

ADB

Development
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Brief

Armenia ▶

A Historic Country Reemerges



Asian Development Bank



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Armenia

Development Indicators

Item	2009
Non-Millennium Development Goals	
Population (million) (2009)	3.2
Annual population growth rate (%) (2007–2009)	0.2
Adult literacy rate (%) (2007)	99.5
Percent of population in urban areas (2008)	63.9
Millennium Development Goals	
Population living on less than \$1.25 a day (%) (2007)	3.7
Population living below national poverty line (%) (2008)	23.5
Under-5 mortality rate per 1,000 live births (2008)	23.0
Population using an improved drinking water source (%) (2006)	98.0
Income and Growth	
GDP per capita (\$, current)	2,614.7
GDP growth (% in constant prices)	(14.2)
Agriculture	(0.1)
Industry	(30.5)
Services	(0.0)
Savings and Investment (current and market prices, % of GDP)^a	
Gross domestic investment	33.8
Gross national savings	17.4
Money and Inflation (annual % change)	
Consumer price index (period average)	3.4
Total liquidity (M2)	15.1
Government Finance (% of GDP)	
Revenue and grants	22.9
Expenditure and onlending ^b	30.5
Overall fiscal surplus (deficit)	(7.6)
Balance of Payments	
Merchandise trade balance (% of GDP)	(24.4)
Current account balance (% of GDP) ^c	(16.0)
Merchandise exports growth (annual % change)	(32.7)
Merchandise imports growth (annual % change)	(25.0)
External Payments Indicators	
Gross international reserves (\$ million)	2,003.4
(in months of imports)	6.5
External public debt service (% of exports of goods and services)	5.4
Total external debt (% of GDP)	34.7
Memorandum Items	
GDP (in billion drams)	3,102.8
Exchange rate (drams/US\$, period average)	363.3

() = negative, GDP = gross domestic product, M2 = broad money.

^a Officially reported saving–investment balance does not exactly equal the officially reported current account balance.

^b Data for 2008 is incomparable with earlier years owing to the inclusion from 2008 of social security taxes and payments to the state pension fund. After January 2008, the overall balance does not include net lending.

^c Including official transfers.

Sources: *Asian Development and Armenia Fact Sheet, 2009*; Central Bank of Armenia, Ministry of Finance; National Statistical Service, IFS Online and *IMF World Economic Outlook*.

Armenia and ADB: A Forward-Looking Partnership

Armenia is a mountainous, landlocked emerging democracy in the southern Caucasus. Located between the Black and Caspian seas, at the juncture of Western Asia and Eastern Europe, along the historic route of the Great Silk Road, it has a rich culture and deep history that literally traces back to the Genesis section of the Bible. Armenia lies in the shadows of Mount Ararat, where Noah's Ark is said to have come to rest after the flood. The strains of Christianity run deep in Armenia, with the country taking pride in being the first state to adopt the religion, by some accounts as early as 301.

Bordered by Georgia, Azerbaijan, Iran, and Turkey, Armenia has been situated along strategic trade routes, and in sensitive geopolitical and security areas, for much of its existence. As a result, the country has been exposed to many cultures and empires over the centuries, resulting in a deep heritage but at times also a turbulent history. Modern Armenia emerged in 1991, with the breakup of the Soviet Union and the country's independence. Its economic transition to a market economy is ongoing.

Armenia has successfully overcome the legacy of a centrally planned economy and the breakdown of former Soviet trading networks. Before the global economic downturn, Armenia was considered a "tiger" economy of the Caucasus, with strong, stable economic expansion exceeding 10% per year. Relying on its construction and mining industries to keep its economy booming, it has also benefited from remittances sent by the generous diaspora of Armenians around the world, who number 6 million, double the country's population.

The global economic downturn, as well as the conflict between Georgia and the Russian Federation, put the brakes on Armenia's fast economic growth in the last 2 years. Exports, workers' remittances, and private capital

Armenia has successfully overcome the legacy of a centrally planned economy and the breakdown of former Soviet trading networks

ADB Loan, Grant, and Technical Assistance Portfolio in Armenia

	2005	2006	2007	2008	2009	as of September 2010
Approvals (\$ million)	0	0	68	18	142	0
ADF loans	–	–	67	17	140	–
TA projects	0.2	0.2	0.9	1	2	–
Contract Awards (\$ million)	–	–	–	23	117	15
Disbursements (\$ million)	–	–	–	8	119	17
Disbursement Ratio ^a (%)	–	–	–	11.7	76.0	16.6

– = not available, ADF = Asian Development Fund (concessional loans and grants), TA = technical assistance.

