

Table 4. Armenia: Other External Financing (Additional) 1/ (in billions of drams)			
2009			
<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>
13.3	53.3	66.6	77.0

1/ Cumulative from December 2008, at program exchange rates.

INTERNATIONAL MONETARY FUND

REPUBLIC OF ARMENIA

**Request for Stand-By Arrangement**

**Informational Annex**

Prepared by the Middle East and Central Asia Department

March 3, 2009

	Contents	Page
I.	Relations with the Fund .....	<a href="#">2</a>
II.	Relations with the World Bank .....	<a href="#">6</a>
III.	Relations with the EBRD .....	<a href="#">16</a>
IV.	Statistical Issues .....	<a href="#">18</a>

**ANNEX I. ARMENIA: RELATIONS WITH THE FUND**

(As of January 31, 2009)

I. **Membership Status:** Joined 05/28/1992; Article VIII

II. <b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	92.00	100.00
Fund holdings of currency	92.00	100.00
III. <b>SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Holdings	1.89	n.a.
IV. <b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
PRGF arrangements	87.50	95.10

V. **Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	11/17/2008	11/16/2011	9.20	1.31
PRGF	05/25/2005	05/24/2008	23.00	23.00
PRGF	05/23/2001	12/31/2004	69.00	69.00

VI. **Projected Payments to Fund** <sup>1/</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	15.19	14.13	14.44	14.75	11.07
Charges/interest	<u>0.41</u>	<u>0.33</u>	<u>0.26</u>	<u>0.19</u>	<u>0.12</u>
Total	15.59	14.46	14.70	14.94	11.19

<sup>1/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. **Safeguards Assessment**

Under the Fund's Safeguards Assessments policy, an update safeguards assessment of the Central Bank of Armenia (CBA) is currently being finalized with respect to the PRGF approved on November 18, 2008. An earlier update assessment completed on November 7, 2005 found that

the CBA's safeguards framework has been strengthened since the initial assessment completed in 2002.

### VIII. Exchange Rate Arrangement

- (a) The de jure arrangement is a “managed float.” The de facto arrangement was reclassified to “stabilized (peg-like) arrangement” as of July 1, 2008 from a “managed float.” The official exchange rate is quoted daily as a weighted average of the previous day’s interbank exchange rates.
- (b) Armenia maintains no exchange restrictions on the making of payments and transfers for current international transactions except for exchange restrictions maintained for security reasons, and notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

### IX. Article IV Consultations

The 2008 Article IV consultation with Armenia was concluded on November 17, 2008. Armenia is subject to a 24-month consultation cycle.

### X. FSAP Participation and ROSCs

A joint World Bank-International Monetary Fund mission assessed Armenia’s financial sector as part of the Financial Sector Assessment Program (FSAP) update during February 16–March 4, 2005. The Financial Sector Stability Assessment (FSSA) report was discussed by the Executive Board on May 25, 2005.

#### ROSC Modules

Standard	Timing	Publication Status	Document Number
Basel Core Principles for Effective Banking Supervision (BCP)	April 2001	Unpublished	...
Core Principles for Systemically Important Payments Systems (CPSS)	April 2001	Unpublished	...
Insurance Principles set by the International Association of Insurance Supervisors (IAIS)	2001	Unpublished	...
Principles set by the International Organization of Securities Commissions (IOSCO)	2001	Unpublished	...
Code of Good Practices in Monetary and Financial Policy Transparency (MFPT)	April 2001	Unpublished	...

Code of Good Practices on Fiscal Transparency	March 2001	Published	02/37
Data ROSC module	September 2000	Published	02/06
AML-CFT assessment by MONEYVAL	July 2004	Unpublished	...
Basel Core Principles for Effective Banking Supervision (BCP) update	May 2005	Unpublished	...
Corporate Governance	May 2005	Unpublished	...
Data ROSC module	April 2008	Published	09/50

## XI. Resident Representatives

Ms. Nienke Oomes, since August 2006.

## XII. Technical Assistance

The following table summarizes the Fund's technical assistance to Armenia since 2002.

### Armenia: Technical Assistance from the Fund, 2002–09

Subject	Type of Mission	Timing	Counterpart
<b>Fiscal Affairs Department (FAD)</b>			
Tax policy and administration	Short-term	September 17–October 2, 2003	MFE, State Tax Service (STS), and Customs Committee
Tax policy	Short-term	April 22–May 6, 2004	MFE, STS, and Customs Committee
Tax administration	Short-term	July 13–27, 2004	MFE, STS, and Customs Committee
Public expenditure management advisor		November 7, 2003–November 6, 2004	
Tax administration	Short-term	October 5–18, 2006	MFE, STS
Public financial management reform	Short-term	November 27 – December 8, 2006	MFE
Tax administration	Short-term	October 31 – November 13, 2007	MFE, STS
Tax administration	Short-term	January 5 – 22, 2008	MFE, STS
Tax administration	Short-term	April 1–12, 2008	MFE, STS
Tax administration	Short-term	June 11–17, 2008	MFE, STS
Tax administration	Short-term	February 2–27, 2009	MFE, STS

