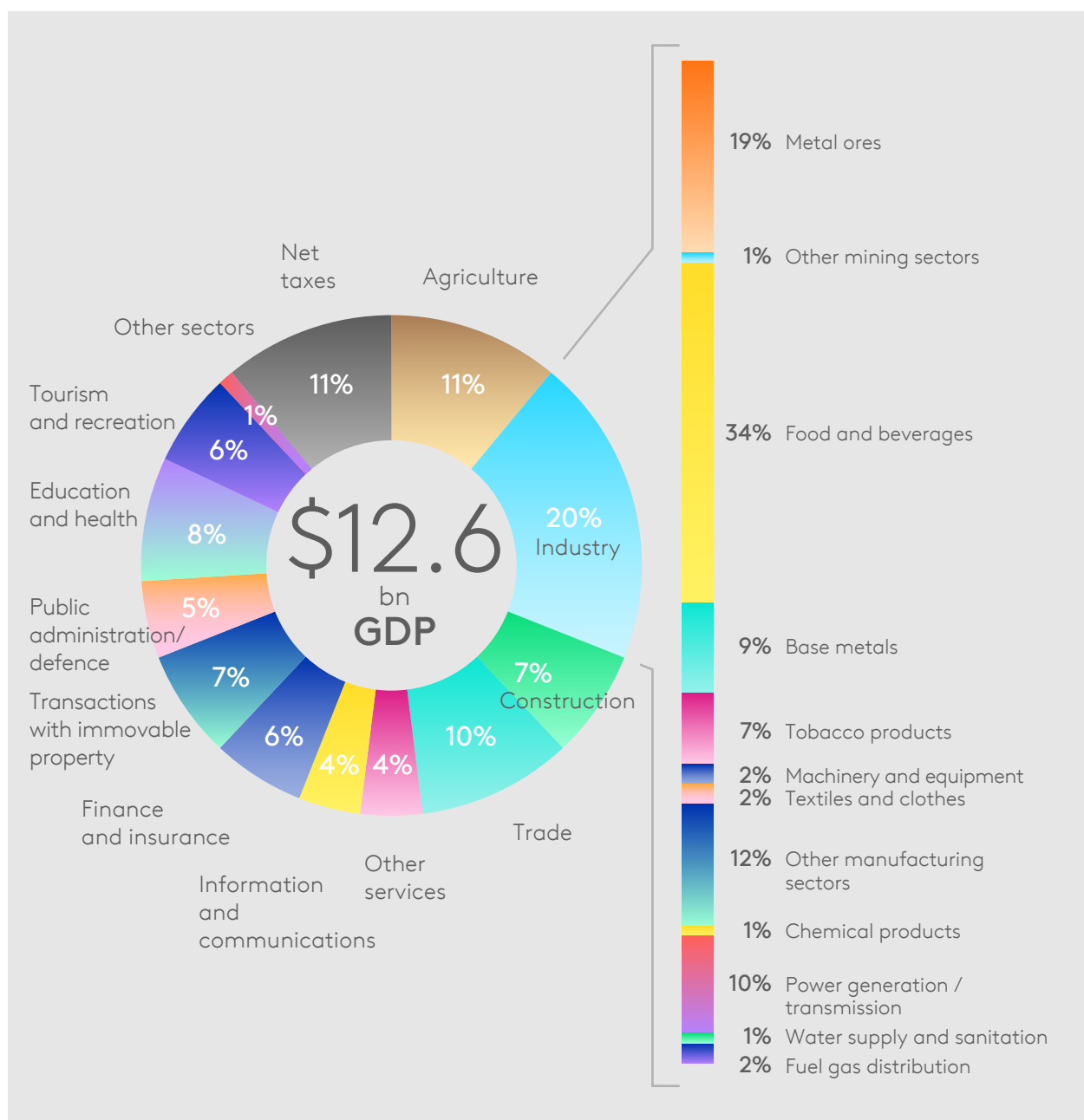
After a period of growth averaging 6.3% per annum between 2015 and 2019, Armenia's nominal GDP shrank by 7.2% year-on-year to US \$12.6 billion by the end of 2020, amid the COVID-19 pandemic and an escalation of the Nagorno-Karabakh military conflict in Q4 2020. The negative impact of the crisis in Armenia, according to EDB estimates, will be short-term and its economy is expected to return to pre-crisis growth rates from 2021 to 2022 as consumer activity and external markets rebound. Capital investment in Armenia is projected to grow by an average of 7.6% a year until 2026.

Nominal GDP growth



Productivity growth is a catalyst for economic development. In 2020, industries produced about 20% of the added value created in the Armenian economy, with the food and beverage sector accounting for more than a third of the output (Figure 1). However, the sectoral structure of employment in Armenia is dominated by low-productivity jobs in agriculture (about 22% of employment in 2019), a highly fragmented sector accounting for about 11% of GDP in 2020. The sector's development prospects are constrained by deteriorating irrigation infrastructure and the absence of economies of scale in capital-intensive projects. Almost half (217,000 hectares) of usable agricultural land in Armenia remains uncultivated and irrigated land occupies around 26% of the total (data for 2019). Agricultural modernisation would promote Armenia's food security, productivity and economic growth, including through the development of irrigation infrastructure, better equipment and access to production resources for small farms.

Tourism and information technology are growth drivers in non-financial services involving non-public investment. Tourism and digital technology are the most significant segments in Armenia's non-financial services (excluding trade), with predominantly non-public sources of investment. In the 2017–2019 WEF Travel and Tourism Competitiveness Index, Armenia climbed five places but was still in the second half of the ranking (coming 79th out of 140 countries). In terms of digital development, Armenia's position is better — according to the World Bank, the country ranks 68th out of 193 countries in the United Nations E-Government Development Index (4th among the EDB countries). At the end of 2018, the majority of Armenia's population (68.2%) had access to the internet. Boosting investment in tourism infrastructure and digital platforms could catalyse private investment in economic growth, promote small businesses and foster Armenia's integration with EDB member states.

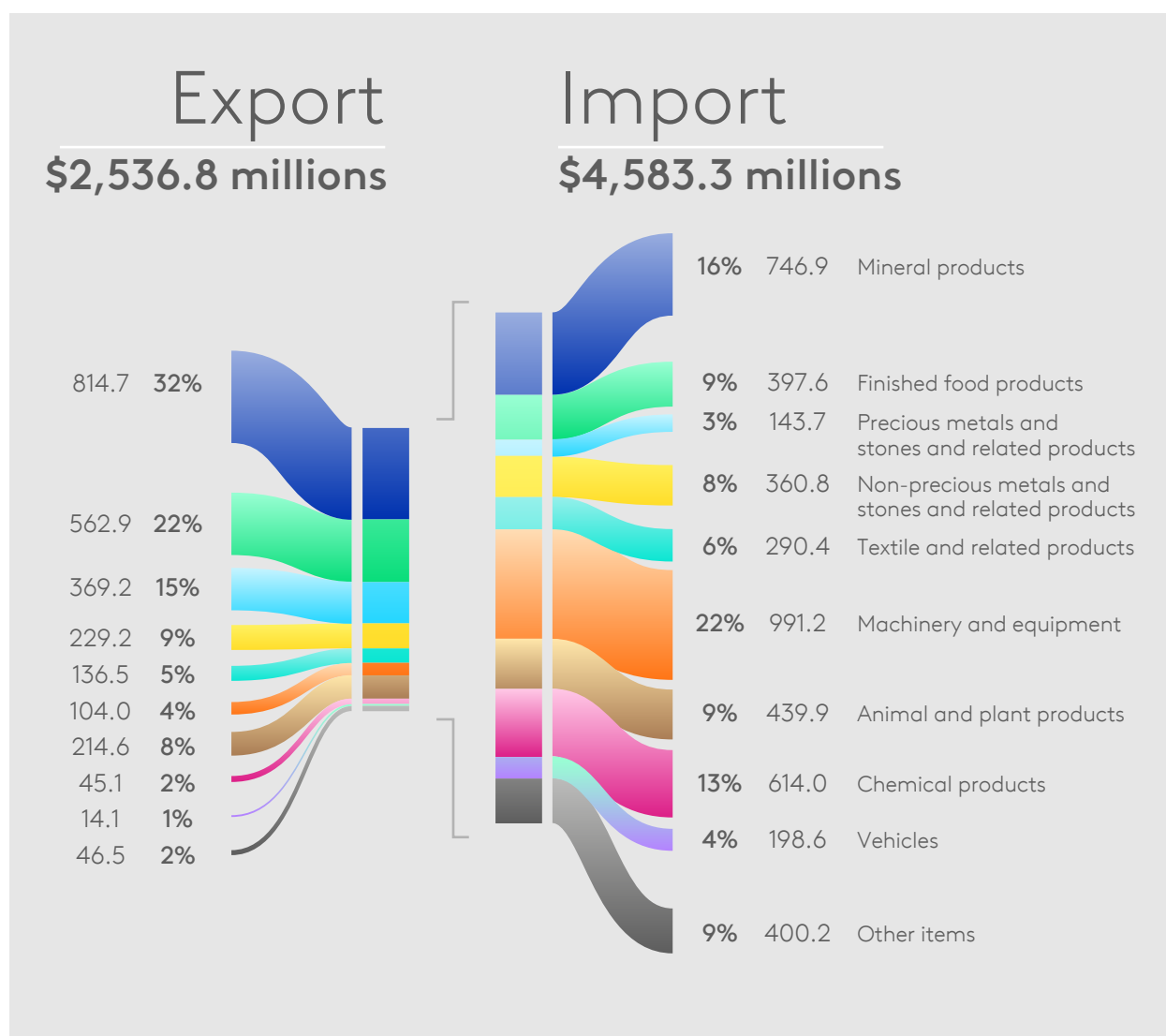


Source: Statistical Committee of the Republic of Armenia

↑ Figure 1.
Armenia's
GDP by sector
and industrial
structure, 2020

Armenia's foreign trade is highly reliant on imports of energy, machinery and equipment, and certain agro-industrial goods. Armenia's main exports are low-value-added commodities (with ores accounting for about 32% of the monetary value of exports in 2020) and finished food products (about 22% in 2020). The key imports are machinery and equipment (approximately 22% of the value of imports in 2020) (Figure 2).

