

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk description	Rating	Mitigation Measures	Responsibility
External shocks trigger financial instability and increased demand for dollar assets or liabilities.	High	Economic growth is projected to accelerate over the life of the program; external risks are moderating as the Russian economy rebounds. The government intends to implement reforms to make the economy more resilient, including through this program, by increasing the depth of the government domestic debt program and reducing foreign exchange borrowing.	Ministry of Finance
Fiscal instability and foreign currency debt servicing affect efforts to stabilize the domestic debt issuance program.	Substantial	The government is curtailing expenditure to reduce the fiscal deficit. A new tax code introduced in late 2016 is broadening the tax base and increasing revenues. The new government also wants to transition to issuing more dram debt to reduce foreign currency risks that can have a fiscal impact.	Ministry of Finance
Public debt management			
Insufficient market demand for increased government securities auctions.	Substantial	The government will introduce an electronic sales system to enable the purchase of government securities over the internet. This will expand the market of potential buyers. The government will also revise the framework for primary dealers to encourage them to seek out more buyers and develop the secondary market for government securities.	Ministry of Finance
Limitations in the Ministry of Finance's IT infrastructure prevent the necessary upgrades to improve the security of debt records and enable business continuity following a market disruption event.	Moderate	Changing procedures and installing some relatively cheap IT modifications can improve the integrity of the data records, but will have limitations in the event of a significant market disruption. The Ministry of Finance is planning to overhaul its public financial management infrastructure to address this issue.	Ministry of Finance
PDMD capacity constraints may adversely affect the effectiveness of the reforms.	Substantial	ADB TA will provide support to PDMD to implement the changes, and give specific training to upskill staff. The European Union is also providing TA which is aligned to ADB's program and their capacity building efforts will complement the work of ADB.	Ministry of Finance with support from ADB and the European Union
Fiscal risks and PPPs			
Due to the tight fiscal situation and limited capital expenditure, there may be increased pressure to enter PPP arrangements without a proper policy and legal framework, which could incur significant fiscal costs in later years.	Substantial	The government has established a PPP unit to help manage PPP processes. However, it is under resourced and needs significant support to develop policies, draft laws, build capacity across government, promote PPPs in Armenia, etc. ADB TA, alongside support from EBRD, will help develop the PPP unit, and ensure the government is aware of the risks of entering PPPs without sufficient due diligence.	Ministry of Finance with support from ADB and EBRD.

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The government and National Assembly do not prioritize the legal reforms to introduce a legislative framework for PPPs.	Low	The government is keen to promote PPPs in Armenia and recognizes the need for a robust PPP policy and subsequent PPP legislation. Broad development partner support will ensure international experiences are built into the policy and the law.	Government of Armenia.
Reluctance by the Ministry of Finance to expand its framework to monitor fiscal risks.	Low	The Ministry of Finance created a new department to focus on fiscal risks. The IMF has also provided extensive TA to develop the existing fiscal risks framework and capacity. The IMF and other development partners (including ADB) have urged the government to do more in terms of managing fiscal risks. TA resources from development partners will continue to support this expanded scope.	Ministry of Finance
Money market			
Difficulties in implementing a secure, simple and comprehensive IT system to manage secured interbank lending.	Low	Many other countries have introduced a tri-party repo system and associated IT infrastructure, which includes collateral management, payments, manages margin calls, etc. The hardware and software can be procured "off-the-shelf", but will need specialists to install, test, and initially operate.	Central Bank of Armenia.
Limited uptake in tri-party repos, which will hinder the development of the interbank money market.	Low	A comprehensive and standardized repo framework and an improved system to manage transactions will reduce counter-party risk and encourage bank participation in interbank transactions. For banks, accessing liquidity through the interbank market will be cheaper than accessing liquidity from the Central Bank of Armenia.	Central Bank of Armenia.
New types of securities			
The government and the National Assembly do not prioritize the legal reforms to introduce new types of securities.	Low	The government is keen to attract investors to Armenia. The government recognizes that new investment instruments are required to broaden the investor base and increase investment volumes. TA from development partners is helping to ensure legislative changes are robust and meet investor requirements.	Government of Armenia.
Corporate transparency			
Vested interests may make it difficult for policy and legal changes to be made to increase corporate transparency.	Moderate	Low corporate transparency is having an impact on investment. Foreign investors who have limited knowledge of the Armenian corporate market find it difficult to get comprehensive information on company performance in the public domain. The government recognizes this and as part of a general policy change to increase the attractiveness of Armenia as an investment destination, will ensure that the necessary policy and legislative changes are made. TA resources from development partners are supporting the government to introduce the changes. Increased corporate transparency may also have a positive impact on tax revenues.	Ministry of Finance.

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Public financial management			
Budget planning remains weak, mostly input orientated, and poorly linked to performance information, which can lead to inefficient budget allocations and expenditure. The Ministry of Finance and sector agencies lack capacity and staff resources for rigorous budget analysis and budget performance review.	Low	Development partners, including ADB, are supporting government efforts to improve budget planning, performance information, and budget linkages through dedicated TA resources. This support includes preparing a strategy for introducing program budgeting, and an action plan to implement public financial management reforms, supporting line agencies to develop key performance indicators for program budgeting submissions, and building capacity across government.	Ministry of Finance
Procurement			
Fraud, collusion, and conflicts of interest compromise the integrity of procurement processes.	Moderate	Under the country partnership strategy, ADB will conduct training for line agencies to prevent integrity violations and will periodically spot-review bid proposals to ensure the accuracy of the recommendations in the bid evaluation reports. The government is committed to increasing transparency and efficiency of the procurement process, by finalizing electronic procurement reform with support from development partners and establishing a complaints handling authority (the Procurement Appeals Council) under the Ministry of Finance, reachable by a hotline.	Ministry of Finance
Corruption			
A legal and regulatory framework for anticorruption is in place, but implementation is inadequate, leading to weak incentives for government agencies to fight corruption.	Low	Development partners are supporting the introduction of program budgeting, which increases fiscal transparency and provides tangible measures to track the quality of expenditure. The World Bank has governance and anticorruption measures in public services as a crosscutting focus in its country partnership strategy with Armenia (2014–2017). The planned interventions will help to improve the existing anticorruption framework.	Government of Armenia.
Overall program risk	Low		

ADB = Asian Development Bank, IT = information technology, PDMD = Public Debt Management Department, PPP = public–private partnership, repo = repurchase agreement, TA = technical assistance.

Note: Risk factors are assessed against two dimensions: (i) the likelihood that the risk will occur, and (ii) the impact of the risk on the outcome. Rating scale: low = low likelihood and low impact; moderate = substantial to high likelihood but low to moderate impact; substantial = low to moderate likelihood but substantial to high impact; high = high likelihood and high impact.

Source: Asian Development Bank.