**Legal Department**

Tax legislation		September 1, 2004– December 31, 2005	
Legislation Development & FIU	Short-term	July 31–August 7, 2006	
Unified Tax Code	Short-term	June 16–23, 2007	MFE

**Monetary and Capital Markets Department**

Banking system issues	Short-term	April 15–19, 2002	CBA
Banking system, deposit insurance, foreign exchange market development, and CBA monetary operations.	Short-term	June 24–July 4, 2002	CBA
Unified financial supervision, mortgage financing markets and inflation targeting	Short-term	January 26–February 6, 2004	CBA
Financial sector assessment program update	Short-term	February 16– March 4, 2005	CBA
Recapitalization of the Central Bank of Armenia	Short-term	December 8–14, 2005	CBA
Monetary policy and markets		December 4, 2005– December 31, 2006	
Strengthening the implementation of monetary policy	Short-term	March 8–21, 2006	CBA
Monetary policy implementation and money market development	Short-term	October 5–17, 2006	CBA
AML/CFT preventive measures		April 1, 2006–April 30, 2007	
Inflation Targeting, Foreign Exchange Market Development and Responding to Dedollarization	Short-term	August 29–September 10, 2007	CBA
Exchange rate and collateral	Short-term	February 23–27, 2009	CBA

**Statistics Department**

Data dissemination standards	Short-term	September 18–25, 2003	National Statistical Service
Balance of payments: remittances	Short-term	August 22–September 5, 2006	CBA

**International Capital Market Department**

Sovereign credit quality	Short-term	September 6–10, 2005	CBA
Sovereign credit risk	Short-term	August 20, 2005– August 20, 2006	CBA

**ANNEX II. ARMENIA: RELATIONS WITH THE WORLD BANK**  
(January 15, 2009)

Country Director: Donna Dowsett-Coirolo

Telephone: (202) 473-0121

**I. IMPLEMENTATION OF STRUCTURAL REFORM MEASURES**

**A. Legal and Judicial Reform**

1. The World Bank has supported the Armenian government to establish the core legal framework necessary for private sector operations, including the civil procedures code, the procurement law, the business registration law and the public auction law. The fully restructured and enacted bankruptcy law is now harmonized with the civil code and the civil procedures code, and strengthens the enforcement mechanisms for bankruptcy procedures. The concessions law has been enacted and the National Assembly has adopted a new labor code, which is compatible with the requirements of a market economy and is an important instrument of flexible job-creation. The government also has made significant progress in drafting the necessary legislation to improve the lending environment through strengthening the procedures for collateral registration and for foreclosure and enhancing the knowledge of the judiciary concerning commercial contracts. With support from the Second Judicial Reform Project (JRP2), the judiciary and the government formulated a long term strategy for the system, which is reflected in the judicial code and consequent establishment of the Judicial Department responsible for judicial administration and a career judicial service (excluding judges). With the support of JRP1 all the normative legal acts were made available electronically through the ARLIS legal database with free on-line access. Special automated case management information systems were developed and piloted for courts (CAST) and the Enforcement Service Department. Under JRP2 CAST now has been rolled-out across the entire judicial system. The World Bank has also supported the rehabilitation of 13 courthouses housing 15 courts and the installation of digital case recording audio systems in all renovated or new courtrooms. Additional courthouses throughout Armenia are under construction as part of JRP2.

**B. Business Environment**

2. The World Bank has supported the government in making some progress in removing administrative barriers for business and investment and has strengthened the consultative mechanisms with the business community, though overall there is still much work remaining to improve Armenia's competitiveness. Recent steps taken include: consolidating, downsizing, and clarifying mandates of various government inspections; enacting the new law on business registration; streamlining licensing procedures; issuing new accounting recommendations for small and medium-sized enterprises; establishing a regulatory

framework that allows privatization of urban land by business entities; and adopting simplified procedures for obtaining site development and construction permits. The capacity of the Armenian Development Agency as a focal point for government's efforts to promote investment and exports as well as for identifying the remaining bottlenecks in the business environment has been strengthened. The functioning of the Business Council has improved and the private sector's awareness of its activities has been enhanced.

3. Recent business surveys of Armenian entrepreneurs suggest that these efforts have already resulted in a more positive private sector perception of the business and investment environment. For example, the average time necessary to get construction and building renovation permits was reduced from 310 days in 2001 to 112 days in 2006. FDI increased by almost 3-fold in 2007 compared with 2005.

4. The government recently commenced policy work to widen participation in the provision of international civil aviation services, raise efficiency, and reduce costs. Despite these improvements, there is still considerable scope for further reforms in the areas of competition, and deregulation and strengthening of business and investment climate (especially in commercial debt recovery procedures).