Almost all the country's demand for edible oils and energy is met by imports. Energy resources for nuclear and gas generation (with a combined share of these fuels in Armenia's power generation of around 60%) are imported from Russia and Iran.



Source: Statistical Committee of the Republic of Armenia

↑ Figure 2.
Armenia's
exports and
imports in 2020,
US \$ millions

The shrinking MDB concessional financing window may necessitate a review of budget expenditure programmes. In 2020, Armenia's public debt surged by US \$647 million to almost US \$8 billion, or by 13.7 percentage points to 67.4% of GDP as at the end of 2020. External debt provided mainly by international financial institutions to finance investment projects and support structural economic reforms accounts for about 76% (US \$6.1 billion) of the country's liabilities. The largest lenders — the World Bank (IBRD and IDA) and the ADB — together accounted for almost 43% of Armenia's external borrowings, and the IMF for about 9%. Armenia's inclusion in the ADB's "C" category and the World Bank's list of upper-middle-income countries in 2017 limits opportunities for leveraging concessional funding for public expenditure programmes (ADB and IBRD loans are available only on market terms). However, IMF-supported programmes set a 30% concessional threshold for new external borrowings (excluding borrowings from the IMF and Eurobond issues).

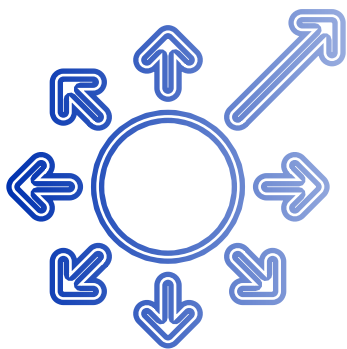
Improved access to financial services contributes to private business development. In Armenia, major industries are relatively highly monopolised, and the proportion of small businesses is low. The IMF Financial Development Index for Armenia was 0.26 in 2018. In 2020, Armenia scored 47th out of 190 countries in the World Bank's Ease of Doing Business ranking. Developing financial market infrastructure and improving access to credit, including in the national currency, for small-sized enterprises should catalyse investment in the country's economy in the medium term.

1.1.3. Integration agenda

Armenia maintains a two-pronged focus on integration. Situated at the junction of three major consumer markets — the EAEU, the EU and Iran — Armenia could become a centre for promoting infrastructure connectivity and for the bilateral and trans-regional integration of its partner countries' commodity and financial markets. Traditional trade and other economic ties between Armenia and EDB member states have been given new impetus with Armenia's accession to the EAEU. In 2020, EAEU countries accounted for about a third of Armenia's foreign trade, but its mutual trade is heavily concentrated on Russia, the country's largest partner in both imports and exports. The common customs space with Russia and the lack of end-to-end land transport routes that would connect Armenia with EAEU member states other than Russia could also be a reason for trade concentration. Another foreign trade priority for Armenia is the Iran–EU vector. The EU–Armenia Comprehensive and Enhanced Partnership Agreement was signed in 2017 and the EAEU–Iran Preferential Trade Agreement, initiating plans for a free trade zone, took effect in October 2019.



Export-oriented integration initiatives to improve Armenia's balance of trade. Armenia is a net importer with a negative balance of trade amounting to 30% of its total foreign trade. The country's negative balance was around US \$2 billion at the end of 2020 when Armenia's foreign trade reached US \$7.1 billion, compared to US \$1.8 billion and US \$4.7 billion in 2015, respectively. Almost half of the negative balance (over US \$800 million) in 2020 was from trade with Russia while transactions with Switzerland (exports of gold bullion) produced a significant positive balance of more than US \$430 million. The trade deficit with China decreased from US \$557.9 million to US \$384.4 million while the total trade between these countries increased from US \$945.3 million to US \$964.5 million. Trade with Germany declined from US \$314.2 million to US \$184.3 million while mutual trade shrank from US \$453.4 million to US \$297.3



million. Initiatives to diversify and expand Armenia's exports, including by increasing the share of services, in particular tourism, in export revenues, will foster the sustainable development of the country's economy.

Investment cooperation in Armenia is strongly focused on capital imports. Foreign direct investment in Armenia's economy exceeds Armenia's direct investment in other countries by more than ten times, with figures

standing at US \$5.7 billion and US \$540 million, respectively. Cash and deposits account for a significant share of foreign assets (more than a quarter according to 2019 data) and this is more than twice as high as their share in foreign liabilities. Armenia's medium-term integration agenda could focus specifically on projects to promote trade and investment in EDB member states.

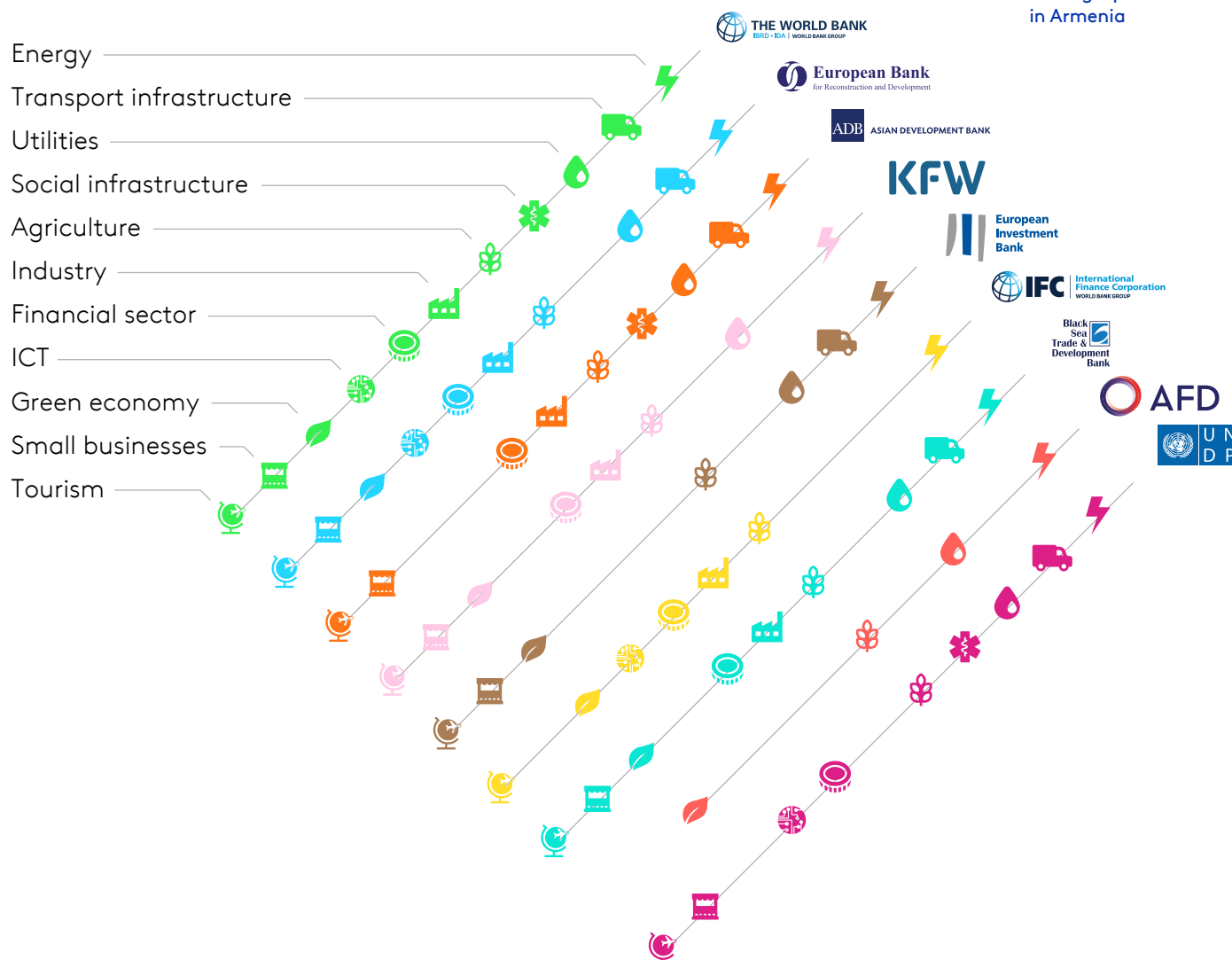
A common payment and settlement space would promote economic development. Remittances in Armenia account for 10% of GDP (according to the Central Bank of Armenia's data for 2020) and are an important element of Armenia's integration ties with EAEU countries, particularly Russia as the main source of remittances (~45%). The sustainable development of cross-border payment infrastructure, including in the national currency, could help to reduce costs and improve the reliability of settlements in the medium term.

1.2. International and national development institutions operating in Armenia

The largest MDBs operating in Armenia increasingly focus on supporting non-sovereign operations and integration. The largest MDBs — the World Bank Group and the ADB — have traditionally been the country's key partners in implementing structural economic reforms (Figure 3). The bulk of investment has been in the form of sovereign financing — the World Bank notes, for example, that private borrowings through IFC facilities have been limited due to the lack of projects and borrowers with an acceptable level of risk. A priority of the World Bank Group and ADB country strategies to 2023 is to support private sector development in order to build Armenia's economic potential. The ADB is more experienced in implementing private investment projects in Armenia, its non-sovereign project portfolio focusing on energy, the financial sector and agriculture. As a trans-Asian development institution with well-established regional project competencies, the ADB will, in the medium term, focus specifically on integration as a priority enshrined in its country strategy for Armenia until 2023.