^a The ratio of total disbursement in a given year over the net loan amount available at the beginning of the year, plus loans that have become effective during the year, less cancellations made during the year.

Source: ADB.

flows were hit hard, forcing the country into recession. The government responded with an aggressive anti-crisis program that maintained financial and external stability, kept inflation in check, and cushioned its population from the worst of the crisis. Armenia looks to benefit from the improved global economy, with major exports such as copper, chemicals, and jewelry, as well as the construction and services industries, beginning to rebound.

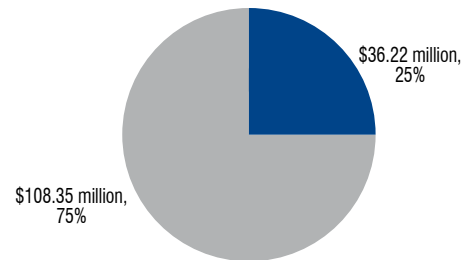
Despite the improved economic outlook, the recent economic downturn, deepened poverty and increased unemployment. But the country has a plan to meet its development challenges. The Sustainable Development Program, the country's social economic planning strategy, was approved by the government in October 2008. The program covers 2009–2021 and focuses on reducing poverty, including the elimination of extreme poverty, ensuring human development, deepening economic growth, and accelerating development in the least prosperous regions.

After only 5 years in the country, the Asian Development Bank (ADB) has played a significant

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ADB Loan and Grant Assistance to Armenia (as of 30 September 2010)

Total = \$223.92 million



- Transport and information and communication technology
- Water and other municipal infrastructure and services

Source: ADB.

role in Armenia's efforts to develop and is today ranked at par with other, more senior development partners in terms of the value and responsiveness. Armenia became a member of ADB in September 2005. ADB's work there is guided by its country operations business plan, 2008–2010. The plan is closely aligned with the government's priorities—as well as ADB's strengths—including promoting infrastructure, the private sector, and supporting regional cooperation. As of 31 December 2009, ADB had provided cumulative assistance of \$223.9 million in loans and \$3.9 million in technical assistance grants.



The Yerevan–Gyumri highway is part of the North–South Road Corridor.

ADB's Contribution to Development and Poverty Reduction

ADB's work focuses on inclusive economic growth—expanding the economy in a way that benefits all sectors, including the poor. In line with this priority, the Financial Crisis Support Program loan of \$80 million, which was disbursed in 2009, helped the country mitigate the impact of the global financial crisis through fiscal stimulus and social safety-net measures. The loans are helping the government maintain its core public expenditure program, and cushion and mitigate the adverse impact of the crisis on the most vulnerable populations. Specifically, the program is enabling the government to maintain its core public expenditure program, continue social safety-net spending, and create at least 6,500 new jobs. In addition to its involvement in transport, urban development, and finance, ADB also supported in 2008 the Strengthening Public Financial Management Professionals in Armenia Program, which improved the government's internal auditing capacity and aimed to upgrade public sector governance and transparency.

Transport: Armenia Drives Forward

ADB is extending up to \$500 million to upgrade Armenia's main highway as part of a broader program to boost trade, growth, and livelihood opportunities in the Caucasus and throughout Central Asia. The North–South Road Corridor Investment Program, which extends through 2016, will—in addition to other activities—reconstruct an 18-kilometer (km) section of the road corridor between the capital city Yerevan,

and Ashtarak to the north, and improve safety on the Yerevan–Ararat road to the south. The total investment cost for the 7-year program is \$962 million, with the government and other development partners providing \$462 million.

The transport corridor is vital because the Caucasus connects Central Asia to Europe and is a major transit route for crude oil and other exports from Central Asia. ADB is helping transform the Caucasus into a vibrant business and logistics hub that will drive inclusive economic growth and reduce poverty. Armenia's role in this effort involves upgrading the Agarak–Kapan–Yerevan–Bavra road, which links with Georgia's southern corridor and provides a connection to the Black Sea ports of Poti and Batumi, key shipment points for Central Asia's exports.