5. The IFC is active in Armenia and has a committed portfolio of US\$ 43.5 million (\$40.5 million outstanding), as of January 2009. IFC's portfolio is concentrated primarily in the banking sector, with additional commitments in the retail, mining, and hotel sectors. IFC will continue to seek opportunities for investments in the real sector, including in retail, mining, transportation logistics, and telecoms. In the financial markets sector IFC will continue providing term funds to selected Armenian banks for SME on-lending and housing finance, and will increase existing trade lines and extend new lines to new clients. IFC is also working toward introducing new products (e.g., energy efficiency financing for SMEs and households). Furthermore, since autumn 2008 IFC Advisory Services has started work on four new areas: an energy efficiency survey, housing finance development, and corporate governance and Business Enabling Environment projects.

### **C. Public Sector Reform**

6. Further strengthening of tax and customs administration was at the core of the PRSC series, as much work remains to reduce the burden imposed on firms and to raise revenue as a share of GDP. The shortcomings of the tax and customs administrations remain acute: recent survey data show tax and customs as one of the main constraints affecting the operations and growth of Armenian companies. One of the major reforms was the adoption of a self-declaration system. A separate division for taxpayer service has been established within the SRC headquarters designated for: (i) defining the policies and procedures of taxpayer education and assistance for tax inspectorates; (ii) overseeing the performance of taxpayer

service divisions of tax inspectorates; and (iii) managing the taxpayer education and assistance operations through out the SRC. A work plan for improving the enforcement of the Law on Declaring Individuals' Property and Income was also developed. Recording commissions were abolished as of July 1<sup>st</sup> 2008.

7. Under PRSC-supported reforms the government merged the large taxpayers, banking and financial, excise, and mining inspectorates into one department - the Large Taxpayers Unit (LTU). The administrative and audit capacity of the LTP was also strengthened under the PRSC-supported program. Reforms focused on legislative initiatives to facilitate effective tax audits and on development of personnel, institutional, and administrative infrastructure to support the LTU. An annual audit plan based on risk classification, priorities and targets was introduced. Further measures are needed to strengthen the LTU in order to reduce the stock of VAT arrears owed to exporters and ensure that no additional arrears are incurred.

8. Over the PRSC program, some significant structural improvements were achieved in customs administration, such as the introduction of modern software and improved personnel practices. The central reform was the institution of *direct trader input* (DTI) that currently covers about 70 percent of imports. DTI has initiated a systemic change away from the intimate involvement of customs officials at the declaration validation stage, where opportunities for discretionary behavior are rife. The system has the capability to provide for immediate validation and assessment of acceptable declarations. Under PRSC-IV, the working of DTI was made increasingly effective through the implementation of a comprehensive post-release review program for imports. The post-release reviews are becoming increasingly effective in ensuring proper customs administration whilst reducing the opportunities for poor governance.

9. The PRSC program also supported the detailed preparatory technical work for the introduction of a bank guarantee mechanism for approved importers to facilitate the smooth flow of imports, strengthen the rules-based regime, reduce risks, and minimize the interface between importers and customs officials. Moreover, customs introduced a self declaration system and reduced the role of reference prices. It has also provided public access to customs values through the official customs website ([www.customs.am](http://www.customs.am)). Legislative amendments for the implementation of guarantees were approved by the government at end-September 2007. Progress has also been made in selectivity of customs control. A risk-based system was introduced under the PRSC program. Reforms in this area have led to greater regularization and predictability in clearance of goods, reduced discretion, and lowered business costs. However, these efforts are still too fragmented to meet the challenges of a modern customs administration. There does not seem to be a vision as to what customs could and should do in the Armenian environment. Critical next steps include: (i) developing a strategic approach to a government-supported cross-border control policy (extending beyond the purely customs domain); and (ii) consolidating recent progress under an objective-driven action plan.

10. The World Bank has also been supporting the government in a wide range of public administration reforms, in particular in developing the Anti-Corruption Strategy and Action Plan 2003-2007 (adopted in November 2003), improving policy formulation, and strengthening the civil service. Ongoing support from the Bank has already assisted the Government in advancing merit based recruitment and performance management in the civil and municipal services, capacity building for certification, and external audit reforms. Information management systems have been delivered for central and municipal administration. The electronic document management system, piloted in the government staff and two pilot ministries, is already being rolled-out across the entire government. Development of e-tendering modules for planned electronic public procurement system is also underway.

11. The Bank has also supported Armenia's public financial management (PFM) reform agenda by strengthening external audit through the Chamber of Control, assisting development of a modern internal audit capacity, and building capacity in local government. Since 2003 there has been continuous support to capacity building for treasury reforms, which in particular produced technical and functional specifications for a Government Financial Management Information System. Further, the Bank supported the government in preparation of its Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report, which was published in October 2008. The conducted and ongoing analytical and capacity building work will shape the PFM system as Armenia prepares its PFM reform strategy.