↓ Figure 3.
International
development
institutions'
strategic priorities
in Armenia



Source: MDB statements

The EBRD's priority in Armenia is the sustainable development of financial markets and energy infrastructure through non-sovereign operations in partnership with other MDBs. About 85% of EBRD projects in Armenia (as at the end of 2019) are in the private sector with a focus on energy (about 30% of the bank's cumulative portfolio at the end of 2019), including a multi-year programme with Electric Networks of Armenia to upgrade power grids, and projects in the financial sector, including support to SMEs (~50% of the cumulative portfolio at the end of 2019). The EBRD actively uses project risk-sharing instruments and finances only up to 35% of total project costs in new projects or 35% of the projected value of a greenfield company. The EBRD partners with other development institutions in large-scale capital-intensive projects (for example, the World Bank in the 55 MW Masrik solar power plant project) on the principle of additionality.



● KfW, the ● BSTDB and the ● EIB focus on green projects and the development of financial institutions. Unlike other MDBs, KfW began operating relatively recently in Armenia (2007) and has achieved impressive portfolio growth averaging ~23% per year between 2007 and 2019 thanks to low-base effects. The bulk of KfW's cumulative portfolio in Armenia consists of green development projects in the energy sector (~43% of the portfolio at the end of 2019), but these investments are being progressively replaced by SME support and environmental projects (~21% and 8% of the cumulative portfolio at the end of 2019, respectively). The BSTDB focuses on developing financial institutions in Armenia (~65% of the cumulative portfolio), for example, enhancing the role of the national currency (issuance of mortgage bonds in the Armenian dram in 2017). The EIB concentrates its investment in Armenia on SME support (~40% of the cumulative portfolio at the end of 2019, with an average annual growth rate of ~20% between 2010 and 2019) but has actively developed its green energy portfolio (~15% of the cumulative portfolio at the end of 2019, with an average annual growth rate of ~60% between 2010 and 2019).

Multilateral and national development institutions complement MDB resources in sustainable development projects. The ● UNDP provides grants to Armenian stakeholders to address sustainable development challenges such as the eradication of poverty, environmental protection and promoting democratic governance. Public investment is provided through co-financing extended by special investment corporations that act as partners in mobilising private investment — the Development and Investments Corporation of Armenia (DICA) and the Armenian National Interests Fund (ANIF) without sector-specific specialisation and the Enterprise Incubator Foundation (EIF) focusing on ICT development (implementing government programmes, participating in ICT-related legal, business and educational reforms and providing tailored services to new ICT companies).



1.3. EFSD strategic priorities in Armenia

The EFSD is focusing on macroeconomic stability in Armenia between 2022 and 2024. The fund's cumulative portfolio in Armenia comprises three investment projects totalling US \$490 million. Between 2015 and 2017, the EFSD contributed to the construction of the North–South road corridor, the rehabilitation and reconstruction of Armenia's irrigation and drainage networks and non-communicable disease prevention and control in primary health care. An agricultural project is being prepared with tentative financing of US\$25.2 million in the form of an investment credit. The EFSD medium-term priorities in Armenia include four objectives to improve living standards and the country's ability to attract private sector finance:



- promoting macroeconomic and financial stability to mitigate the risk of default on loans provided to Armenia, including as part of the EDB's operations;
- supporting structural and institutional reform to enhance process management and, consequently, the efficiency of project financing and implementation;
- helping to modernise basic infrastructure to increase the investment attractiveness of development projects in transport and energy and make it possible for the Bank to consider and propose commercial initiatives, including as part of the EAEU integration agenda; and
- advancing social sectors to improve living standards and develop human capital in the country.

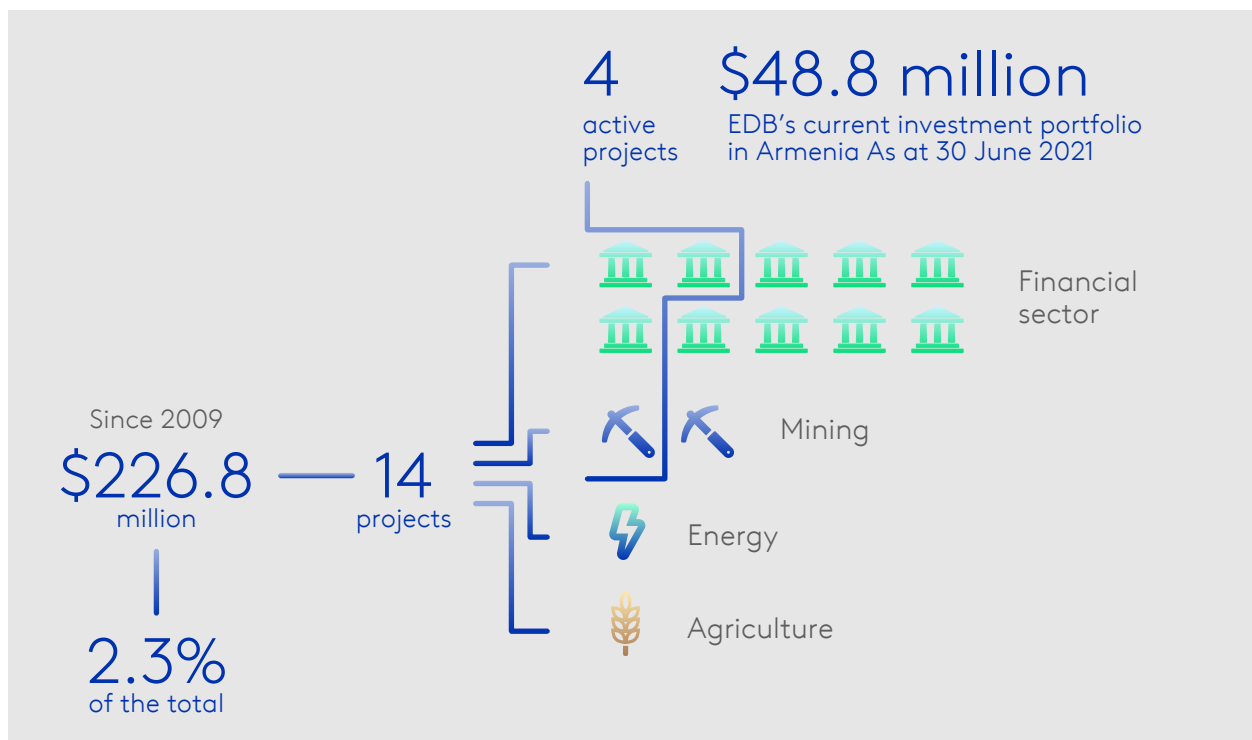
The indicative amount of EFSD funding in Armenia will be determined by the country's needs and the decisions of EFSD founders.

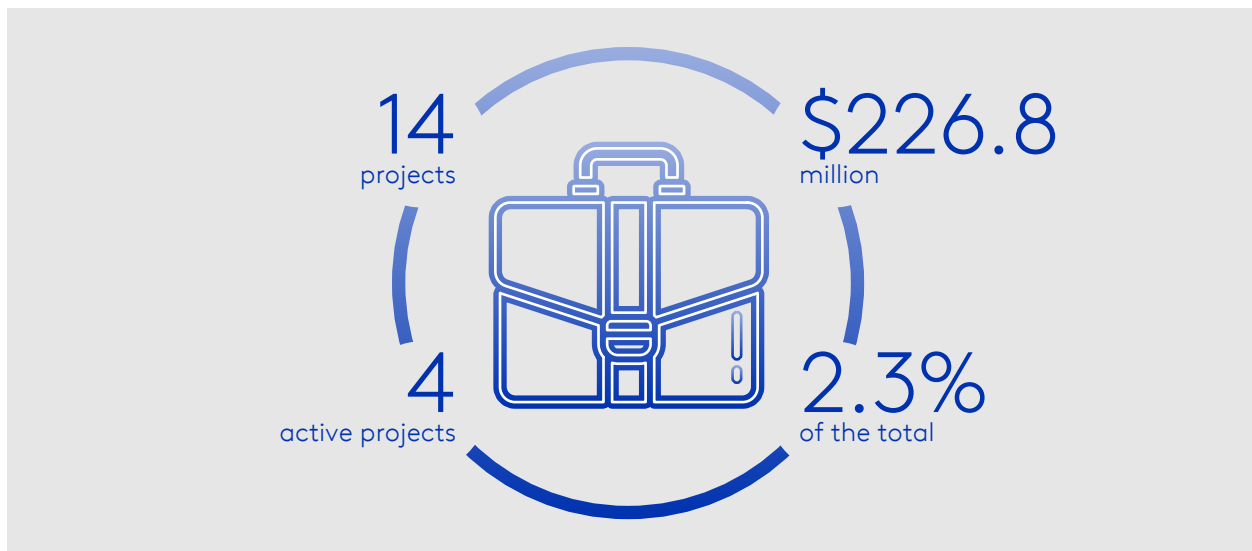
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EDB strategic development objectives in Armenia

2.1. The EDB's project operations in Armenia

The EDB's current investment portfolio in Armenia consists mainly of projects in the financial sector. Since Armenia joined the EDB in 2009, the Bank has implemented 14 projects in the country worth US \$226.8 million, which is 2.3% of the total and the fourth largest portfolio among EDB member states (Figure 4). These include ten projects in the financial sector, one in agriculture, two in mining and one in energy. As at 30 June 2021, the EDB's current investment portfolio in Armenia included four projects totalling US \$48.8 million (1.1% of the Bank's total current investment portfolio), primarily in the financial sector (US \$34.7 million or 73% of the current investment portfolio). The remaining 27% of the portfolio is the EDB's participation as a co-arranger of a bond issue by the Zanzegur Copper and Molybdenum Combine. All the EDB's investment in the country is in hard currencies.





