



## Concept Paper

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Project Number: 51129-001  
December 2017

# Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 and Technical Assistance Grant Armenia: Social Sectors Reform Program

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 15 November 2017)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.0020467
\$1.00	=	AMD488.59

## ABBREVIATIONS

ADB	–	Asian Development Bank
CSI	–	Center for Strategic Initiatives
EMIS	–	education management and information system
MOES	–	Ministry of Education and Science
MOH	–	Ministry of Health
PBL	–	policy-based lending
TRTA	–	transaction technical assistance

## NOTE

In this report, “\$” refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51129-002</b>	
<b>Project Name</b>	Social Sectors Reform Program (Subprogram 1)	<b>Department /Division</b>	CWRD/CWSS
<b>Country Borrower</b>	Armenia, Republic of Ministry of Finance	<b>Executing Agency</b>	Ministry of Finance (MOF)
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Education</b>	Education sector development		20.00
<b>Health</b>	Health system development		10.00
		<b>Total</b>	<b>30.00</b>
<b>3. Strategic Agenda</b>		<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>		<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Public financial governance	Effective gender mainstreaming (EGM)	✓
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG3, SDG4, SDG5		
<b>6. Risk Categorization:</b>		Low	
<b>7. Safeguard Categorization</b>		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>30.00</b>	
Sovereign Program (Regular Loan): Ordinary capital resources		30.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>30.00</b>	



## I. THE PROPOSAL

1. The proposed program will support the Government of Armenia in developing and financing timely and comprehensive policy reforms in the education and health sectors. These reforms will enable the government to strengthen the efficient utilization of resources and provision of quality services in these sectors. Support for these social sectors is consistent with the strategic focus of the country partnership strategy 2014–2018, of the Asian Development Bank (ADB) for Armenia.<sup>1</sup>

2. The government has asked ADB to provide support through the policy-based lending (PBL) modality, which will include two subprograms to help development challenges in the education and health sectors. Dialogue with the government on reform is substantially advanced with regard to education but at an early stage for health. Thus, the first subprogram will focus mainly on education policy reform and include initial support for health policy reform, and the second subprogram will increase support for the health sector while continuing to support education.

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. The Perspective Development Strategic Program for 2014–2025 is the main strategic reference document for Armenia’s social and economic development.<sup>2</sup> One of its priorities is human capital development, including education and health sector reforms, to improve the quality of education and health care services and ensure their affordability.

4. Common challenges in both sectors include (i) the insufficient allocation of resources, as evident from decreased state budget allocations that lead to high out-of-pocket payments, including informal payments;<sup>3</sup> (ii) inefficient networks and uncoordinated, often overlapping mandates of institutions, schools, and health facilities; (iii) a lack of evidence-based policies and resource planning. For example, past efforts to improve teacher performance and establish education quality assurance systems have been fragmentary, and medical care remains uncoordinated; and (iv) low-quality service delivery. For example, curricula at all levels of education are overloaded, theoretical, and focus excessively on lower order knowledge and skills, thus endowing graduates with knowledge and skills that are increasingly unresponsive to labor market needs; and health services are undermined by derelict infrastructure and a lack of modern diagnostic equipment.

5. **Education.** The World Bank has provided support to develop curricula for the 12-year school system, and the European Union supports institutional and professional development in higher education in collaboration with some European universities. The Deutsche Gesellschaft für Internationale Zusammenarbeit has provided some support for technical and vocational education and training, and the Armenian diaspora community is implementing numerous small-

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<sup>1</sup> ADB. 2014. *Country Partnership Strategy: Armenia, 2014–2018*. Manila. The program is included in ADB’s lending pipeline for Armenia: ADB. 2017. *Country Operations Business Plan: Armenia, 2018–2020*. Manila. An initial draft of the design and monitoring framework is in Appendix 1. TRTA will be provided for program preparation (accessible from the list of linked documents in Appendix 3).

<sup>2</sup> Government of Armenia. 2014. *Perspective Development Strategic Programme for 2014–2025*. Yerevan.

<sup>3</sup> Health expenditure as a share of general government expenditure decreased from 11% in 2006 to 7% in 2014. World Health Organization. 2017. Global Health Expenditure Database. <http://apps.who.int/nha/database/ViewData/Indicators/en> (accessed 15 October 2017).

scale education development initiatives. While this support from development partners is anticipated to continue, it will likely be based on conventional projects and limited to specific technical areas in the sector.