#### **D. Energy and Infrastructure**

12. Since its privatization in the second half of 2002, the Electricity Distribution Company has remained in compliance with its licenses agreement as confirmed by making full payments to the generation and service providers, reporting to the regulator on a timely basis, and submitting its investment plan to the regulator. Supported by the World Bank, the government and the regulator have also made satisfactory efforts to improve the legal and regulatory framework in the energy sector in order to establish a supportive environment for the new private operator. The market rules in the energy sector have improved. The Electricity Distribution Company is allowed to enter into direct contracts with the electricity generators and service providers, which has enhanced sector transparency. The regulator has adopted and enforced service quality standards for electricity supply. Despite this satisfactory performance, continued efforts are crucial for improvements in the energy sector through restructuring the midstream companies and strengthening the regulatory framework to ensure adequate functioning, transparency, and reliability of this sector.

13. There has been progress in improving fiscal discipline and reducing losses in the irrigation and water sectors. The World Bank has been working with the government to:

(i) upgrade the management capacity of public companies in these sectors; (ii) ensure a gradual increase in tariffs to cost recovery; (iii) provide additional investments to improve technical efficiency; and (iv) ensure that the budget provides adequate financing for water consumed by public sector entities. The World Bank has also supported an innovative public-private partnership in water supply, which has substantially increased reliable water supply throughout the country (70% of Yerevan now has 24 hour service). The government has adopted a schedule for irrigation tariff increases in order to move closer to full cost recovery in the irrigation system.

14. As part of the PRSC-supported program, the Government also developed and is now considering a step-by-step civil aviation liberalization action plan. A railway restructuring plan and telecommunication regulations are also under preparation.

### **E. Rural Development, Agriculture, and Environment**

15. Recent World Bank support for the rural development and agriculture sector has largely been through the Rural Enterprise and Small-scale Commercial Agriculture Development Project (RESCAD), effective since December 2005. The objective of this project is to support the development of Armenia's small and medium-scale rural businesses by: (a) improving the ability of farmers and rural entrepreneurs to access markets; and (b) stimulating market-oriented private and public investments in rural areas. It helped provide long term credit resources (more than US\$4.75 million) for rural agri-business, rural enterprises, and farmers. It also helped introduce, test, and demonstrate technical innovations, and focused on processing and marketing of agricultural production through a series of competitive small grant. It helped strengthen extension services to deliver technical advice to farmers and rural businesses, with 15,000 farmers served on a regular basis. The project also supported a modern legal and regulatory framework for production of high generation seed in support of private seed production activities.

16. The Bank has also supported analytical work on the rural sector, including on marketing and value chains for various products, and sector-specific development challenges, including in-depth analysis of food safety and agricultural health issues. Considerable support has also been mobilized for the forestry sector through investment lending and the PRSC series, which promoted substantial legal and institutional reforms, including sustainable forest management through enhanced control of illegal logging and community forest management.

### **F. Education and Health**

17. The World Bank has provided significant support for reforms in education and health. The government implemented a major rationalization program during the 2003 school year.

As a result, 37 schools were merged or closed and about 9,000 teachers were made redundant. Later in 2006, during the second phase of the reforms, under the auspices of the staff optimization and social assistance program, approximately 3,200 newly redundant teachers were registered and provided with social assistance. The ratio of pupils to full-time equivalent teachers increased to over 14, and teacher salaries increased by 65 percent in 2005, 16.1 percent in 2006, and 27.0 percent in 2007. In addition, the government approved a strategy on preschool education and prepared a pilot project for its implementation in two marzes. The government has also made progress carrying out the three year reform plan for higher education.

18. Progress was also made with regard to sector financing and management. The medium-term action plan for improving the financial management, accounting, and financial reporting for higher education institutions was adopted by the government in January 2003. Accountants at the higher institutions have been trained and special software has been prepared. The government also increased the state budget allocation for primary and secondary education and improved teachers' salaries. The government also developed an action plan and cleared arrears in the education sector (and put in place measures to prevent further arrears).

19. Despite these important improvements, there is scope for further reforms, including: (i) further refining the curriculum to enhance relevance and reduce the overload, particularly in upper secondary education; (ii) strengthening the teacher education and ongoing professional development strategy to make it more demand-driven and school-based; (iii) enhancing capacities for ICT use and integration in teaching and learning, (iv) addressing governance and transparency issues in higher education; (v) enhancing standards for higher education in response to market demands; (vi) developing a student loan system; (vii) promoting school readiness and equal opportunities through an improved preschool education system and increasing the enrollment rate; and (viii) strengthening monitoring and financial reporting of the noncommercial organizations (NCOs) in the education sector.