Source: the EDB

↑ Figure 4.
The EDB's
performance
in Armenia

The EDB has consolidated its role as an institutional partner promoting the development of financial market infrastructure in Armenia. As part of its operations in Armenia's real sector, in 2021 the Bank initiated a transport integration project to supply railcars made by Tver Carriage Works to the South Caucasus Railway, Armenia's railroad operator. The Bank has been particularly successful in developing Armenia's financial market infrastructure. It worked with the country's authorities to open a correspondent account in the Armenian dram with the Central Bank of Armenia using EDB infrastructure for settlements in member states' national currencies and direct conversion. The Bank has also ensured full access to the Central Bank of Armenia's Electronic Payment System. By the end of April 2021, it had opened correspondent accounts for 10 out of 17 Armenia's commercial banks and the Central Bank of Armenia. The EDB has also deployed its TAF resources to finance the bulk of the costs (US \$250,000) associated with the launching of a new trading system on the Armenia Securities Exchange to help it integrate its exchange infrastructure with the financial markets of EDB member states.

2.2. Armenia's national development priorities

The national agenda prioritises sustainable development. Armenia's Development Strategy for 2014–2025 ("Development Strategy") targets the acceleration of sustainable economic growth and tangible improvement in production. Key objectives include institutional, macroeconomic and sector-specific measures defined by targeted sector-specific programmes.



The national development priority for infrastructure is to ensure transport connectivity within country and for transit.



Armenia's transport infrastructure objectives align with its goal to build a safe and reliable transport network connecting the country's economic centres and promoting the development of its transit potential by:

- Promoting the competitiveness and sustainability of air transport as part of the open skies initiative;
- Developing public-private partnerships for projects aiming to modernise and expand transport infrastructure (including road and rail transport) as a means of ensuring food security and advancing Armenia's transit potential; and
- Improving public finance governance and policies to enable more efficient budgeting and expenditure on highways.

The Development Strategy identifies the following transport development targets for Armenia:

- Communities having at least one road in a satisfactory condition that connects them to a regional centre: 90%;
- Road length in satisfactory condition as a percentage of the overall road length of the relevant category: 45% (local), 60% (state) and 100% (interstate).



In energy, the priority is to boost the country's energy security by developing distributed generation and improving grid reliability.



Armenia's medium-term objectives to develop energy infrastructure are:

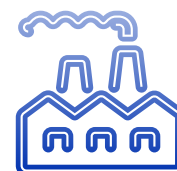
- Maximising the use of in-country sources of energy, in particular RES;
- Improving energy efficiency in all sectors; and
- Promoting the safety and reliability of the energy system.
- Diversifying energy supplies;

Armenia's 2040 Strategic Programme for Energy Sector Development sets out its targets for this sector. Key measures include maximising the potential for RES development; improving energy efficiency; extending the lifetime of the Armenian NPP with the possible construction of a new nuclear plant; constructing the North-South energy corridor; and gradually liberalising the electricity market. The targets are:

- Increasing the solar generation's share of electricity production to 15% by 2030;
- Reducing the average outage duration index to 55% of 2021 levels by 2030;
- Reducing grid losses to 6.4% by 2028; and
- Ensuring 100% of consumers have automated metering systems.
- Commissioning new solar power plants with an installed capacity of 1,000 MW by 2030;



Industrial development promotes employment in highly productive and competitive sectors and builds export potential.



The priorities for developing Armenia's industrial sector are job creation in high-performing sectors and moving the concentration of manufacturing and exports away from low-value-added commodities.

- Ensuring a gradual transition from a low value-added economic model to the production of high-tech goods and services;
- Creating new drivers for industrial development in competitive sectors, including import substitution; and
- Creating an institutional environment to mobilise private investment in new high-tech production facilities.

The Development Strategy sets the following targets for industry and export diversification:

- Economic growth in industry: 75% through increased productivity and 25% through higher employment;
- Increasing the proportion of formal non-agricultural employment (2011–2025) by 10 percentage points to 83%;
- Increasing the number of tourists (2011–2025) from 1,942,000 to 2.7 million people; and
- An increase in non-agricultural jobs (2012–2025): from 220,000 to 955,000;
- Increasing industrial employment as a proportion of non-agricultural employment (2012–2025) by 3.5 percentage points to 22.4%;
- Decreasing the negative balance of foreign trade in goods and services (2012–2025) by 10.6 percentage points, to 4.5%.



The strategic priority for agriculture is to increase the supply of key agricultural goods and bridge the gap between rural areas and urban agglomerations.



The main objective of Armenia's Development Strategy for agriculture is to gradually reduce dependence on key agricultural imports and to promote development by improving the productivity of new agricultural jobs:

- Establishing agricultural businesses integrated with market infrastructure, including by increasing the share of high-tech production;
- Ensuring food security; and
- Boosting agricultural output by improving productivity.

The Development Strategy includes the following targets for the development of agriculture:

- Share of agriculture in GDP (by 2025): 14.6%;
- Use of irrigated land (by 2025): 90%; and
- Doubling productivity in agriculture (2012–2025).
- Increasing the area of irrigated farmland (2012–2025) from 8,000 hectares to 138,000 hectares;



The strategic priority for the financial market is to improve the availability of resources to boost investment by small, private businesses in the first instance.

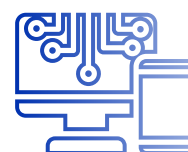


Armenia's Development Strategy economic model for 2025 sets out its institutional development objectives, which are to ensure greater penetration of financial services and to develop financial markets, primarily to promote economic activity and SME contribution to GDP, with the following targets:

- | | |
|---|---|
| → Narrowing the interest rate spread in the banking system (2012–2025) by 1.9–2.9 percentage points, to 3–4%; and | → Increasing SME contribution to GDP (2012–2025) by 20 percentage points, to 60%. |
|---|---|



Digital development objectives are part of the overall economic goal to advance high-tech production and digital transformation.



Armenia's 2021–2025 Digitalisation Strategy and Plan of Action outline sector-specific priorities for high-tech development, envisaging grant support for innovative companies, a programme to promote high-tech Armenian exports, digitalising the public administration system and ensuring the availability of high-speed Internet and broadband connections, with the following targets:

- | | | |
|--|---|---|
| → Armenia's E-Government Development Index by 2025: named in top 25 countries; | → Share of urban and rural areas with access to high-quality broadband Internet and public digital services: 80%; and | → Share of public services available electronically/remotely by 2025: 100%. |
|--|---|---|

2.3. The EDB's strategic development priorities until 2026

The EDB Country Strategy for Armenia intends to help implement the objectives enshrined in the EDB's overarching 2022–2026 Strategy, subject to the region's particular macroeconomic characteristics. The EDB's updated 2022–2026 Strategy aims to strengthen the Bank's contribution to integration processes and its role as a partner in promoting the development of its member states' national economies. In its strategic model, the Bank is transforming its role as a development institution and will focus on its unique



function as one of the main development banks in the countries in which it operates and on cultivating and implementing cross-border investment projects with a strong integration effect. It prioritises projects in end-to-end transport infrastructure, logistics, water balance, industry, environment and resource efficiency, energy and digital infrastructure.

The EDB's transformed operational model is expected to more than double its investment in the member states. The Bank's strategic growth scenario envisions an increase in investment over five years to US \$10.9 billion. At least three key investment mega-projects will be structured and launched with the Bank as a leading organisation and using its Technical Assistance Fund: the Europe–Western China transport corridor; the single commodity distribution network for the EDB region; and the water and energy complex, with the Bank's investment totalling approximately US \$1.2 billion.

The EDB is transforming its role as a development partner for the smaller economies. The Bank will focus on building a foundation for infrastructure mega-projects that cannot be implemented without the involvement of the smaller economies. The creation of unique capabilities in structuring complex cross-country projects will enhance the Bank's status as an expert in arranging finance in the countries in which it operates. It will enable the Bank to become a consolidator of investment resources and an integrator of the development agendas of national institutions and multilateral development banks operating in the region, thus ensuring its investment has a significant multiplier effect.

The updated Strategy will also focus specifically on contributing to Sustainable Development Goals in the smaller economies. As the implementation period of the EDB's 2022–2026 Strategy precedes the final phase of work to achieve the United Nations' SDGs by 2030, the Bank intends to strengthen the evaluation of its impact on the SDGs when setting priorities for project operations. In its strategy model, the Bank will contribute actively to the economic growth of its member countries and their achievement of SDGs.