Many of the road systems around the subregion were built during the Soviet era and are now in poor condition because of lack of maintenance and sharp increases in traffic. Sayid Balkan, a tourist bus driver, knows this firsthand when it comes to the North–South Road Corridor. While waiting for customs clearance of his passengers at the Bavra border checkpoint recently, he described the poor conditions of the road but noted that he has few choices. The only other route is much longer. "It will be much easier and safer to travel when the road from Bavra to Yerevan is rehabilitated, I am looking forward to it. It will make a huge difference." he said.

ADB's work has been focused on promoting inclusive economic growth—expanding the economy in a way that benefits all sectors, including the poor



Transport services have improved with the rehabilitation of rural roads.

In addition to making life easier and safer for drivers such as Balkan, the program, which is due for completion by December 2016, will benefit road construction companies and traders. The direct benefits include lower road transport and maintenance costs, faster and more reliable road transport services, reduced traffic accidents, and improved access to markets and social services. The project will also create jobs and income through the use of local labor and construction materials. An estimated 2,500 to 3,000 jobs are expected to be created during implementation, of which an estimated 45%–50% will be sourced locally in the form of unskilled labor or related services to the construction sites.

The road won't only benefit those directly involved in its use and construction. It will also have a broader impact on poverty by stimulating inclusive economic development.

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It is expected to increase the mobility of about 3 million people living in six provinces. The poverty incidence in two provinces affected by the road (25.5% in Ararat and 32.1% in Shirak) exceeds the national average of 25.0%. The unemployment rate of about 12% in the affected provinces of Shirak and Syunik provinces is almost double the national average of 6.2%. The project will also benefit the rural populations in Aragatsotn, Ararat, and Vayots Dzor provinces, which are deprived of reliable access to health care services.

Women, the elderly, and children are specifically targeted for benefit with improved access to markets and social service delivery institutions such as schools, hospitals, and clinics. The employment level among the households along the North–South Road Corridor is 70%, of which around 30% are engaged in agriculture activities or small and medium-size agro-industries (including cottage industries), which directly benefit from improved transport infrastructure.

In addition to those near the main North–South Corridor, other people in the countryside also suffer from limited access to markets and social services due to needed improvements in the country's transport systems. This has

constrained growth of economic activities and lowered living standards in many rural areas.

Mkrtchyan, and his community, benefited from ADB's first loan to Armenia, which financed the rehabilitation of about 220 km of rural roads and the improvement of transport sector management. The Rural Road Sector Project, which will be completed in 2011, is providing \$42.9 million in loans to improve roads. The project is helping integrate rural communities by improving feeder roads connected to the national road network.

Samvel Mkrtchyan, a 53-year-old livestock breeder from Bardzrashen, has seen firsthand the impact of having poor rural roads in his community. Before the road in his area was improved by an ADB project, he struggled with high transport costs when moving his livestock to market and obtaining feed from the neighboring town. "The road is much better now," he said. "We spend less money for the fuel and for the truck operation. People from the neighboring villages are also using the road. It has helped all the nearby communities."

Most road networks pass through mountainous terrain. Landslides occur frequently and severe winter requires extensive efforts to maintain access. In many areas of the road network, heavy rainfall and poor road drainage cause traffic problems and damage roads.

Public transport drivers from the small village of Tsovyugh have borne the brunt of these problems. Before the road in the town was rehabilitated, only obsolete Soviet-era buses would brave the rugged passageways between the neighboring towns. After the road was repaired, a group of young entrepreneurs set up a taxi company that has greatly improved transport services in the area. "The fare is very cheap and the service is comfortable and of high quality" said Artak Amirkhanyan, a resident of Tsovyugh who often uses the service. "People can move more easily and affordably between the towns now. This has helped businesses and made life easier."

The project is designed to benefit the whole community, but it will also directly improve

the lives of the poor. About 32% of road users within the project areas are poor and 6% are classified very poor. Project benefits will accrue to about 40,500 poor beneficiaries, of whom roughly 7,000 are very poor. The project will yield a poverty impact ratio of 0.28. Total net benefits accruing to the poor in the project areas are estimated to amount to about \$24 million, of which the very poor will receive about \$4 million.