20. The Bank also supported the government's reform program in the health sector, focusing in particular on public hospitals. The government adopted the hospital master plan for Yerevan in late 2002. As a result, the remaining public hospitals in Yerevan were to be merged into a smaller number of hospital networks while being restructured. The government adopted a decree in November 2003 identifying the configuration of ten hospital networks through consolidation of twenty-four public hospitals and thirteen outpatient health care institutions. A Bank-financed project supported upgrading hospitals' physical condition and equipment, while also improving internal management and governance of the three hospital mergers in Yerevan, which demonstrated the biggest efficiency gains. While the hospital merger process in Yerevan resulted in notable improvements in productivity and efficiency indicators in selected hospital networks, further measures are required to improve cost

accounting, personnel management and governance of hospitals. In addition, in 2006 the government adopted a regional hospital optimization/modernization plan aimed at improving the efficiency and productivity of outpatient services in the regions. The consolidation of regional hospitals in smaller networks is underway.

21. The medium-term financial management action plan for public hospitals was adopted by the government to prepare new reporting and accounting procedures, including cost accounting manuals. All public hospitals use updated financial management and accounting procedures. The government plans to conduct independent financial audits of all public hospitals over the next three years. Implementation progress has been satisfactory and about 200 hospital accountants have been trained in the new accounting procedures.

22. The level of public financing in the health sector has been continuously increasing as projected in the MTEF. The government also adopted a decision to introduce further reforms in the Basic Benefits Package. The government strategy for increasing revenues in the short term is to keep the existing benefits package but raise reimbursement rates to reduce the gap with the cost of services. The government undertook measures to increase financing of primary health care in order to secure access to quality basic health services, in particular for the poor and in rural areas. Further reforms are needed to improve the population's overall health status, reduce child and maternal mortality, increase the use of the healthcare system by rural and low-income groups, monitor public health and promote better health behavior, and strengthen monitoring and financial reporting of NCOs. The government developed the national strategy on combating non-communicable diseases and plans to take necessary steps to address the public health threats from non-communicable diseases through development and implementation of specific priority programs on non-communicable diseases and through allocation of adequate public resources in the health care budget.

### **G. Social Protection and Insurance**

23. Since 1999, the government has been replacing a range of fragmented cash and non-cash benefits and privileges with better-targeted transfers to families. The government has been supported by the World Bank to complete several important steps to enhance its capacity for administration of transfers to families, including: (i) re-registration of poverty benefit recipients; (ii) beneficiary assessment of existing benefits; and (iii) establishment of a central database for poverty benefit recipients. Data from recent household surveys suggest that the system of benefits and transfers to the poor has become an efficient instrument for reducing extreme poverty. Continued efforts are needed to ensure the adequacy of the level and administrative capacity of the social protection systems to guarantee coverage of transfers to people with special needs.

24. The Government of Armenia approved a new pension strategy in November 2008 along with an action plan for implementation. The strategy includes the mandatory introduction of a second pillar for those born after January 1, 1970 (financed by an additional contribution), a flat-benefit budget-financed first pillar, and a universal zero pillar for those who did not contribute to the system. A task force has been established to monitor the implementation of the pension reforms, and the Government has requested the Bank's support for implementation going forward.

## II. LENDING

25. World Bank lending to Armenia as of August 1, 2008 totals US\$ 1,056.1 million, (including 2 GEF operations) of which US\$953.3 million has been disbursed. The current Bank portfolio consists of 17 IDA credits and 2 GEF projects, for a total commitment of \$291.7 million, of which \$187.5 million is disbursed. The Armenia portfolio continues to be low risk with all projects rated in the satisfactory range. In FY08, one development policy operation—PRSC-IV for \$18.5 million—was approved in November 2007. In FY09, one investment operation—Additional Financing for Municipal Water Project—was approved in October 2008 for \$20 million.

26. Building on the Armenia's Poverty Reduction Strategy Paper's (PRSP) themes, the fourth Country Assistance Strategy (CAS) for Armenia was discussed in the World Bank Board of Executive Directors on June 10, 2004 and focuses on three main objectives of: (i) promoting private sector led economic growth; (ii) making growth more pro-poor; and (iii) reducing non-income poverty. A CAS Progress Report, considered by the Board on March 8, 2007, reconfirmed this focus. IDA country resource envelopes are determined annually using the Performance Based Allocation (PBA) methodology common to all IDA countries. The PBA draws on the Country Policy and Institutional Assessments and performance of the ongoing portfolio. Armenia has a very strong PBA rating and as a consequence is eligible for about US\$50-60 million equivalent per year. In addition, Armenia has now become a blend country and is eligible to begin IBRD borrowing in FY09.

27. A new World Bank CPS will be prepared in late FY09, which will lay out expected lending and analytic work for the next four years. This will be based on Armenia's development priorities contained in the recent update of its Poverty Reduction Strategy Program (PRSP), renamed the Sustainable Development Program (SDP). The Bank and the Fund presented the Joint Staff Advisory Note (JSAN) for the SDP to their respective Boards in November 2008.