6. While the government welcomes this varied support, the Ministry of Education and Science (MOES) faces challenges in coordinating external support and managing competing agendas. Despite its efforts to resolve these issues, there is still a significant level of fragmentation, redundancies, rent seeking, poor quality equipment, and poorly trained teachers. The relationship between the MOES and many educational institutions is currently unclear, resulting in diffused responsibility, overlapping mandates, and limited ownership. Since spending on education is low,<sup>4</sup> policy reforms are needed to develop, adopt, and institutionalize systemic and organizational reforms to help the sector utilize resources more efficiently. Strengthening governance and implementing reforms in the sector will require support from robust, evidence-based policies and resource allocations backed by an efficient education management and information system (EMIS). The MOES has initiated an EMIS that is currently connected to all schools and provides school-level data; however, the system must be strengthened and expanded to cover the entire sector, all schools and educational institutions, and all levels of education.

7. In 2016, the government drafted the State Program of Education Development<sup>5</sup> as the key reference document to advance the government's vision of education development through short-, medium-, and long-term strategic plans and programming; and better coordinate external support for the sector. At the beginning of 2017, the government established the Center for Strategic Initiatives (CSI) under the Prime Minister's Office to spearhead key reforms, including those in education. The CSI and MOES are currently working to strengthen the State Program, and have created a prioritized and phased action plan for its implementation. At the government's request, in 2017 ADB provided technical support for these efforts.<sup>6</sup>

8. **Health.** Armenia is facing a double burden of epidemiological and demographic transitions. The country's greatest disease burden is that of noncommunicable diseases, which are on the rise; and population aging is expected to increase this burden significantly in the future.<sup>7</sup> Noncommunicable diseases include cardiovascular disease, cancer, mental health problems, diabetes mellitus, chronic respiratory disease, and musculoskeletal conditions.<sup>8</sup> Armenia's health system is not yet organized to handle noncommunicable diseases given the fragmentation in the delivery of primary health care and hospital care. In addition, Armenia's utilization measures, such as four outpatient contacts per year and 12 acute care hospital discharges per 100 discharges, are much lower than those of comparator countries, which report eight outpatient contacts and 15 acute care hospital discharges per 100 discharges, on average.<sup>9</sup> Therefore, rationalizing facilities and integrating care can yield gains in patient responsiveness and efficiency. These strategies will be effective if complemented with reforms in human resources for health that are implemented

<sup>4</sup> Education spending as a share of gross domestic product was 2.7% in 2013, 2.2% in 2014, and 2.8% in 2015. <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=AM> (accessed 15 October 2017).

<sup>5</sup> Government of Armenia. 2015. *State Program of Education Development 2017–2025 (draft)*. Yerevan.

<sup>6</sup> Support was provided through ADB. *Education and Skills for Employment in Central and West Asia*. Manila (TA 8774 REG).

<sup>7</sup> Noncommunicable diseases accounted for 61% of disability-adjusted life years in 1990, and 84% in 2016. Institute for Health Metrics and Evaluation. 2017. Global Burden of Disease Study. <https://vizhub.healthdata.org/gbd-compare/> (accessed 15 October 2017).

<sup>8</sup> According to the National Institute of Health Statistical Yearbook, around 50% of all deaths are due to cardiovascular diseases, and 28% are due to neoplasms, endocrine, urogenital, and diabetes mellitus combined.

<sup>9</sup> World Health Organization. 2017. Health for All Database. <https://gateway.euro.who.int/en/hfa-explorer/> (accessed 15 October 2017).

from the bottom up, from medical education reforms to the introduction of continuous medical education focused on noncommunicable diseases and care integration. The Ministry of Health (MOH) has begun to integrate care by introducing an e-health enterprise, and is exploring various strategies to introduce rationalization, care integration, and medical education reforms.

9. The World Bank has supported performance-based financing of selected primary health care interventions, and the modernization of hospitals in provinces of the country. In addition, the World Health Organization and the Global Alliance for Vaccines and Immunization are providing support to improve immunization rates, and the Global Fund to Fight AIDS, Tuberculosis and Malaria is supporting the government's efforts to tackle HIV/AIDS and tuberculosis, and strengthen health systems.