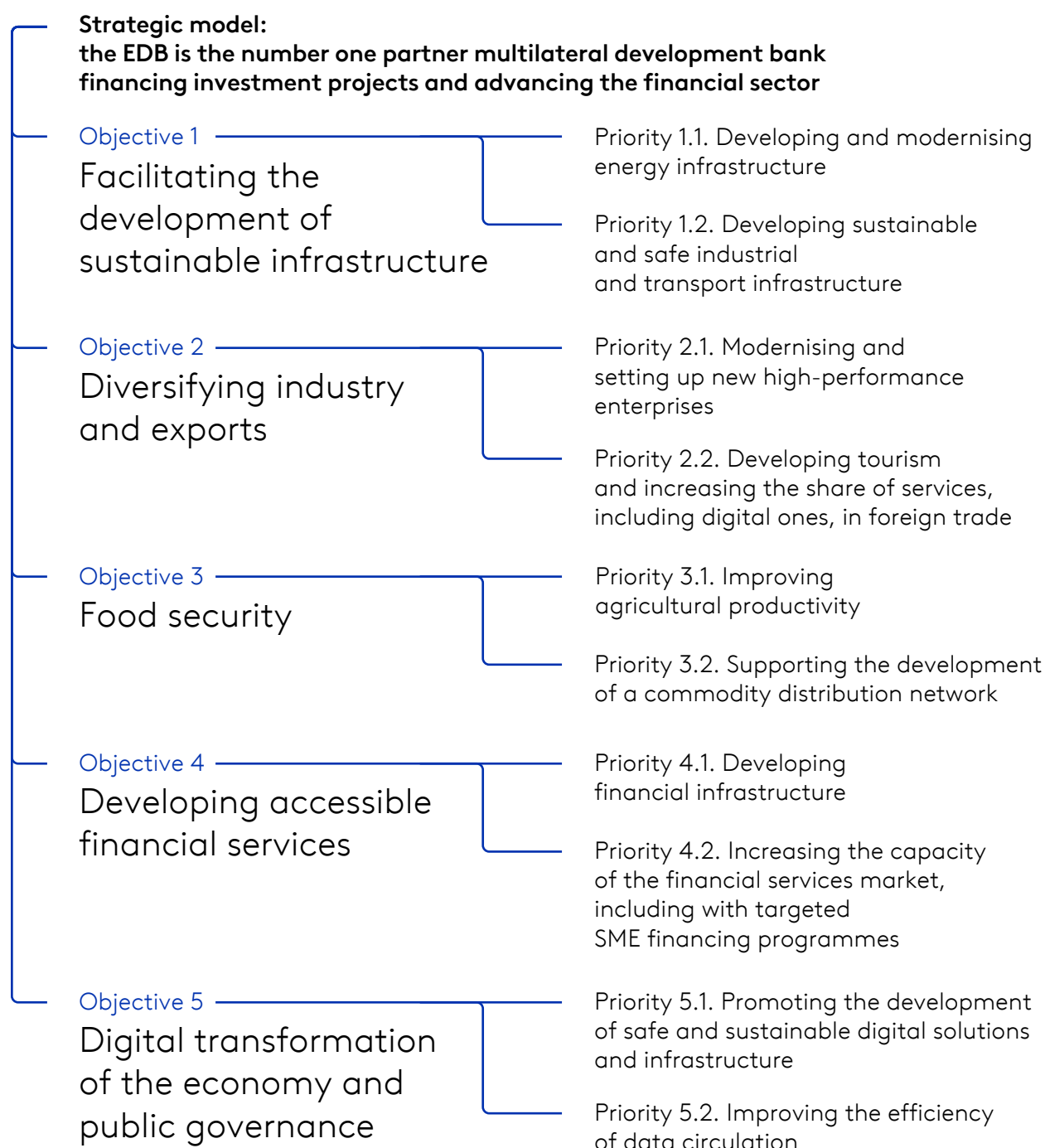
The EDB's digital competency. The EDB Fund for Digital Initiatives will support Armenia's digital agenda to strengthen its integration with Eurasian countries and accelerate its digital development. The Bank's digital projects will factor in the need to achieve SDGs and promote technology-based companies and promising projects at national, cross-country and corporate levels.

To expand its project operations, the Bank needs to develop local capital markets. This will require the resources of specialised financing arrangements operating in Eurasia and technical assistance to support institutional reform.

2.4. The EDB's strategic goal and objectives in Armenia

The goal of the EDB Country Strategy for Armenia is to enable it to become a leading regional MDB in terms of financing investment projects involving private capital, primarily in the real sector. In its 2026 strategic model, the EDB is transforming its role, aiming to become the catalyst for achieving SDGs in Armenia, a recognised expert in sector-specific research and a leading MDB in the mobilisation of private investment in the country's economy, with a focus on scaling up project financing and developing the financial sector.

The main objectives of the EDB Country Strategy for Armenia are those that make the maximum contribution to the country's strategic development goals (Table 2).



Source: the EDB

Objective 1

Facilitating the development of sustainable infrastructure

One of the EDB's objectives until 2026 will be to support projects that build and upgrade basic infrastructure to protect the country's energy and transport security and sustainable economic development.



Priority 1.1.

Developing and modernising energy infrastructure

In the strategy period to 2026, the EDB will work to diversify electricity generation sources in Armenia and promote its integration with the energy systems of neighbouring countries. Implementing renewable energy projects will also help to mitigate adverse environmental impacts in line with sustainable development principles. Developing renewable energy is a strategic priority of the Armenian government as it will help to diversify the energy mix and promote energy security. In addition, renewable generating facilities are a green source of energy, the development of which is supported by sustainable development principles. The EDB will focus on distributed solar power projects and the construction and modernisation of hydropower facilities. In pursuing Armenia's energy development priorities, in addition to renewable energy, the Bank will work to modernise existing conventional generation facilities, including the project to extend the lifetime of Armenia NPP's Unit 2. The sustainable development of Armenia's energy system will require more investment in power grid efficiency. Relevant projects will enhance the reliability of power transmission as an element of the country's energy security.



Priority 1.2.

Developing sustainable and safe industrial and transport infrastructure

The Bank will focus on projects promoting the sustainability and safety of industrial and transport infrastructure in Armenia. Priority projects will be those considered and developed by the Ministry of Economy and the Ministry of Territorial Administration and Infrastructure for their potential to launch during the new strategy period: modernising the Yerevan–Tbilisi cross-country railway infrastructure; developing rail and ferry links between the ports of Poti and Caucasus; increasing South Caucasus Railways' investment in rail infrastructure; industrial projects to modernise the infrastructure for processing concentrates into crude metals; and projects to mitigate adverse environmental impact in industry (for example, processing of copper-molybdenum and gold-containing tailings). The EDB will help implement projects that improve the efficient use of natural resources in basic industries and innovative transport projects. The Bank will focus specifically on projects that develop not only physical infrastructure but also management and transportation technology and their automation reflecting international best practice. As a development institution, the EDB will partner in financing projects to introduce fare collection systems in land transportation and develop public-private partnerships in transportation management. In passenger transportation, this could be the project currently under consideration to introduce competition into inter-city and inter-regional road networks.

Objective 2

Diversifying industry and exports

The EDB's mission is to promote a market economy in its member countries. One of the Bank's priorities will be to support the development and growth of export-oriented enterprises. This is directly linked to the national objective to promote the country's competitiveness and balance of trade. Armenia's mining and agriculture are economic sectors with export potential. The Bank will also support job creation in the service sectors such as tourism and retail.



Priority 2.1.

Modernising and setting up new high-performance enterprises

The EDB aims not only to improve the living standards of people employed in industry by creating high-performance jobs and increasing output but also to unlock Armenia's potential as an exporter of agricultural produce to EDB countries. To achieve this, the EDB will help to modernise and promote industrial development by financing projects that enhance the processing of raw materials and increase the added value of products. The Bank will prioritise projects oriented to both domestic and foreign markets.



Priority 2.2.

Developing tourism and increasing the share of services, including digital ones, in foreign trade

Tourism will help to mobilise additional investment in the country, create jobs and diversify foreign trade in services. However, realising this potential would require significant investment in hotel and recreational infrastructure and the EDB could be a source of such funding for Armenia's regions.

Objective 3

Food security

is crucial to Armenia's sustainable economic growth in the strategy period to 2026. The EDB's main objective is to help reduce dependence on imports of key agro-industrial commodities and to develop a food supply chain.



Priority 3.1.

Improving agricultural productivity

Despite agriculture's importance to the Armenian economy, the sector is generally developing extensively. The EDB's objective in this strategy period is to intensify agricultural development by financing projects that enhance raw materials processing and increase the added value of products. The Bank will prioritise projects oriented to both domestic and foreign food markets where there is continuous and substantial demand and focus on projects that increase the area of land used for agriculture and improve agricultural productivity. In particular, the EDB will focus on plans to build 15 water reservoirs in Armenia by 2026.



Priority 3.2.

Supporting the development of a commodity distribution network

Building a network of wholesale distribution centres is an integration priority that will help to implement large-scale cross-border projects in the EDB region. In the 2022–2026 strategy period, the EDB will actively explore opportunities for implementing such projects in Armenia. Over and above its integration effect, a high-quality logistics infrastructure would significantly enhance e-commerce development by promoting effective SME trade. The Bank will also focus on projects to introduce international quality standards for agricultural production and processing.

Objective 4

Developing accessible financial services

In the new strategic period, the EDB will continue to support the development of Armenia's financial system. The Bank will also work with banks to support targeted lending programmes. In addition, it will be open to other forms of cooperation with intermediaries, including participation in investment funds or innovative special-purpose vehicles. To further support enhancement of the country's financial sector and government initiatives to de-dollarise the banking sector, the EDB will seek opportunities to lend in the national currency.



Priority 4.1.

Developing financial infrastructure

Armenia's financial system demonstrates 'mid-level' development. The EDB's Country Strategy targets the modernisation and digitalisation of the financial system and aims to encourage new investors and issuers, including those in EDB countries, to enter the market. This in turn will attract additional capital to Armenia's financial markets and boost trading on stock exchanges. It will also develop new financial instruments (including derivatives) and increase the use of national currencies in capital markets and in trade with EAEU countries.



Priority 4.2.

Increasing the capacity of the financial services market, including with targeted SME financing programmes

The EDB has provided targeted loan facilities to Armenian banks for on-lending to local businesses. In the new strategy period, the Bank will continue to build the capacity of the financial services market and reduce interest rate spreads by providing targeted financing to Armenian commercial banks, including for SME support programmes.