List of World Bank Lending to Armenia, January 2009  
(In millions of U.S. dollars)

Active Projects	Credit Amount as of 01/15/09	Disbursement as of 01/15/09	Approval Date	Closing Date
<b><i>Active Projects</i></b>	<b><i>311.7</i></b>	<b><i>225</i></b>		
1. Irrigation Dam Safety	26.6	27.1	06/24/99	12/31/08
2. Irrigation Development	29.9	34.5	08/30/01	03/31/09
3. Social Protection Admin.	5.15	4.8	06/10/04	06/30/09
4. Natural Resource Management	8.3	9.4	06/04/02	01/31/09
Natural Resource Management (GEF)	5.1	4.0	06/04/02	01/31/09
5. Educ. Qual. & Relevance (APL #1)	19.0	16.5	01/20/04	11/30/09
6. Municipal Water and WW	43.0	23.3	05/04/04	12/31/11
7. Health System Modernization	19.0	16.7	06/10/04	06/30/09
8. Irrigation Dam Safety 2	6.75	4.9	06/10/04	03/31/09
9. Public Sector Modernization	10.15	8.2	05/04/04	06/30/10
10. Rural Enterprise & Small Scale Agric.	20.0	17.2	07/07/05	05/31/10
11. Urban Heating	15.0	12.3	07/12/05	06/30/10
12. Yerevan Water/Wastewater	20.0	7.9	02/24/05	02/28/11
13. Renewable Energy	5.0	4.2	03/29/06	12/31/10
Renewable Energy (GEF)	3.0	1.5	03/29/06	12/31/10
14. Avian Influenza Preparedness	6.25	3.4	06/02/06	07/31/09
15. Armenia SIF III	25.0	18.6	10/26/06	30/06/11
16. Health Systems Modernization (APL-II)	22.0	2.9	03/08/07	12/31/12
17. Judicial Reform II	22.5	7.6	03/08/07	12/31/12
<b><i>Closed Projects</i></b>	<b><i>764.5</i></b>	<b><i>797.9</i></b>		
18. Economic Rehabilitation	60.0	57.6	02/28/95	06/30/96
19. SAC	60.0	56.9	02/29/96	12/31/97
20. Institution Building	12.0	10.6	03/30/93	11/30/97
21. Earthquake Rehabilitation	28.0	29.7	02/01/94	06/30/97
22. Power Maintenance	13.7	12.8	12/08/94	06/30/99
23. SAC II	60.0	63.1	08/26/97	06/30/99
24. SATAC I	3.8	2.9	02/29/96	06/30/00
25. Highway	31.0	29.9	09/14/95	12/31/00
26. Social Investment Fund	12.0	11.4	11/09/95	12/31/00
27. Irrigation Rehabilitation	43.0	40.9	12/08/94	05/31/01
28. SAC III	65.0	70.3	12/22/98	06/30/01
29. Enterprise Development	16.8	16.4	12/24/96	07/01/02
30. SATAC II	5.0	4.9	08/26/97	12/31/02
31. Education	15.0	16.2	11/20/97	10/31/02
32. SAC IV	50.0	58.4	05/22/01	03/31/03
33. Health	10.0	10.4	07/29/97	12/30/03
34. SAC V	40.0	45.9	03/13/03	06/30/04
35. Title Registration	8.0	8.9	10/13/98	09/30/04
36. Transport	40.0	45.5	06/08/00	12/31/04
37. PRSC I	20.0	20.8	18/11/04	12/31/05
38. Agric. Reform Support	16.3	17.6	01/27/98	06/30/05

39.	Social Investment Fund II	20.0	22.7	05/11/00	12/31/05
40.	Investment and Export Facilitation	1.0	1.2	04/16/02	12/31/05
41.	Municipal Development	30.0	33.1	06/11/98	01/31/06
42.	PRSC II	20.0	21.5	01/19/06	06/30/07
43.	Enterprise Incubator	5.0	5.7	11/30/01	12/31/06
44.	Judicial Reform	11.4	13.0	09/14/00	12/31/06
45.	Electricity Transmission & Distribution	21.0	22.8	03/04/99	06/30/07
46.	PRSC III	28.0	28.5	03/08/07	06/30/08
47.	PRSC IV	18.5	18.3	11/27/07	06/30/08
	<b>Total</b>	<b>1,076.2</b>	<b>1,022.9</b>		

**ANNEX III. ARMENIA: RELATIONS WITH THE EUROPEAN BANK FOR  
RECONSTRUCTION AND DEVELOPMENT (EBRD)**

(As of December, 2008)

1. As of December 19, 2008, the EBRD approved 63 projects in the power, transport, agribusiness, municipal and infrastructure, property, construction and financial sectors. Total commitments amounted to around EUR 289 million.
  
