



Technical Assistance Report

Project Number: 53248-003
Transaction Technical Assistance (TRTA)
October 2019

Armenia: Preparing the Second Public Efficiency and Financial Markets Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 16 September 2019)

Currency unit – dram (AMD)

AMD1.00 = \$0.0021

\$1.00 = AMD476.51

ABBREVIATIONS

ADB	–	Asian Development Bank
CBA	–	Central Bank of Armenia
MOE	–	Ministry of Economy
MOF	–	Ministry of Finance
MTDS	–	Medium Term Debt Strategy
PDMD	–	Public Debt Management Department
PPP	–	public-private partnerships
TA	–	technical assistance

NOTE

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

Vice-President	Shixin Chen, Operations 1
Director General	Werner E. Liepach, Central and West Asia Department (CWRD)
Director	Tariq H. Niazi, Public Management, Financial Sector, and Trade Division, CWRD
Team leader	Joao Farinha Fernandes, Senior Financial Sector Economist, CWRD
Team members	Rafael Aquino, Operations Analyst, CWRD Ethyl Bulao-Lorena, Senior Operations Assistant, CWRD Rogerio de Almeida Vieira de Sa, Young Professional, CWRD Christina Pak, Principal Counsel, Office of the General Counsel Hanif Rahemtulla, Senior Public Management Specialist, Sustainable Development and Climate Change Department Laisiasa Tora, Economist, CWRD

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CONTENTS

	Page
TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE	
I. THE ENSUING PROGRAM	1
II. THE TECHNICAL ASSISTANCE	1
A. Justification	1
B. Outputs and Activities	1
C. Cost and Financing	3
D. Implementation Arrangements	3
APPENDIXES	
1. Cost Estimates and Financing Plan	5
2. List of Linked Documents	6

TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 53248-003
Project Name	Preparing the Second Public Efficiency and Financial Markets Program	Department/Division CWRD/CWPF
Nature of Activity Modality	Project Preparation Regular	Executing Agency Asian Development Bank
Country	Armenia, Republic of	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Finance	Banking systems and nonbank financial institutions	0.11
	Central banking systems	0.11
	Infrastructure finance and investment funds	0.11
	Money and capital markets	0.11
	Small and medium enterprise finance and leasing	0.11
Public sector management	Economic affairs management	0.10
	Public expenditure and fiscal management	0.10
	Total	0.75
3. Operational Priorities		Climate Change Information
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project Low
✓ Strengthening governance and institutional capacity		
✓ Fostering regional cooperation and integration		
Sustainable Development Goals		Gender Equity and Mainstreaming
SDG 1.a		No gender elements (NGE) ✓
SDG 8.10		
SDG 9.1, 9.3		
SDG 10.1		Poverty Targeting
SDG 16.6		General Intervention on Poverty ✓
SDG 17.1, 17.17, 17.3, 17.4		
4. Risk Categorization	Low	
5. Safeguard Categorization	Safeguard Policy Statement does not apply	
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.75
Transaction technical assistance: Technical Assistance Special Fund		0.75
Cofinancing		0.00
None		0.00
Counterpart		0.00
None		0.00
Total		0.75
Currency of ADB Financing: US Dollar		

I. THE ENSUING PROGRAM

1. The proposed policy-based loan for the Second Public Efficiency and Financial Markets Program will help the Government of Armenia implement policy and institutional reforms that strengthen fiscal sustainability and support the development of financial and capital markets.¹ The proposed assistance is the second of this type of assistance by the Asian Development Bank (ADB) in Armenia, and aims to continue to (i) strengthen public debt and fiscal risk management to support the authorities' efforts toward fiscal consolidation and reducing financial risks in the economy; (ii) improve money market liquidity and financial market transparency by deepening the government securities market and improving the infrastructure for money markets; and (iii) help develop corporate debt and equity markets by enhancing corporate transparency and developing legislative frameworks for new instruments and investment vehicles. Medium-term reforms in these three policy areas were initiated under the Public Efficiency and Financial Markets Program (2017–2018), and the proposed program (2019–2021) will sustain previous reform achievements by finalizing newly initiated and complementary reform efforts.