Objective 5

Digital transformation of the economy and public governance

The Armenian government identifies digital technologies as a strategic development objective. Today, technology is needed to ensure efficient governance and intensive economic development. As part of its digital agenda for Eurasian integration, the EDB will help to implement projects that exchange and disseminate the digitalisation expertise of the countries in which it operates and will finance projects that set up shared digital platforms. The Bank has established the Fund for Digital Initiatives to support digital transformation in its countries, including Armenia. To identify promising digital projects, the EDB will work closely with the country's state authorities, including in respect of measures outlined in Armenia's 2021–2025 Digitalisation Strategy and Plan of Action.



Priority 5.1.

Promoting the development of safe and sustainable digital solutions and infrastructure

As a regional digitalisation institution, the EDB will support projects during the strategy period that promote the development of Armenia's digital infrastructure, including physical telecommunications infrastructure and digital platforms. It will also disseminate best practice as member countries implement e-government systems and digital public services. The Bank will support digital projects in the corporate sector that strengthen integration ties with Eurasian countries and contribute to SDGs.



Priority 5.2.

Improving the efficiency of data circulation

In the new strategy period, the Bank will support data circulation and management projects. Under its strategic objective to develop end-to-end cross-border transport corridors within the EAEU, the EDB will support potential digital services connecting Armenia to that project.

3

Implementing the country strategy

3.1. Approaches to project activities

The Bank aims to develop a wide range of financial products in Armenia.

Between 2022 and 2026, the EDB will focus more on the development of specialised financial products, equity investments and related financial products to meet client objectives and needs in Armenia. It will offer four financial vehicles: lending for private-sector projects (non-sovereign lending); quasi-sovereign lending (including sovereign guarantees); equity investments; and other products. In addition, the EDB will consider equity participation as an instrument of investment financing to reduce borrowers' debt burden in initial project stages. It will also work to develop differentiated lending practices with individual approaches to calculating principal and interest payments.

The EDB's local equity participation will also contribute to Armenia's economic development.

To mitigate risk in Armenia, the Bank will consider equity participation in a local bank, which would assume project risks. The EDB is ready to provide the necessary support (tied financing, guarantees, TAF grants) to the partner bank for these projects. The Bank will also focus on supporting development by participating in the equity of local institutions such as the Development and Investments Corporation of Armenia (DICA), along with other participants such as the Ministry of Finance, the Ministry of Economy and the Central Bank.

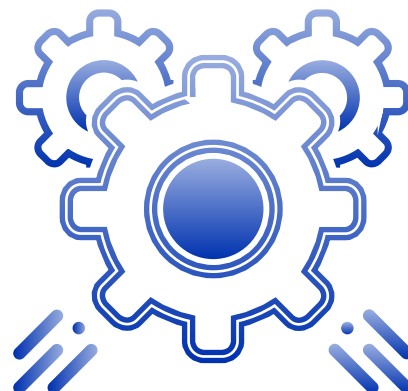
The EDB will increase investment in Armenia's real sector by developing its capacity to nurture and lead projects throughout their life cycle,

from design to implementation. The Bank will be an anchor partner in syndicating loans for such projects in Armenia.

Leveraging the potential of the Fund for Digital Initiatives. The Bank will actively leverage the potential and capacity of its Fund for Digital Initiatives to support and finance Armenia's digital transformation programmes (including with grants).

The Bank will help to coordinate the Armenian government's efforts to implement and monitor objectives relating to Sustainable Development Goals. In the new strategy period, the EDB will place an even sharper focus on promoting Sustainable Development Goals in line with Armenia's national development priorities. In so doing, the EDB, in addition to its project operations, will be a partner in inter-agency work supervised by the Armenian government in cooperation with the Ministry of Economy and the National SDG Lab to coordinate the development, implementation and use of a uniform evaluation and monitoring system for relevant development targets.

The EDB's network of partnerships in Armenia is intended to maximise the multiplier effect of project operations. As part of its project activities, the EDB will enter partnerships with national development institutions and MDBs such as the ADB, EBRD, KfW, EIB, BSTDB and UNDP in projects to promote energy and food security, develop financial institutions and support SMEs, and digitalise the economy and the public administration sector. The EDB will also consider partnering with the World Bank Group in technical assistance and digitalisation.



The EDB will actively develop targeted financing instruments. In the new strategy period, the Bank will focus more on optimising the cost of funding projects in Armenia by synergising targeted mechanisms. The main objective of this work will be to expand tied project finance for green projects with the involvement of partner MDBs. The Bank will develop such instruments in coordination with Armenian government agencies and institutional development initiatives to support national priorities, for example, the anticipated introduction of the carbon tax on EAEU producers' supplies to the EU.

Project risks will be optimised by complementing partner banks and development institutions. The EDB is looking for ways to reduce borrowing costs in Armenia, to provide financing to borrowers on acceptable terms and to mitigate credit risk. To this end, the EDB will consider financing projects in Armenia through local banks and in syndicates with other development institutions. Cooperation will help mobilise significant external investment and set up credit syndicates with the EDB taking the lead.

The Bank will develop joint grant projects to support development initiatives in cooperation with partner institutions and Armenia's government agencies. In so doing, the EDB will cooperate to implement joint institutional and sector development initiatives with key multilateral partner institutions (in particular, the ADB) and specialised programmes run by United Nations organisations. The Bank has signed memoranda of cooperation with key United Nations organisations, including the United Nations Development Programme (UNDP), the United Nations Industrial Development Organisation (UNIDO), the Food and Agriculture Organisation (FAO), the United Nations Environment Programme (UNEP), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations European Economic and Social Commission (UNECE). The EDB will expand interaction with UNDP initiatives by providing expert and technical assistance in the preparation and implementation of national development programmes, legislation, sector-specific programmes and pilot projects, including feasibility studies under country programmes adopted by the UNDP and the Armenian government. With UNIDO, the EDB will assist in promoting industrial development, international industrial cooperation and industrialisation in Armenia. The Bank's interaction with the FAO will focus on modernising and improving agriculture, forestry and fisheries, and on ensuring the sustainable management of natural resources. Its work with the UNEP will involve projects to ensure the cost-effectiveness of energy and resource-saving green production facilities. The Bank will collaborate further with Armenian government agencies to ensure UN regular programme budgets are used to conduct feasibility studies for projects due for implementation.

The Bank aims to develop products such as documentary instruments, settlements in the Armenian dram, digital financial technology and consultancy. During the 2022–2026 strategy period, the Bank will continue to expand the market in its specialised documentary instruments, in particular guarantees and letters of credit. The focus will be on initiatives promoting common markets in Armenia and the countries in which the EDB operates. EDB guarantees will ensure Armenian suppliers' mutual access to the member countries' domestic markets, including public and municipal procurement.

The Bank will continue to use its infrastructure to increase the value of the Armenian dram. The EDB is willing to use its settlement and payment infrastructure and direct exchange rates to integrate payments in national currencies in order to meet objectives agreed with the Armenian government and Central Bank. The EDB's role as a market maker in Armenia's markets, and access to its over-the-counter markets, will also be instrumental in integrating the country's financial markets with those of EDB countries. The Bank will use its own leverage to finance projects in the Armenian dram, using dram funds raised in debt capital markets. The Bank will also use hedging instruments (primarily swaps in the Armenian dram).

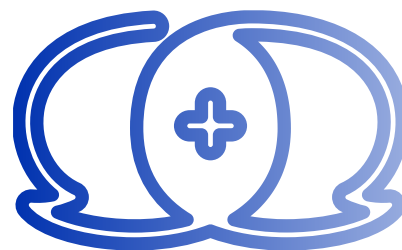
Strengthening the Bank's presence in Armenia will be an integral part of its strategic repositioning. To ensure effective operation, the Bank will expand its office in Yerevan, qualitatively and quantitatively. The main aim will be to develop business and form a pool of promising projects while developing cooperation with authorities and local partners and deepening analysis and country expertise.

3.2. Technical assistance

In implementing its Country Strategy for Armenia, the EDB will augment the role of its Technical Assistance Fund (TAF). The TAF is intended to help the Bank implement its mission by financing the planning and implementation of projects; supporting regional integration programmes; conducting interstate, country, sector-specific and innovative studies to promote economic growth; developing market economies in the Bank's member states; expanding trade and other economic ties between them; and other activities related to the Bank's operations and contributing to its mission. Using the TAF to prepare projects and mobilise tied finance will help the Bank to reduce project costs for borrowers and to minimise borrowings on the Armenian government's balance sheet.

Technical assistance in Armenia will develop the institutional environment and improve project preparation. During the 2022–2026 strategy period, the Bank plans to use technical assistance more actively to enhance its investment opportunities in Armenia. Technical assistance will help the Bank build a pool of potential projects it could initiate, including by supporting the development of the regulatory environment and ensuring high-quality drafting of pre-project documentation.

Consultancy as an additional tool for developing the Bank's product offering in Armenia. To strengthen its analytical and pre-project expertise, the EDB can take the lead in disseminating best practice in Armenia in pre-project documentation and planning to create bankable projects ready for structuring and financing. The EDB may partner with Armenia's executive authorities and advise on legislative initiatives necessary to enhance the institutional environment and harmonise national laws.



Therefore, in accordance with its objectives in Armenia, the TAF plans to implement the following.