2. There are three sovereign projects. First, the EBRD approved a sovereign guaranteed loan of EUR 54.8 million for construction of the Hrazdan Unit 5 thermal power plant in March 1993, partly aimed at the eventual closure of Armenia's nuclear plant in Medzamor. The government was contemplating the privatization of Hrazdan Unit 5 as the completion of this plant was constrained by limited budgetary resources. The EBRD had funded technical assistance for the Hrazdan privatization prospectus and followed the privatization process. The Hrazdan Thermal Power Complex excluding the unfinished Unit 5 was transferred to the Russian Federation in the context of the debt-for-equity deal. Second, in November 1994, the agreement on a EUR 21.8 million loan to build an air cargo terminal in Zvartnots airport was signed under a guarantee by the Armenian government. The airport was transferred to private management in 2002. The new management has prepared a master plan for the development of the airport, which is expected to generate further cargo traffic for the cargo terminal. Third, the EBRD approved a 7 million EUR loan to the State Committee for Water Systems, owner of the water and wastewater assets located in the small municipalities outside of Yerevan, in April 2007. The proceeds of this loan will be used to improve wastewater treatment in five municipalities located near Lake Sevan.
  
3. Most of the Bank's projects in Armenia are in the private sector. Amongst other corporate clients the EBRD has provided a loan to the Yerevan Brandy Company owned by Pernod Ricard of France (EUR 16.5 million). In 2007 the Bank provided a USD 20 million loan to the private concessionaire of Zvartnots International Airport, Armenia's principal gateway. The loan was a commercial facility with no sovereign support. Other private sector finance includes relatively smaller loans to private companies and equity participation in a number of companies in various sectors of the industry. In the banking sector, a first equity participation in the Commercial Bank of Greece-Armenia (EUR 1.1 million) was approved in late 1999 and a second equity participation in Armeconombank was approved in 2004. The Bank also acquired an equity stake in an Armenian non-bank financial intermediary, CIRCO, an insurance subsidiary of Cascade Capital. Moreover, a multi-bank on-lending facility of EUR 10 million was activated in early 2000. The EBRD expanded its relationship with the partner banks in Armenia from four to nine. Seven banks were provided with new credit facilities under the MBFF, including through historic (for Armenia) commercially-syndicated loans to ACBA Credit Agricole Bank and Armeconombank. Co-financing facility with local banks was also expanded through three MCFF facilities with twelve MCFF sub-loans. By

means of MCFE the Bank has entered such new sectors as healthcare and telecom, in addition to significantly expanding its portfolio of agribusiness loans. The Bank acquired new equity stakes in three including with foreign strategic co-investors (ProCredit and ITB-Byblos) and Ararat Bank. One institution (Armeconombank) was provided with a mortgage facility, and the first leasing facility in Armenia was signed. A Trade Facilitation Program with the purpose to facilitate access of Armenian banks to trade financing was also made available to four Armenian banks. The EBRD has launched the Turn Around Management (TAM) and Business Advisory Service programs in Armenia in 2003, originally funded by the EU-Tacis program but now funded from the ETC Fund, to support micro, small, and medium-sized enterprises. Since 2006 BAS has completed 263 projects in the amount of €1.1 million in TC, while TAM delivered 7 projects for €0.5 million in TC.

4. Supporting development of renewable energy was another core activity of the Bank. To that end, the EBRD joined forces with the WB, USAID, and Cascade Credit (a financing arm of the Armenian-American Cafesdjian Foundation) to launch the Armenian Renewable Energy Programme (AREP). The Bank's participation took the form of a loan to Cascade Credit. The Bank also continued to finance renewable energy projects on its own through Direct Lending Facility, with two such projects signed. In addition to renewable energy, the Bank returned to the mainstream segment of the sector, seeking to support post-privatisation development of the sector with a loan to the Armenian privately-owned power distribution company.

5. Projects identified by the Bank for future development are well-diversified across sectors, and includes several relatively large transactions, thus reflecting economic growth in Armenia and the country's increasing attractiveness to foreign investors. Additional business opportunities are offered by the country's infrastructure sector, including projects in the public sector (municipal and sovereign). Equity transactions through Direct Investment Facility represent one of the fastest growing portfolio segments in Armenia, which has emerged as the leading DIF country in the Caucasus.

6. The key priorities of the EBRD for the coming years are: (i) financial sector; (ii) enterprise sector, particularly SME and micro-enterprise financing through credit lines to Armenian banks or direct loans and equity investments, (iii) infrastructure investments in the development of alternative energy sources and municipal infrastructure projects and (iv) portfolio monitoring and implementation support. The EBRD's current country strategy was approved in February 2006 and a new one is presently in the review process.

## ANNEX IV. ARMENIA: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Further improvements in real, fiscal, and external sector statistics would be desirable in order to facilitate enhanced design and monitoring of economic policies. The overall quality, timeliness, and coverage of macroeconomic statistics have improved significantly over the past few years. The Fund has substantially facilitated this process through technical assistance from the Statistics Department, the Fiscal Affairs Department, and the Monetary and Capital Markets Department. On November 7, 2003 Armenia subscribed to the Special Data Dissemination Standard (SDDS). The April 2008 data ROSC mission prepared a detailed evaluation of the quality of the macroeconomic statistics.