2. The proposed assistance is closely aligned with ADB's forthcoming country partnership strategy, 2019–2023 and is included in ADB's country operations and business plan for Armenia, 2019–2021, which prioritizes helping Armenia to rebalance its economy toward more resilient and inclusive growth, through better and more sustainable mobilization of financial resources to private sector development.² The proposed ADB assistance is also in line with ADB's Strategy 2030, which prioritizes developing the financial sector and capital markets to support the development of the private sector and enhance financial stability (i.e. operational priority area to strengthen governance and institutional capacity).

II. THE TECHNICAL ASSISTANCE

A. Justification

3. To prepare and support the implementation of the Armenia Second Public Efficiency and Financial Markets Program, a transaction technical assistance (TA) is required, especially with regards to the Post-Program Engagement Framework. Through this TA, ADB will continue to flexibly provide strategic policy advice to the government.

B. Outputs and Activities

4. The proposed program will aim to strengthen public efficiency and deepen financial markets in Armenia. The TA and program will have three outputs. Experts will support decision-making and the technical development of reform proposals to promote these objectives. The required deliverables will be in most part confidential in a first instance, but stakeholder consultations will be vehicles for dissemination whenever appropriate.

¹ The government confirmed its request for ADB assistance in the January and March consultation missions. An initial design and monitoring framework is in Appendix 1. Transaction technical assistance (TA) will be provided for program preparation (accessible from the list of linked documents in Appendix 2).

² ADB. 2018. *Country Operations Business Plan: Armenia, 2019–2021*. Manila.

5. **Output 1: Public debt policies and fiscal risk policies strengthened.** This output will continue to enhance fiscal discipline, transparency, and credibility. To this end, the TA will focus on three key reform areas: ensuring effective risk management function within the Fiscal Risk and Statistics Department of the MOF; promotion of fiscally responsible and development-relevant public-private partnerships (PPPs); and development of an effective public debt management strategy. To ensure sound fiscal risk management, the TA program will help ensure that adoption of the newly drafted Fiscal Risk management framework roadmap remains on-track whilst improving transparency in reporting and accounting of state-owned enterprises and completion of full-fledged risk vetting and monitoring of PPPs. The TA will promote development of fiscally responsible PPPs by assisting with promulgation of the PPP Government Decree and remaining secondary legislation as well as providing legal support to, if necessary, approve amendments to the current Procurement Law which facilitate the requirements of PPP transactions. Finally, in order to strengthen the public debt management function, the TA will support Public Debt Management Department (PDMD) in the implementation of the 2020–2022 Medium Term Debt Strategy (MTDS) and developing a MTDS update for 2021–2023. The TA will ensure gender inclusive training of MOF staff—including in the selection of trainees—to ensure institutionalization of the abovementioned functions. The main implementing agency will be the Ministry of Finance (MOF). The Ministry of Economy (MOE) will also be an implementing agency for this output.

6. **Output 2: The government securities market deepened and financial market infrastructure improved.** Under this output, the TA support will be centered around three key reform areas: developing financial and capital markets; improving cash and liquidity management and forecasting; and implementation of the Global Master Repo Agreement. To help develop financial markets, the TA will support MOF and CBA to jointly approve a full-fledged financial and capital markets development program. In order to improve cash management and forecasting, the TA will help PDMD finalize implementation of its time-bound Roadmap to improve Cash Management and support CBA in the approval of necessary regulations for AMX to offer bond switch action solutions. The TA will also help CBA complete the implementation of the time bound Global Master Repo Agreement Roadmap. The implementing agencies will be the MOF (through the PDMD) and the Central Bank of Armenia (CBA), with one key implementing partner: the Armenia Securities Exchange.