## **B. Policy Reform and ADB's Value Addition**

10. The proposed PBL will provide a much-needed policy and planning boost for system reform in the two social sectors. This is necessary not only to improve the quality and efficiency of the sectors, but also to provide a better basis for the MOES and MOH to improve the alignment of their sector strategies and resource allocations, and coordinate domestic resources and external support. The program can both complement and leverage other external support. The following have been identified as priorities for the PBL in the education sector:<sup>10</sup>

- (i) **Establish procedures and systems for timely, evidence-based policy formulation, governance, and resource planning.** It is necessary to strengthen the MOES' policy and system capacity and expand the EMIS to cover the entire education sector. The MOES and educational institutions need extensive support to strengthen their capacity to perform appropriate analytics to inform policy formulation, allocate resources efficiently, and steer and monitor sector performance. An integrated EMIS will help track student progress, transitions, and pathways across the various levels of education.
- (ii) **Tackle inefficiencies in teacher development.** Past efforts in this core area have been fragmented and outcomes were not institutionalized. In basic and secondary education, there is no national standards framework for school teachers, proper teacher performance monitoring, or alignment between the training of new teachers and retraining of existing teachers. In order to align skills development with European Union standards, the government recently adopted the European Training Framework, which requires sustained support from policy and planning to upgrade and institutionalize programs and delivery
- (iii) **Respond to the demand for 21st-century knowledge, skills, and dispositions.** The proliferation of private universities reinforces the need to strengthen quality assurance in higher education. The current oversupply of humanities graduates in higher education is a sign of broader sector inefficiency, and recently prompted the government to invest more to strengthen science, technology, engineering, and mathematics subjects in education. The program will help education and skills training meet labor market demand, improve competitiveness, and foster innovation.

11. The PBL will also support health reform measures, with a particular focus on the following:
- (i) **Introduction of integrated health care.** The government is planning reforms to improve the efficiency of the health facilities network and quality of health services

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<sup>10</sup> A joint consultation meeting held by the ADB education sector mission in June 2017 with the CSI, MOES, and a large number of development partners confirmed the need to support these policy reform areas in education.



by moving towards the delivery of integrated care. It is necessary to strengthen the facility optimization plan at the regional level and introduce an integrated model, first in rural areas to reduce inefficiencies in small hospitals. Under the overarching framework of integrated care, policy support is needed to update clinical standards and guidelines, and support the roll-out of the e-health enterprise.

- (ii) **Medical education system reform.** The government is pursuing medical education reforms. Policy support is needed to improve medical qualifications, licensing, and professional education through reforms in the credentialing of continuous medical education.

### C. Impacts of the Reform

12. The program supports Armenia's social, economic, and human capital development through education and health reforms that will improve the quality and affordability of education and health care services, and improve the efficiency of the two sectors. The proposed program will cover three reform areas in education and health: (i) resource planning and allocation, (ii) monitoring systems, and (iii) regulatory and accreditation frameworks.

### D. Development Financing Needs and Budget Support

13. To support the above reforms, the government has requested \$60 million equivalent in PBL, from regular ordinary capital resources to be disbursed in two subprograms: \$30 million equivalent in 2019, and \$30 million equivalent in 2020. The loan size is justified based on the development financing needs, particularly the budget deficit and the limited alternative financing available for the reforms. The subprogram amounts will be discussed and confirmed during the fact-finding mission.

### E. Implementation Arrangements

14. The Ministry of Finance will be the executing agency, and the MOES and MOH will be the implementing agencies.

## III. TECHNICAL ASSISTANCE

15. Transaction technical assistance (TRTA) in the amount of \$0.8 million is required to support the policy dialogue and assist in the preparation and implementation of the subprograms.<sup>11</sup>

## IV. DUE DILIGENCE REQUIRED

16. During program preparation, due diligence will be carried out in the following areas:

- (i) **Economic and financial.** The program's economic and financial viability and sustainability will be assessed, and the financial and economic benefits of the proposed policy reforms in the two social sectors will be evaluated. The economic analysis will also justify the loan size based on the government's development financing needs, the macroeconomic context, and any incremental costs.

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<sup>11</sup> Approval on December 2017.

- (ii) **Governance.** Financial management, procurement, anticorruption, and capacity issues and mechanisms in the two social sectors will be agreed upon with the government as part of the program design.
- (iii) **Poverty and social.** The program design will include specific measures to improve access to education and health services for girls and women, the poor, people in remote areas, and other marginalized and vulnerable groups.
- (iv) **Safeguards.** The program will not impact the environment or indigenous peoples, and will not entail any involuntary resettlement.

## V. PROCESSING PLAN

### A. Risk Categorization

17. The PBL is classified as complex, as it is ADB's first loan in these social sectors in Armenia, and combining these two sectors may be challenging.