### **Real sector statistics**

2. The National Statistics Service (NSS) has made significant changes to the national accounts methodology to bring it in line with best international practices although some shortcomings on data sources and methods remain. Progress has been made in developing estimates of monthly and (constant price) quarterly GDP that are now published. Basic data collection procedures have also partially improved. The national accounts statistics are compiled following the conceptual frameworks of the *1993 SNA* and *ESA 95*. The classification of value added by economic activity follows the *ESA 95* directions and data are published grouped accordingly to the A3, A6, A17 and A60 codes of the EU nomenclature of economic activities.

3. Annual and quarterly GDP estimates are compiled at current prices, at comparable previous year's prices, and at average annual prices of the base year (1998) for the series up to the year 2006. Since 2007, GDP at constant prices is computed at average annual 2005 prices. The April 2008 ROSC mission found that compilation techniques for the estimates of GDP by production at constant prices are sound, however there is still need for improvements in the corresponding estimates of GDP by expenditure, particularly regarding the deflators of imports and exports. The mission also found that government expenditures and some transactions with the rest of the world are recorded on a cash basis rather than the required accrual method. Moreover, quarterly data are still collected on a cumulative basis, which are likely to undermine their accuracy. Additionally, statistical techniques need improvements regarding the estimates of the imputed rental services for owner-occupied dwellings, consumption of fixed assets, and work in progress in agriculture.

4. The CPI covers 11 large population centers and the capital city. Since January 2006 the CPI has been computed using 2005 weights. Concepts and definitions used in the compilation of the CPI are broadly in line with international standards; source data and

compilation techniques are generally adequate. The NSS compiles a ten-day and a monthly CPI. The ten-day index and the monthly index are disseminated jointly.

### **Government finance statistics**

5. The budget execution reporting system compiles data on a cash basis supplemented with monthly reports on arrears and quarterly reports on receivables and payables. Daily revenue and cash expenditure data for the central government are available with a lag of one to two days. The Ministry of Finance (MoF) is undertaking a comprehensive reform of the treasury system, including the introduction of an internal auditing system in line ministries and their budgetary institutions. A single treasury account (TSA) was introduced in 1996, and all bank accounts held by budgetary institutions were closed, except for Project Implementation Units that are required by donors to operate with commercial banks' accounts. Starting in 2002, some budgetary institutions have been converted into "noncommercial organizations" (NCOs). These units have been taken out of the treasury system and have their own bank accounts but report data on cash flows and balances to the MoF since 2003. These exceptions notwithstanding, all government receipts and payments are processed through the TSA, although there are still shortcomings on the timeliness and quality of data on the operations of local governments. Classification of government transactions by function and economic category are generally in line with the *Manual on Government Finance Statistics 1986*, and monthly data on central government operations are disseminated one month after the reporting period.

6. By law, expenditures are classified and presented in the budget in accordance with the *1986 GFSM*, but the MoF is working to implement the *Government Finance Statistics Manual 2001 (GFSM 2001)*. The budget presentation and the classification of items under the economic and functional classification of expenditures needs to be made more transparent; for instance, the data have been subject to frequent reclassifications, and wages for military personnel are reported in the broader category of "other" goods and services rather than as a wage item. The reconciliation of central government with general government operations is done by the NSS in cooperation with the MoF.

7. The authorities submitted cash data, converted to the framework of the *GFSM 2001* for publication in the *2007 Government Finance Statistics Yearbook*. The authorities began providing data for publication in the *IFS* in July 2007. The *GFSM 2001* implementation plan is currently limited to bringing the classification of budgetary central government revenue, expense, and transactions in nonfinancial assets in line with international practices.

### **Monetary and financial statistics**

8. Monetary and financial statistics are provided on a timely basis. Daily data on the accounts of the Central Bank of Armenia (CBA) are provided weekly with a one-day lag,

while weekly data on the monetary survey are provided with a one-week lag. The balance sheets of the CBA and of the deposit money banks follow IAS methodology. Monthly interest rate data are provided with an one-week lag.

9. Responding to a STA request, the CBA has compiled and submitted a complete set of monetary data beginning from December 2001 using Standardized Report Forms (SRF). STA validated the resulting monetary aggregates and the data have been published since the December 2006 issue of *IFS Supplement* and are used to update IFS. An Integrated Monetary Database (IMD) has also been established by STA to share the SRF data with MCD.

### **External sector statistics**

10. The coverage of external sector data has improved in recent years. Trade statistics are provided on a timely basis, and trade data by origin, destination, and commodity are generally available within a month. Price data for exports and imports are less readily available. Quarterly balance of payments statistics are generally available with a three-month lag. However, on remittances, which account for a significant part of the inflows, there are considerable discrepancies among available source data. Survey data are considerably lower than data obtained through the money transfer system. The NSS and CBA are working on establishing a compilation program that would enable proper measurement of remittances. The absence of a comprehensive, continuously updated business register hampers the coverage of transactions and institutional units; in particular, the coverage of the financial account items for the private nonbank sector.

11. Quarterly data on international investment position are published by the NSS within one quarter after the reference period, and the annual data within two quarters; and are also provided for publication in IFS.