Vardanyan Anahit, a 41-year-old manager of the Akhtamar Resort near Lake Sevan, knows that increasing prosperity in neighboring communities is directly linked to creating jobs. She currently has 25 employees from nearby Tsovyugh village who travel along a road upgraded with ADB support. "Our receptionist is from Tsovyugh," she said. "She is here everyday on time and not exhausted from her commute. This would have been impossible without the improvement of the road."

In addition to the rural roads, ADB is working with the government to improve transport in the capital city of Yerevan. The proposed Armenia Sustainable Urban Development Program, with the first tranche of the Yerevan Urban Sustainable Transport Project, would extend, rehabilitate, and improve road and public transport infrastructure in the city, while improving institutional capacity and supporting transport project management. Yerevan accounts for 34% of the national population, with 1.1 million people, but its public transport networks are obsolete and aged. The proposed project would provide a broad upgrade to both the infrastructure and institutional support needed to maintain a modern transport system. The project will focus on inclusive growth by providing a fair and accessible urban transport system that enables people to access economic and social opportunities. Other secondary cities

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Road improvement benefits tourism, creating jobs in villages.

across the country will also receive finance from the program.

ADB has also proposed a \$1 million technical assistance grant to examine the feasibility of a railway investment development program. Armenia relies on its railway system for about 70% of imports and exports. Once heavily used, railways saw their operations fall 10-fold since independence in 1991, due in large part to the closing of the border with Azerbaijan and Turkey. Mining in south Armenia is growing and emerging as a major industry, and ore must be transported to the ports of the Black Sea. Armenia's closed borders raise transport

The proposed Armenia Sustainable Urban Development Program, with the first tranche of the Yerevan Urban Sustainable Transport Project, would extend, rehabilitate, and improve road and public transport infrastructure in the city

costs and make the transit of goods through the country nearly impossible. Faced with competing opportunities across the Caucasus for transport, Armenia is determined to develop transit routes across its territory to enable shorter links and faster services. Modernizing existing rail services is a key aspect of this strategy.

Urban Development: Building Great Towns and Cities

As part of Armenia's efforts to upgrade its cities, as well as improve public health and the environment, ADB is assisting the country in providing sustainable water supply and sanitation services in seven provinces, to be completed in 2011. ADB is extending a \$36 million loan to the Water Supply and Sanitation Sector Project, which will cover 16 towns and 125 villages. The government will

provide the balance of the total project cost, which is estimated at \$45 million.

Consumers in the country in recent years have faced serious shortages, poor quality of drinking water, and lack of wastewater disposal facilities. More than 60% of the water supply and sewerage infrastructure in 50 towns and 300 villages is in very poor condition, and about 50% of the water and sewer networks need major rehabilitation and replacement. Mechanical and electrical equipment is obsolete and the system designs and standards are outdated. Sewer pipes are broken and clogged, and wastewater treatment plants are not operating fully. Unaccounted-for water ranges from 40% to 90% in various towns and villages, and most people receive water for only 2 to 8 hours a day. Poor sanitation facilities and leaking sewers are creating serious health risks and environmental hazards.

The ADB-supported project is improving public health and the environment for about 576,000 people, about 25% of whom live below the poverty line. It focuses on improving existing infrastructure and helping water service providers become more efficient. It is

improving and extending the existing water and sewerage systems. Later, it will meet the challenges faced by the agencies that manage water supply and sewerage systems around the country.

Anahit Torosyan, the 55-year-old deputy director of Artashat School No. 2 in the town of Artashat, has already seen the effects of the project. The school is receiving water more hours of the day, and this is improving cleanliness and the health of students. They still must collect water in containers as it is

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Students drinking clean water from fountains at the Artashat School No 2.

not yet on for 24 hours, and they must use water economically, but now they are able to have enough for the entire day. Piped water to homes will be done next.

“Before it was not possible to collect enough water to supply the school for the entire day,” the school administrator said. “Now we have access to water throughout the day.”