1. Building up EDB investment in Armenia:

- pre-project work to improve the quality of investment projects and boost investment in Armenia, including drafting required documentation and independent assessment;
- subsidised interest rates on investment projects that expand cooperation and trade with EDB member states;
- developing technical assistance in a way that complements other MDBs' interventions, reflecting their priorities in Armenia.
- making projects in Armenia more compliant with ESG and green audit principles; and;

2. Institutional development and measures to enhance competitiveness and improve the business environment:

- advising Armenia's executive authorities on economic diversification, development and integration, including possible launch of projects by the Bank;
- participating with other MDBs and Armenian executive authorities in modifying regulations relating to tax simplification, customs and business registration procedures and SME support policies;
- participating in the creation of strategies and projects and implementing best practice in mining, energy, agriculture, metallurgy, transport and other sectors. TAF resources will be allocated in Armenia during the strategy period to 2026 to develop mining, with a focus on adding value by boosting the country's smelting capacity and balancing export regulations. It will also define strategies for processing copper-molybdenum and gold-bearing tailings; for developing inter-city and interregional land passenger routes and opening them up to a competitive market using public-private partnership and operator models; and a concept to build new water reservoirs in Armenia;
- participating in the analysis and preparation of initiatives to develop digital platforms in public governance, including the digitalisation of public procurement;
- engaging with the authorities on national PPP legislation;
- organising training programmes to develop an entrepreneurial culture in Armenia; and
- analysing SME problems in Armenia, using best practice to address them and proposals for implementation.

3. Improving financial infrastructure and financial market institutions in Armenia:

- analysing problems and constraints in the development of Armenia's financial institutions, international best practice in the financial sector and capital markets and drafting proposals for their implementation in Armenia;
- enhancing cooperation with the Central Bank and Ministry of Finance of Armenia to develop capital markets and increase the use of the national currency;
- providing advice to support operational standards and enhance competitiveness and financial reporting transparency in the banking sector. A priority here would be to make financial markets accessible to various types of participants;
- along with other MDBs and Armenia's executive authorities, working to modify the regulatory framework to facilitate access to lending and promote innovative financial instruments and research into innovative instruments that support digital entrepreneurship (convertible notes, limited partners or other mechanisms); and
- further improving Armenia's financial infrastructure in partnership with the Armenia Securities Exchange, including facilitating access to capital markets for legal entities and individuals and integrating the markets with those in other EDB member states.

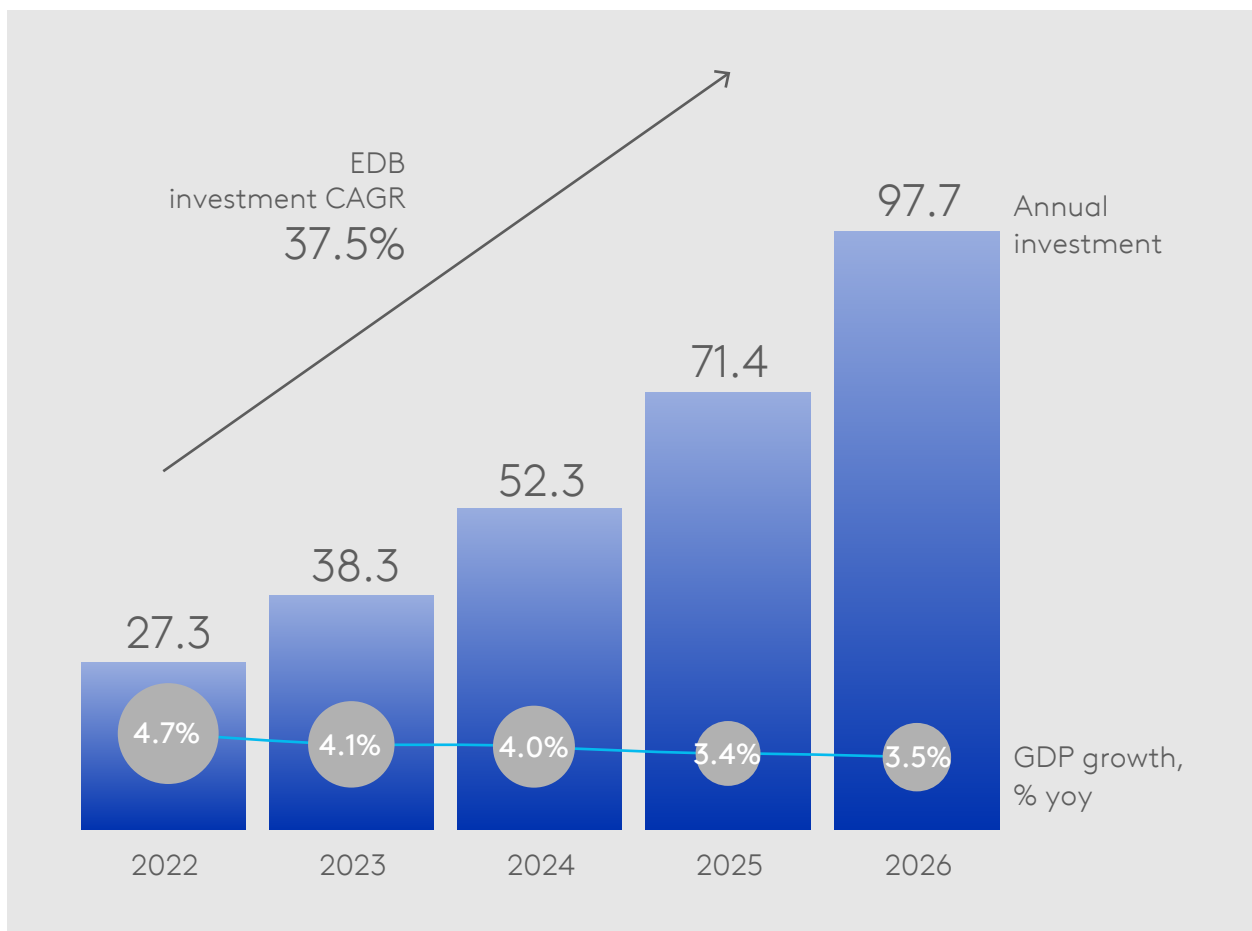
4

Anticipated results of implementing the country strategy

4.1. Indicative project financing in Armenia

During the strategy period to 2026, the EDB plans to provide at least US \$287 million for projects in Armenia. The strategic model anticipates that, between 2022 and 2026, the EDB's annual investment in Armenia will more than triple to US \$97 million, or more than US \$280 million cumulatively over five years (Figure 5).

↓ Figure 5.
Indicative
project financing
in Armenia,
2022–2026



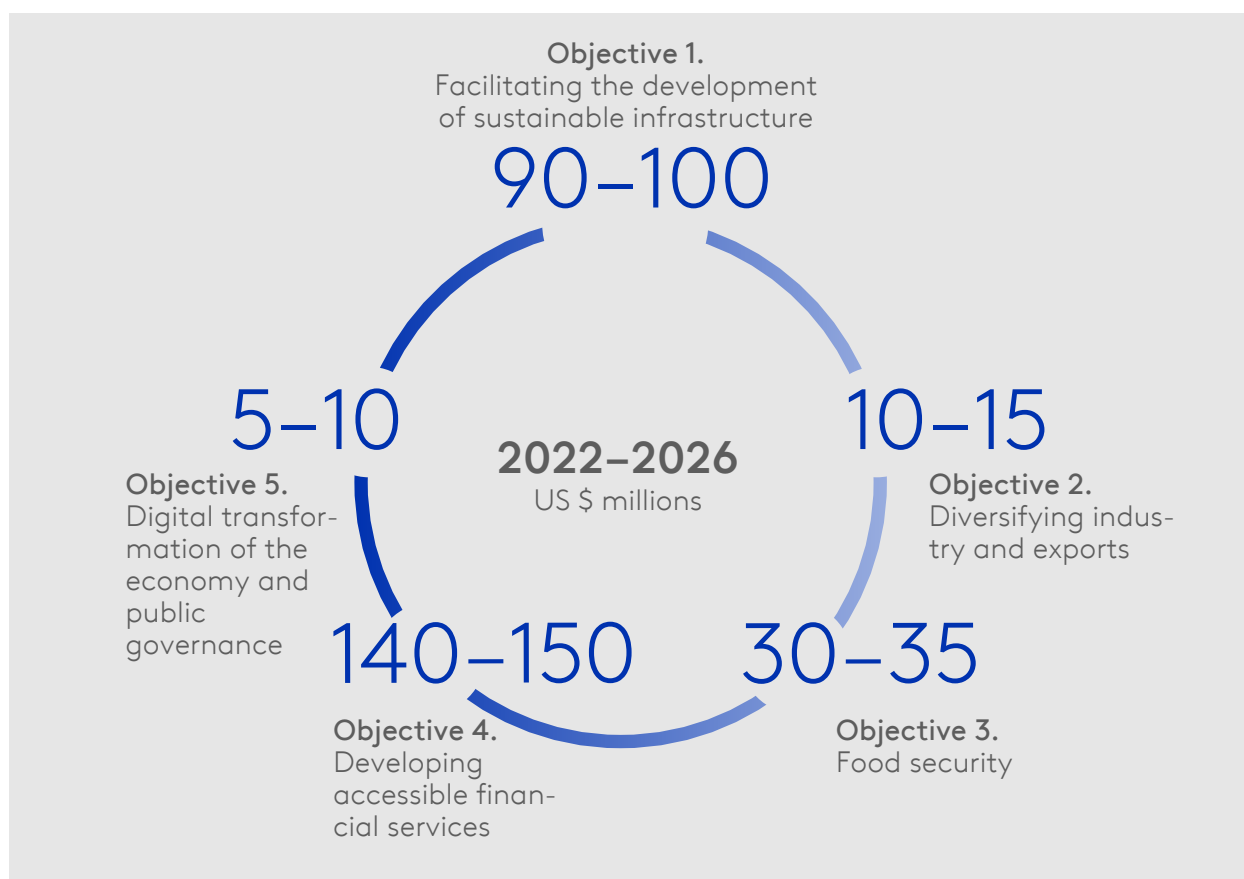
Source: the EDB

Based on the 1.5:1 multiplier seen with other participants' investments in EDB projects, more than US \$400 million will be channelled into Armenia's development between 2022 and 2026. The target model anticipates that EDB investment in Armenia will grow at a rate nine times higher than the country's projected GDP growth rate. With an average annual GDP recovery rate of ~3.9%, an average annual growth rate of fixed investment at ~7.6% and a target increase in the EDB's share of fixed investment from ~4.8% in 2021 to ~16% in 2026, the average annual growth rate of the Bank's investment is expected to reach approximately 37.5%.