### B. Resource Requirements

18. The project team comprises ADB sector staff with expertise in policy development and strategic and operational planning in education and health. The staff will dedicate an estimated total of 7 person-months to process the program. Two consultants (2 person-months each) will assess the progress made by the government in improving the state reform program for the education sector, as well as its economic and financial viability.<sup>12</sup> TRTA (para. 15) is required to support the ongoing policy dialogue in both sectors, and assist in the preparation of the subprograms.

### C. Processing Schedule

19. The indicative processing schedule is outlined in the table.

<b>Proposed Processing Schedule</b>	
<b>Milestones</b>	<b>Expected Completion Date</b>
Concept paper and technical assistance approval	November 2017
Fact-finding mission	October 2018
Management review meeting	November 2018
Loan negotiations	December 2018
Board consideration	February 2019

Source: Asian Development Bank staff.

## VI. KEY ISSUES

20. Since the State Program of Education Development is pursuing major reforms, the government's ambitious approval schedule for the program (in 2017) may be delayed, which may affect the timeline for processing the first PBL subprogram. ADB can mitigate this risk by proactively continuing education policy dialogue with the government, and providing adequate staff and consulting resources for the preparation of the PBL. In addition, during preparation it will be important to explore options and mechanisms to ringfence the loan funds effectively for the policy reforms in the two sectors.

<sup>12</sup> Alternatively, the two consultants can be engaged through the ongoing technical assistance (ADB. *Education and Skills for Employment in Central Asia*. Manila [TA 8744 REG]), in which Armenia is participating and which will continue through the end of February 2018.

**DESIGN AND MONITORING FRAMEWORK**  
(Initial Draft)

<b>Country's Overarching Development Objectives</b> Social, economic, and human capital developed (Perspective Development Strategic Programme for 2014–2025) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines<sup>b</sup></b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<p><b>Effect of the Reform</b> Efficiency of the education and health sectors improved</p>	<p>By 2022:</p> <p>a. EMIS data for resource planning and monitoring used by MOES as well as all schools and educational institutions in the sector (2017 Baseline: only schools use the EMIS).</p> <p>b. Improved teacher training and professional development programs in basic and secondary education in all training institutions implemented in accordance with the new standard (2017 Baseline: not implemented).</p> <p>c. Average length of hospital stay reduced to 6.5% (2017 Baseline: 7.5%).</p> <p>d. At least 50% health facilities with SHA payments processed through the e-health enterprise by end of 2020 (2017 Baseline: 0).</p>	<p>Government of Armenia reports; labor market studies; tracer studies of students, health workers, and service clients</p>	<p>External economic shocks may undermine Armenia's expenditure programs in these social sectors.</p>
<p><b>Reform areas</b> 1. Resource planning and allocation in education and health improved</p> <p>2. Monitoring systems in education and health improved</p>	<p><b>Indicative Policy Actions</b></p> <p>1a. State Program of Education Development 2017–2025 and its implementation plan approved by the government by end of 2018 (2017 baseline: not approved).</p> <p>1b. Optimization plans for hospitals and primary health care systems approved by MOH by end of 2020 (2017 Baseline: not approved).</p> <p>1c. Social expenditures in education and health as a percent of total government expenditure maintained annually at the 2018 level at least (2017 Baseline: to be determined).</p> <p>2a. EMIS expansion plan, which covers all levels of education and provides gender-disaggregated data, approved by MOES by end of 2018 (2017 baseline: not approved).</p>	<p>1a. Approval of the State Program by Parliament, MOES decrees and operational plans for reform, progress reports on reform implementation</p> <p>1b. MOH decrees and rationalization plans</p> <p>1c. Government budget data</p> <p>2a. MOES decrees, plans, and progress reports on the integrated, sector-wide EMIS</p>	<p>Citizen groups may oppose education reforms and the optimization of health facilities.</p>

Results Chain	Performance Indicators with Targets and Baselines <sup>b</sup>	Data Sources and Reporting	Risks
3. Regulatory and accreditation frameworks in education and health	<p>2b. An e-health enterprise established by end of 2018 (2017 Baseline: not established).</p> <p>3a. National teacher standards for basic and secondary education approved by MOES by end of 2018 (2017 Baseline: not approved).</p> <p>3b. Improved teacher training programs for new and existing teachers in basic and secondary education, and improved professional development programs for school principals and leaders of educational institutions approved by MOES by end of 2020 (2017 Baseline: not approved).</p> <p>3c. At least 20% of providers certified under new continuous medical education curriculum by end of 2020 (disaggregated by male and female) (2017 Baseline: 0)</p>	<p>2b. MOH data and reports on the e-health system</p> <p>3a. MOES decrees, national teacher standards</p> <p>3b. Teacher training programs at training institutions, professional development programs for school principals and leaders of educational institutions</p> <p>3c. MOH and health training institution data and reports on medical education</p>	