The project is designed to increase living standards by providing a better water supply system and improved municipal services. In 2007, 51% of households in the project-affected area had an indoor water tap; in 2012, 75% are expected to have one. The government’s ultimate goal is for everyone to have access to a safe and reliable source of water for at least 12 hours per day by 2012.

Gagik and Hamazasp Hambardzumyan, two brothers who live in Artashat, do not yet have 24-hour water in their home. But their water supply, due to the ADB-supported project, has improved dramatically. Previously, the water supply did not meet their basic household needs. Now, they have enough water for their home and also enough to run their small household-goods business.

“The quality of the water has been considerably improved,” said Gagik Hambardzumyan. “My children now prefer the water from the tap to the bottled water.”

Private Sector Development: Leveraging the Power of Good Companies

The government’s national development plan recognizes that a vibrant private sector is crucial to the reform agenda and is one of the main

drivers of sustained inclusive growth and poverty reduction. The government is therefore seeking to become a center of excellence in governance and improve the country’s business environment, in part by reducing the cost of doing business.

An important aspect of improving the business and investment climate involves simplifying the procedures in the State Registry Agency, the key government office that processes new business registrations. The government is seeking to computerize the business registration system and set up a “one-stop shop” service where new business applicants deal with multiple government agency clearances and procedures in a single, efficient process.

To support the government’s initiatives, ADB and the Republic of Korea have helped finance a \$575,000 technical assistance grant titled Institutional Modernization to Improve the Business Environment in Armenia. It is being used to help the government strengthen the State Registry Agency’s capacity to provide better services and increase access to information on businesses.

Once the initiative is completed, the government, supported by the technical assistance program, is expected to have an efficient and transparent online business registry that will reduce business registration time from 7 to 3 days, and improve dissemination of information on registered legal entities. These reforms are expected to help attract greater private sector investment.

In addition to helping improve the business registration system, ADB has also supported lending to small and micro enterprises by extending a loan in 2007 to Inecobank, which in turn lent it to small businesses that traditionally have difficulty accessing finance.

A major ADB private sector project involves the building of a new terminal at the main airport,

“The quality of the water has been considerably improved.”
—Gagik Hambardzumyan, a resident of Artashat

Zvartnots International Airport in Yerevan. ADB is providing a loan of up to \$40 million, which is the first private sector infrastructure investment in the country. The loan comes at a critical time because commercial funding for the project had dissipated due to the global financial crisis. The loan will help bring in additional external investment and aims to increase the confidence of the international business community in investing in Armenia.

The loan will help fund the \$173 million cost of a new two-storey terminal building to supplement an existing concourse, helping the airport increase the number of destinations it serves and boost the frequency of flights. By the time the terminal is operational in 2012, the airport should be able to handle about 3.2 million passengers a year, up from the current 1.8 million–2.0 million. This airport upgrade is particularly important for Armenia, a landlocked country with an estimated 7-million-strong diaspora that retains strong social and economic ties to the country.

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Regional Cooperation: A Strong Member of a Dynamic Region

Armenia is situated in a dynamic region. Central Asia's gross domestic product (GDP) growth in 2010 is forecast at 5.1%, according to ADB's *Asian Development Outlook 2010*. In 2011, regional economic expansion is expected to increase to 5.7%.

The Caucasus plays an important role in sustaining this robust growth. It acts as a landbridge between the Black and Caspian seas. It connects Central Asia to Europe, the Russian Federation, and Turkey. The Caucasus countries are becoming a transit route for crude oil exports, and the area has the potential to become an established business, logistics, and transit hub. To make this happen, the subregion must expand and improve its transport network, including roads, railways, and ports. ADB's work in Armenia, and in the subregion as a whole, has therefore focused on improving transport infrastructure.

Operational Effectiveness: Improving Efficiency and Performance

It is too early to obtain a clear picture of ADB's operational effectiveness. Armenia is a relatively new member of ADB and the portfolio is in its early stages, with no project completion reports written or independent evaluations yet conducted. However, none of the projects is at risk. Contract awards and disbursements are doing well and in general the project agencies are adhering to ADB's policies and procedures.