The risk of national currency devaluation means financing will be entirely denominated in euros or US dollars. These figures are indicative and based on the baseline growth scenario provided in the EDB 2022–2026 Strategy. Given sufficient operational capacity and favourable conditions, the Bank may exceed the target figures. Favourable conditions include higher economic growth in the country, improvements in financial markets and greater demand for bank financing from private and/or public entities operating in the Armenian market.

The Bank's model anticipates a significant consolidation of its role as a leading MDB in terms of investment in Armenia. The EDB's investment in Armenia during the 2022–2026 Country Strategy will focus on five priority objectives (Figure 6).

↓ Figure 6.
Indicative
financing
under the EDB
2022–2026
Country Strategy
for Armenia,
by objective,
US \$ millions



Source: the EDB

4.2. Sustainable development outputs

The EDB will support Armenia's pursuit of its economic goals, taking into account the demand for lending. The Bank will consider activities and services that help it to achieve its aims, with a focus on those that promote Armenia's integration with other EDB member states, infrastructure development, increase in and diversification of exports, and job creation. In addition, the Bank will work to contribute to SDGs in Armenia (Table 3).

↓ [Table 3. EDB Country Strategy for Armenia: objectives and sustainable development outputs](#)

Objective	Potential partners	Implementing agencies	Priority	Output	SDG
Objective 1. Facilitating the development of sustainable infrastructure	EIB, EBRD, UNDP, KfW, ADB	Ministry of Territorial Administration and Infrastructure, Ministry of Environment	Priority 1.1. Developing and modernising energy infrastructure	1. Installed capacity in projects to construct and/or modernise EDB-funded renewable energy facilities, MW-equivalent	7. Affordable and clean energy
				2. Annual electricity generation from renewable energy sources, MWh	7. Affordable and clean energy
				3. Number/duration of emergency outages, total/hours	7. Affordable and clean energy
				4. Power transmission lines constructed or rehabilitated, length, km	9. Industries, innovation and infrastructure
				5. Grid losses, kWh	7. Affordable and clean energy
			Priority 1.2. Developing sustainable and safe industrial and transport infrastructure	1. Constructed or reconstructed transport networks, length, km	9. Industries, innovation and infrastructure
				2. Jobs created by building transport infrastructure, total	9. Industries, innovation and infrastructure
				3. Number of residents in communities with access to the country/region's single transport network and/or to areas with newly built linear transport facilities, total	9. Industries, innovation and infrastructure
				4. Annual energy savings, MWh	7. Affordable and clean energy
				5. Increase in the share of recycled water, %	6. Ensure access to water and sanitation for all

Objective	Potential partners	Implementing agencies	Priority	Output	SDG
Objective 2. Diversifying industry and exports	EBRD, UNDP	Ministry of Economy, Ministry of Territorial Administration and Infrastructure, Ministry of Environment, Ministry of High-Tech Industry	Priority 2.1. Modernising and setting up new high-performance enterprises	1. Additional industrial output, US \$	9. Industries, innovation and infrastructure
				2. Number of non-agricultural jobs created in high added-value sectors, total	8. Decent work and economic growth
				3. Number of jobs created outside the capital area, total	1. End poverty in all its forms, everywhere
				4. Index of the intensity of trade with EDB member countries, %	17. Partnerships for sustainable development
				5. Number of new vehicles in the transport fleet, total	9. Industries, innovation and infrastructure
			Priority 2.2. Developing tourism and increasing the share of services, including digital ones, in foreign trade	1. Cross-border passenger traffic, no. of people	8. Decent work and economic growth
				2. Export of services, US \$	9. Industries, innovation and infrastructure
Objective 3. Food security	EBRD, UNDP, BSTDB, EIB	Ministry of Economy, Ministry of Territorial Administration and Infrastructure, Ministry of Environment	Priority 3.1. Improving agricultural productivity	1. Additional high value-added output in agricultural sectors, US \$	9. Industries, innovation and infrastructure
				2. Irrigated land, hectares	9. Industries, innovation and infrastructure
				3. Availability of agricultural machinery, units	9. Industries, innovation and infrastructure
				4. Annual energy savings, MWh	7. Affordable and clean energy
				5. Reduction in direct water loss during treatment, transport and distribution, cubic metres	6. Ensure access to water and sanitation for all
				6. Reduction in specific end-user water consumption, %	6. Ensure access to water and sanitation for all
			Priority 3.2. Supporting the development of a commodity distribution network	1. Newly built wholesale and distribution areas, square metres	9. Industries, innovation and infrastructure
				2. Agricultural exports, US \$	17. Partnerships for sustainable development

Objective	Potential partners	Implementing agencies	Priority	Output	SDG
Objective 4. Developing accessible financial services	EIB, World Bank, IFC, EBRD, UNDP, KfW, ADB, BSTDB	Ministry of Finance, Ministry of Economy, Central Bank of Armenia, Ministry of High-Tech Industry	Priority 4.1. Developing financial infrastructure	1. Additional offerings (capitalisation growth) in the capital market, US \$	8. Decent work and economic growth
				2. Average daily exchange turnover (stock and debt market), US \$ millions	8. Decent work and economic growth
				3. Number of cross-border offerings, total	17. Partnerships for sustainable development
				4. Share of loans in the national currency as a percentage of total loans, %	8. Decent work and economic growth
				5. Processing time for a cross-border payment with EDB countries, hours	17. Partnerships for sustainable development
			Priority 4.2. Increasing the capacity of the financial services market, including with targeted SME support programmes	1. Loans to SMEs, US \$ millions	8. Decent work and economic growth
				2. Target financing, excluding trade transactions, US \$ millions	8. Decent work and economic growth
				3. Number of jobs created as a result of supporting SMEs, total	8. Decent work and economic growth
				4. Documentary transactions supporting foreign trade with EDB countries, US \$ millions	17. Partnerships for sustainable development
Objective 5. Digital transformation of the economy and public governance	World Bank, IFC, UNDP	Ministry of High-Tech Industry, Ministry of Territorial Administration and Infrastructure, Ministry of Economy	Priority 5.1. Promoting the development of safe and sustainable digital solutions and infrastructure	1. Number of users of digital solutions or digital transactions based on those solutions, total	9. Industries, innovation and infrastructure
				2. Digital project financing, US \$ millions	9. Industries, innovation and infrastructure
			Priority 5.2. Improving the efficiency of data circulation	1. Number of users of digital solutions or digital transactions based on those solutions, total	9. Industries, innovation and infrastructure
				2. Digital project financing, US \$ millions	9. Industries, innovation and infrastructure

Source: the EDB

4.3. Country Strategy implementation risks



Failure to secure additional capital

Additional capital needs to be leveraged to support the strategy objectives, namely, to boost investment to US \$3.8 billion by 2026 and implement the unique integrated development agenda in the EDB region.

To mitigate the risk:

and implement its strategy objectives, the Bank envisages phased mobilisation of additional capital, reflecting the need to maintain financial stability, investment and project activities without excessive capital risk.



Insufficient expertise or resources to prepare documents for priority projects

To mitigate the risk:

the EDB will use its Technical Assistance Fund to finance project preparation and improve the investment attractiveness of projects with a high expected impact.



Inadequate regulatory framework for implementing integration-related investment projects

To mitigate the risk:

the EDB will work closely with the Armenian government and the EEC to harmonise laws and remove institutional barriers.



Lack of specific demand for project financing in Armenia

To mitigate the risk:

the EDB will expand its country offices and actively engage with the government and national and international development institutions to identify priority and promising projects.



Cost of funding offered by the EDB to borrowers in Armenia is uncompetitive

To mitigate the risk:

as part of its strategic objective, the EDB will work continuously to reduce the cost of funding and develop tied financing and equity investment. The Bank will also extend grants from its Technical Assistance Fund to prepare projects.



Lack of collateral

To mitigate the risk:

and implement projects with the highest potential impact, the EDB will consider alternative sources of collateral, including guarantees from other MDBs, EFSD instruments and other options.



Drastic changes in global economic trends and high-tech developments

To mitigate the risk:

and manage digitalisation risks, the Bank will use and increase specialisation in its Fund for Digital Initiatives as a mechanism to implement digital development projects in Armenia.



Increases in expenses

To mitigate the risk:

the EDB will manage its financial stability in line with the objectives set by the Bank's shareholders.



Possible barriers resulting from legislative change

To mitigate the risk:

the EDB, as an MDB partner, will cooperate to mobilise the resources of other development institutions operating in Armenia and implement joint initiatives, including as part of MDB programmes approved by the Armenian government.



Lack of clarity in defining the roles, responsibilities and operations of digital institutions in the public system

To mitigate the risk:

the EDB will cooperate with other development institutions to implement the necessary institutional reform in the areas prioritised in Armenia's national strategic planning documents.



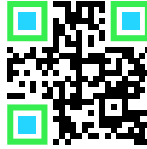
Lack of adequately specialised resources in the public system

To mitigate the risk:

as well as developing investment as key to promoting the Bank's goals in line with its mission, the EDB will use its resources to help create an institutional environment which fosters innovative development of the Armenian economy.

✉ INFO@EABR.ORG

🌐 EABR.ORG



Erebuni Plaza Business Centre
26/1 Sargsyan St., office 811
Yerevan, 0010
Armenia
Tel.: +374 (10) 54 01 02
Fax: +374 (10) 54 13 52
Email: rep_yerevan@eabr.org