7. **Output 3: Enhancement of the investors base and corporate transparency supported.** This output will lay the foundations for further corporate market development efforts. Activities under this output include: development of the legal framework for new types of securities; strengthened corporate transparency standards; and ensuring the adoption of an effective insolvency framework. To develop a legal framework which is conducive to the issuance of new types of securities to broaden the investor base, the TA will support the CBA examining the regulatory and tax incentive and impediments to securities trading and issuance. The development of a joint government/CBA issue draft policy providing recommendations which promote different financial instruments in local currency and wholesale financing initiatives to promote financial transparency. In order to strengthen corporate transparency, the TA will support the establishment and operationalization of the Public Oversight Board and Chamber of Accountants and Auditors of Armenia as well as MOF assessment of options to increase transparency in the public procurement system. The benefits of a gender sensitive approach to staffing will be integrated in the TA's recommendations to the relevant authorities. Finally, in order to further strengthen the insolvency framework, the TA will support the government to maximize performance of the specialized courts for insolvency and suggest improvements in the insolvency legislation that ensure maximization of return to creditors in insolvency proceedings. The implementing agencies will be the CBA and the MOE, and two key implementing partners will be

the Armenia Securities Exchange and the recently established Financial Markets Association of Armenia.

8. The TA will help the government implement the program's policy actions. The government will be responsible to meet the policy actions. However, some of these will require technical skills and expertise, which may not be readily available within the government agencies. Further, international experience and alternative perspectives can help the government agencies find optimal solutions and overcome any issues that inhibit progress. Finally, implementing the policy conditions builds capacity within these government agencies, and this support can help entrench the reforms.

C. Cost and Financing

9. The TA is estimated to cost \$825,000, of which \$750,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-Other sources). The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, domestic transportation, provision of office space, and communication facilities for consultants. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

10. ADB will administer the TA. The TA is expected to be implemented from September 2019 to October 2021. The Central and West Asia Regional Department will select, supervise, and evaluate consultants, and procure goods, if applicable. The MOF will be the executing agency.

11. The MOF, MOE, and the CBA will be the implementing agencies. The TA will also have two key implementing partners: the Armenia Securities Exchange and the recently established Financial Markets Association of Armenia.

12. All disbursements under the TA will be made following ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). The implementation arrangements are summarized in the table.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	September 2019 to October 2021		
Executing agency	ADB		
Implementing agencies	Central Bank of Armenia, Ministry of Economy, and Ministry of Finance		
Consultants	To be selected and engaged by ADB		
	Firm: single source selection	UNCTAD	\$90,000
	Individual: individual selection	International expertise (15 person-months)	\$377,800
	Individual: individual selection	National expertise (19 person-months)	\$95,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance, UNCTAD = United Nations Conference on Trade and Development.

Note: In line with para. 86 of the *Staff Instructions on ADB-administered Consulting Services*, the single source selection method is justified because UNCTAD is the developer of the debt management system in use by the Ministry of Finance. Source: Asian Development Bank.

13. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.³ A team of 16 specialists and one firm are required to meet the program's outputs and activities. Individual consultants will include at least seven international experts (for a total of 15 person-months) and nine national experts (for a total of 19 person-months). ADB will engage the services of international and national consultants, mostly on an individual basis and using a gender sensitive approach, as the required consultants' skills mix, and qualifications are diverse and difficult to source from one consulting firm. However, specialized entities will be engaged directly as firms for particular training activities (e.g., for the staff of the [PDMD] and the Fiscal Risks Management Department).

14. All consultants will be required to assess the gaps in and binding constraints to the financial sector development in their area of expertise, assess the arrangements in their particular area, and compare these with international best practice to help strengthen the policy matrix for consultations with the government, especially in connection with helping the government develop and approve a financial and capital markets development strategy. After the policy matrix has been agreed, the consultants will help the government implement the program. The terms of reference that follow and the proposed number of person-months and round trips are indicative.

³ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	377.8
ii. National consultants	95.0
b. Out-of-pocket expenditures	
i. International and local travel	102.0
ii. Reports and communications	7.0
iii. Miscellaneous administration and support costs	0.2
2. Training, seminars, and conferences	
a. Facilitators	90.0
b. Venue rental and related facilities	3.0
3. Contingencies	75.0
Total	750.0

Note: The technical assistance (TA) is estimated to cost \$825,000, of which \$750,000 will be financed on a grant basis by the Asian Development Bank. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of these government contributions is estimated to account for about 9% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53248-003-TARreport>

1. Terms of Reference for Consultants