Some indicators of operational issues, however, can be identified in ADB's rural roads program, which was approved in 2007 and has generated clear outputs. ADB and the government must ensure that cost estimations are sound to avoid supplementary financing requests, and procurement schedules must be more realistic and backed by better planning and advance actions. Stakeholder consultation must be more extensive to improve social safeguard planning, government counterpart funding must be timely, and project management must be better. These observations on the rural roads program were highlighted in the September

The strategy was prepared to help the government develop cost-effective and environmentally and socially sustainable transport infrastructure and services through improved management, infrastructure, and technology

2009 proposal for a multitranche financing facility for Armenia's North-South Road Corridor Investment Program.

ADB is tackling these operational issues in its current road project. Each tranche of the current financing will be converted into a loan only when the executing agency has prepared a detailed project design and is ready for bidding and contract award. This will be complemented by advance actions on land acquisition and resettlement, which, in turn, imply adequate counterpart financing and consultations. A program management unit has been set up to strengthen project management and execution scheduling, evaluation, results measurement, and reporting.

Though limited, another indicator of ADB's operational effectiveness in Armenia can be found in the only technical assistance completion report. The \$600,000 Transport Sector Development Strategy technical assistance grant, approved in September 2007, helped the government prepare a transport sector strategy.

The report found that the program achieved the expected outcome and outputs. The strategy was prepared to help the government develop cost-effective and environmentally and socially sustainable transport infrastructure and services through improved management, infrastructure, and technology. The technical assistance program was rated "highly successful" in the report.

Future Challenges

Armenia's economic future looks bright, according to ADB's *Asian Development Outlook 2010*. The economy is coming out of a severe economic downturn as the improved global economy has boosted major exports. Domestic consumption has also increased as remittance inflows pick up, particularly from the Russian Federation, the biggest source. Given the strength of the GDP rebound, the *Asian Development Outlook 2010 Update* revised growth forecasts for the country dramatically upward from 1.5% to 6.4% for 2010 and from 3.0% to 4.0% for 2011.

The country still faces significant challenges to inclusive economic growth and poverty reduction. A slowing or reversal of the

global economic recovery could hinder the government's spending.

The partnership between Armenia and ADB is maturing. The economy's capacity to borrow nonconcessional resources and repay its loans has strengthened with economic growth, a favorable macroeconomic outlook, improved

The partnership between Armenia and ADB is maturing. The economy's capacity to borrow nonconcessional resources and repay its loans has strengthened with economic growth



Nelly Sargsyan, with her son, benefits from the Earthquake Zone Construction.

creditworthiness, and emerging investment opportunities. The level of concessionality of new external borrowing is expected to decline as Armenia's income rises.

Armenia is also making important strides in its relationship with Europe that could have long-term positive impacts on the country. Armenia and the European Union (EU) are working together in the areas of economic development and cooperation under the EU's European neighborhood policy.

The country's future challenges and opportunities can also be felt on the streets

Armenia is also making important strides in its relationship with Europe that could have long-term positive impacts on the country

of the capital and in the countryside. For 29-year-old Nelly Sargsyan, an indicator of that future is the family home. After the 1988 earthquake in Gyumri, her large family rented an apartment for more than 2 decades. They recently moved to the new house built by the government under the Earthquake Zone Construction Program. "Life is gradually improving," said Sargsyan. "We have a positive outlook as we plan for our future." Stanislav Khachatryan, who is 33 and lives with his wife, two sons, and mother-in-law, has also seen improvements: "We are more optimistic."

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Text by Floyd Whaley.

The cover shows part of the Yerevan–Gyumri highway.

Photographs by Inna Mkhitarian.

For more information, please visit www.adb.org/Armenia/ or contact Areg Barseghyan, senior country coordination officer, Armenia Resident Mission (abarseghyan@adb.org).

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Development Effectiveness Brief: Armenia

The Asian Development Bank (ADB) has been a key partner in supporting the development agenda of Armenia, as well as its economic growth and reform program. Armenia became a member of ADB in September 2005. Operations in the country are closely aligned with the government's priorities—as well as ADB's strengths—including promoting rural development, developing the private sector, and supporting enhanced regional cooperation. ADB's work in Armenia has been focused promoting inclusive economic growth. It is too early in the implementation of operations to obtain a clear picture of ADB's operational effectiveness, but there are positive signs of a strong, growing relationship.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.