#### Budget Support

ADB: \$60 million (regular OCR loan)

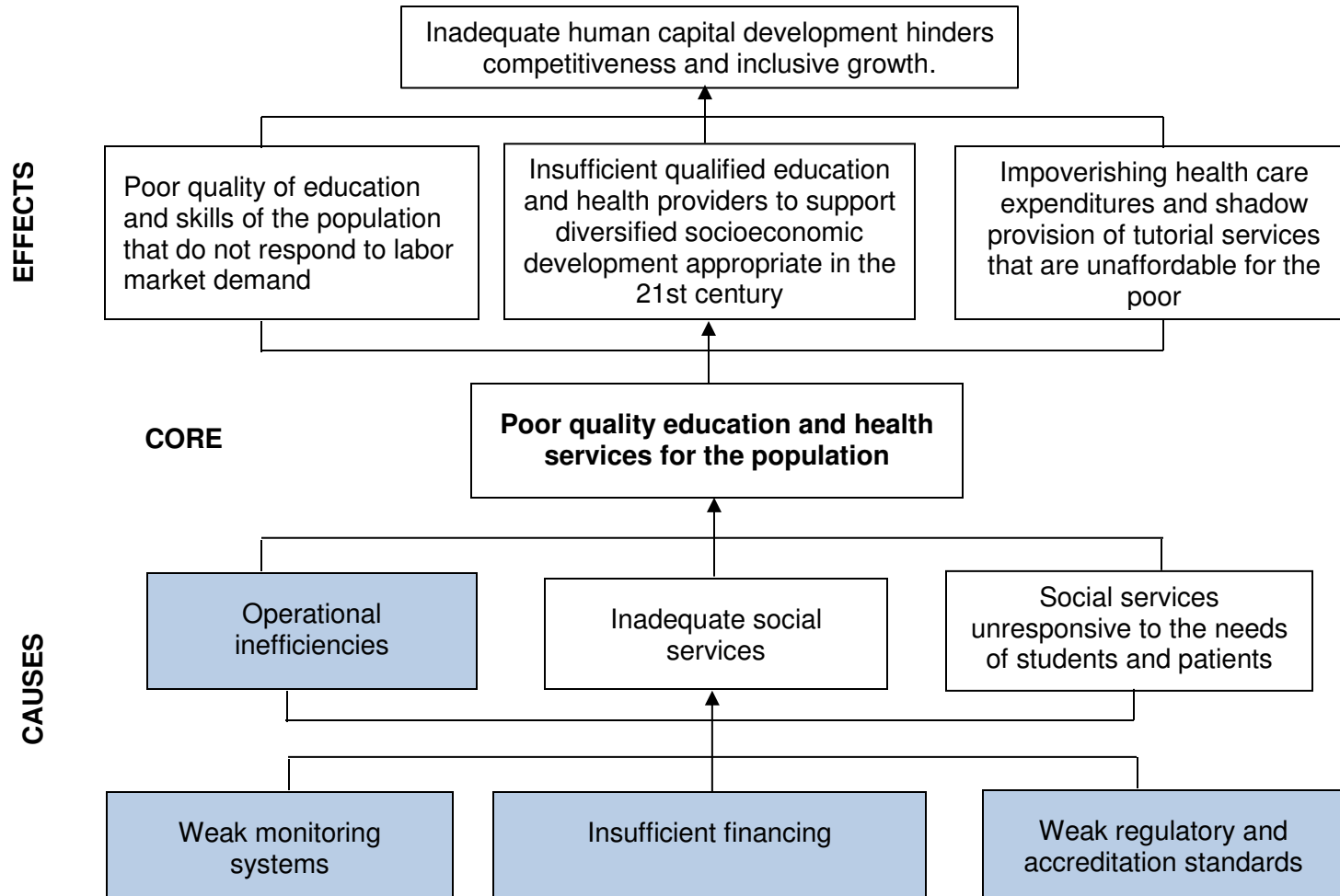
ADB = Asian Development Bank, EMIS = education management and information system, MOES = Ministry of Education and Science, MOF = Ministry of Finance, MOH = Ministry of Health, OCR = ordinary capital resources, SHA = State Health Agency. Note: 2018 refers to the deadline for subprogram 1, and 2020 refers to the deadline for subprogram 2.

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

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

Source: Asian Development Bank.

### PROBLEM TREE



**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=51129-002-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Attached Technical Assistance Report