

Through a series of well-sequenced economic reforms, Armenia has succeeded in achieving sustained high growth and in reducing poverty. Among the countries of the former Soviet Union, Armenia's economic performance has been remarkable with real gross domestic product growth averaging about 12% over 2001–2004 and reaching almost 14% in 2005. Growth and trade have been boosted by an educated, low-cost labor force, remittances from overseas workers, and noninterventionist trade policies.

Despite its exemplary economic performance, Armenia is a small country with a high level of poverty. Income inequality and unemployment are also high. Although the Millennium Development Goal indicators for education are encouraging, those for gender equality, health, and environmental sustainability require closer attention. The basic infrastructure is deficient. The structural and institutional reform program remains to be completed.

The Government detailed Armenia's development strategy until 2015 in its *2002 Poverty Reduction Strategy Paper*. Its main goal is to reduce poverty—including extreme poverty, income inequality, and human poverty—through social sector investments.

Relationship with ADB

Armenia became a member of the Asian Development Bank (ADB) in September 2005. To determine the appropriate type of assistance for Armenia, ADB has prepared a *Country Classification Paper* for approval by the ADB Board of Directors. In consultation with the Government, key donors, and other major stakeholders, ADB has also prepared an *Economic Report and Interim Operational Strategy* (ERIOS) for Armenia for Board endorsement. A results-based approach is adopted for the design and implementation of the interim strategy. In line with the Government's current priorities, promoting rural development, encouraging the private sector, and deriving benefits from enhanced regional cooperation have been identified as potentially suitable broad-based goals for ADB operations in Armenia.

Table 1. Armenia: Development Indicators

• Population	3.2 million (2005) -0.56% growth per annum (1990–2005)
• National poverty rate	39% (2004) 50.9% (2001)*
• Population living on less than \$1 a day	<2.0% (2003) 7% (1996)
• Under-5 mortality rate per 1,000 live births	32 (2004) 60 (1990)
• Adult literacy rate	94.4% (2000–2004)**
• Population in urban areas	67.3% (1995) 64.1% (2004)
• Population with access to improved drinking water sources	92% (2002)

* Data taken from *Statistical Yearbook of Armenia*, National Statistical Service.

** No single-year data is available. Data taken from UNESCO Institute for Statistics website.

Sources: ADB. 2006. *Basic Statistics 2006*. Manila. ADB Statistical Database System.

Table 2. Armenia: Economic Indicators, 2001–2005

Economic Indicator	2001	2002	2003	2004	2005
Per capita GNI (\$)	700	800	950	1120	...
GDP growth (% change per year)	9.6	13.2	14.0	10.1	13.9
CPI (% change per year)	3.1	1.1	4.7	7.0	0.6
Unemployment rate (%)	10.4	10.8	10.1	9.6	8.1
Fiscal balance (% of GDP)	-4.3	-2.6	-1.3	-1.7	-1.7
Export growth (% change per year)	13.9	45.5	35.5	6.1	28.2
Import growth (% change per year)	0.0	14.1	28.1	5.8	23.8
Current account (% of GDP)	-9.4	-6.2	-6.7	-4.5	-3.1
External debt (% of GNI)	43.6	42.5	39.0

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income. Sources: ADB. 2006. *Asian Development Outlook 2006*. Manila. ADB Statistical Database System.

To address problems, such as poor condition of rural roads, other degraded rural infrastructure, and lack of reliable energy supplies affecting growth of farm and nonfarm activities, ADB will seek to (i) rehabilitate rural infrastructure (such as rural and secondary town roads) and irrigation facilities; (ii) improve municipal infrastructure (such as the water supply system and waste management); and (iii) facilitate better energy supplies.

The Government recognizes the private sector as the engine for Armenia's growth. An underdeveloped financial sector is a major bottleneck to private sector development. ADB will consider assistance in (i) improving the regulation and oversight of the financial sector, (ii) equity investments in financial institutions, (iii) participation in mortgage funds, and (iv) inclusion of local banks in ADB's Trade Finance Facilitation Program.

Finally, with its strong operational emphasis on enhancing regional cooperation among its member countries, ADB will explore assistance to (i) rehabilitate Armenia's existing regional road and railways infrastructure, and (ii) upgrade and build regional energy transmission networks to help the Government achieve its goals.

Impact of Assistance

An operational program for Armenia is not yet designed. However, a small-scale technical assistance project for seminars on ADB operational policies and procedures was approved in October 2005. This will provide training for senior government officials regarding ADB's policies and procedures, creating better working relationships and helping to accelerate smooth operations.

Future Directions

It is envisaged that the first country program for Armenia, covering 2006–2009, will be prepared subsequent to the endorsement of the ERIOS and the Country Classification Paper by the Board. The sectors in the country program will be selected to be consistent with ADB's Medium-Term Strategy-II.

Operational Challenges

The ADB's interim operational strategy for Armenia is guided by three principles: (i) establish operations to respond to Armenia's development challenges, (ii) be selective in determining initial operational areas and focus on delivering results soon, and (iii) partner with other development agencies with long country experience and exploit the existing institutional infrastructure.

Partnership

In designing its interim operational strategy for Armenia, ADB has held discussions with key development partners, including the World Bank, the International Monetary Fund,

the European Bank for Reconstruction and Development, the United Nations Development Programme, the International Fund for Agricultural Development, the International Finance Corporation, the United States Agency for International Development, and Kreditanstalt für Wiederaufbau. The strategy complements the assistance provided by other donors and envisages close partnership with the leading donors in the country.

As ADB and Armenia develop their partnership, ADB will explore cooperation with civil society organizations that are undertaking poverty reduction work in the country.

Cofinancing and Procurement

For every US dollar lent by ADB in 2005 in Asia and the Pacific, cofinancing operations brought in an additional \$1.27. ADB's cofinancing operations enable its development partners—governments or their agencies, multilateral financing institutions, commercial organizations, and export credit agencies—to join ADB in financing its lending to developing members. Such additional funds are provided in varying forms of grants, guarantees, or loans.

Figure 1. Private Sector Operations Portfolio Distribution by Top Countries, 1983–2005 (\$ million)

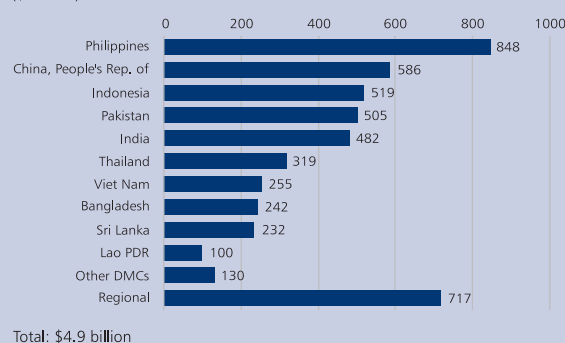


Table 3. Resource Transfers to Developing Member Countries (\$ million)

	2004	2005
OCR		
Loan Disbursements	2,508	3,498
Principal Repayments ^a	(3,953)	(3,491)
Payments of Interest/Charges	(1,095)	(1,041)
Net Equity Investment	(20)	47
Net	(2,560)	(987)
ADF		
Loan Disbursements	1,055	1,247
Principal Repayments	(390)	(434)
Payments of Interest/Charges	(196)	(201)
Net	469	612
TOTAL	(2,091)	(375)

ADF = Asian Development Fund, OCR = ordinary capital resources.
 () Represents resource inflow from developing member countries.
^a Includes prepayments of \$597.4 million (\$2,790.5 million in 2004).

About Armenia and ADB

Armenia is the 23rd largest shareholder among regional members and the 31st largest overall.

ADB Membership

Joined	2005
Shares held	10,557 (0.299%)
Votes	23,944 (0.542%)

About the Asian Development Bank

ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 66 members—47 from the region. In 2005, ADB operations totaled \$7.4 billion in loans, equities, guarantees, grants, and technical assistance. With headquarters in Manila, ADB has 26 offices around the world and more than 2,000 staff from over 50 countries.

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/armenia

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2006/documents/arm.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2005/