

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR ARMENIA

**REPORT ON THE INVITATION
TO THE PUBLIC TO COMMENT**

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIP	Access to Information Policy
ASB	Advice for small business
COOs	Countries of operations
CSOs	Civil society organisations
EBRD	European Bank for Reconstruction and Development
ESP	Environment and Social Policy
ESRs	Environmental and social requirements
FDI	Foreign direct investment
GDP	Gross domestic product
GoA	Government of Armenia
ICT	Information and communication technology
NGO	Non-governmental organisation
EU	European Union
SME	Small and medium-sized enterprise
SMEC	Small and medium-sized enterprise competitiveness
SMECI	Small and medium-sized enterprise competitiveness and inclusion

1. INTRODUCTION

The objective of this report is to summarise the key comments received from stakeholders during the consultation period on the EBRD's draft Armenia Country Strategy (hereinafter – draft Strategy) and to provide the responses of the Bank's management.

The public consultation process was in line with the EBRD's Access to Information Policy (AIP) and Access to Information Directive stipulating that the Bank's draft country strategies are disclosed for a period of 45 calendar days during which time the public is invited to send comments to the Bank.

The draft Strategy for Armenia was posted on the EBRD website in English and Armenian, and the public was invited to share their comments from 17 December 2024 until 31 January 2025. The previous strategy for Armenia was also made available to the public on the EBRD website at <https://www.ebrd.com/where-we-are/armenia/overview.html>

Information about the public consultation process was posted on the EBRD's dedicated webpage - "*Have your say*", which highlights the latest opportunities for the public to comment on the Bank's policies and strategies under review. Targeted notifications of the consultation process were sent to civil society organisations (CSOs) that had expressed interest in the Bank's work in the country.

The written comments received and relevant EBRD responses are outlined in this report. The Bank's responses varied in length and complexity depending on the issues/suggestions raised and their relevance to the draft Strategy for Armenia. The length of EBRD responses does not imply the importance of the respective question/comments.

In line with the Bank's increased efforts to involve civil society at an early stage of elaborating the country strategy, on 26 June 2024, the EBRD organised an in-person consultation meeting with CSOs in Armenia. The objective of the meetings was to collect civil society's feedback during the preparatory phase for developing the draft Strategy.

Nine participants from nine different CSOs participated in the consultation. The EBRD was represented by the EBRD Resident Office team in Armenia, as well as by the Country Strategy, Policy Strategy Delivery, and Civil Society Engagement teams. Annex 1 to this report comprises a summary of key messages from civil society with a list of CSOs that participated in the consultation process.

Overall, the elaboration of the draft Strategy benefited from the public consultation process. The Bank highly appreciates the time and efforts of all stakeholders that provided their valuable inputs and comments.

2. SUMMARY OF COMMENTS AND EBRD RESPONSES

No.	Public Comments/Feedback	EBRD Response
1.	Implementation of Previous Strategy	
1.1	<p>In different parts of the document the EBRD mentions that it helped the Government of Armenian (GoA) to improve the public procurement system and will continue to do so. The public procurement system in the country is disastrous and the situation in public procurement is deteriorating. The EBRD should pay attention to this fact and reflect it properly in the Bank's plans.</p>	<p>Over the previous country strategy period, EBRD endeavoured to advance public procurement improvements via support to ministries, and various state agencies to improve their procurement and project management functions. In majority of all public sector projects, EBRD deploys procurement consultants as well as technical consultants to support Project Implementation Units. These consultants enhance the capacity of procurement specialists and facilitate skills-transfer.</p> <p>While EBRD has so far not directly addressed the procurement legislation, it has contributed to legislative improvements in this area via support for the Investment Council (IC) of Armenia. For example, the IC developed a legislative changes package adopted in 2024 to address delays in public procurement payments through factoring. Similarly, the IC developed a public procurement reform to incentivise SMEs' participation whereby winners of public procurement bids who use more than 50 percent of local products during the execution of their contracts will receive a subsidised reimbursement of 1 percent of the contract amount. The Bank also considered an engagement on the digitalisation of the procurement system but could not secure the necessary funding or buy-in to progress.</p> <p>As set out in Priority 1, EBRD will look for opportunities to continue supporting improvements in this area going forward.</p>

1.2	<p>The different parts of the draft Strategy highlight that the Bank helped the GoA to diversify economy. Several other international partners tried to help the GoA to diversify Armenian economy. However, Armenian economy is not diversified. The EBRD should carry out research and explain to Armenian public the main obstacles to the diversification of the country's economy.</p>	<p>As described in the new EBRD Country Diagnostic and Country Strategy, the Bank acknowledges low economic diversification as a continued challenge to Armenia's national development. As set out in Priority 1 of the new country strategy, increasing economic diversification will continue being a key area of engagement for EBRD in Armenia going forward.</p> <p>EBRD has deployed two experts embedded in the Ministry of Economy to finalise and implement the new trade diversification strategy. The Bank also supports economic diversification via its SME engagement. Recently, with support from the EU delegation and EBRD, the Ministry of Economy initiated a competitiveness assessment study carried out by EY to identify high-potential SMEs for export growth and establish an SME Competitiveness Enhancement Centre. The final study will be available in mid-February 2025. Additionally, our SMEC and SMECI credit lines, distributed through local banks with EU support, provide financing for export-oriented businesses. Similarly, our Advice for Small Business (ASB) initiatives help local SMEs to expand and diversify their exports.</p> <p>As per other research conducted in this area, the EBRD's latest Armenia Country Diagnostic describes how infrastructure bottlenecks, exacerbated by geopolitical challenges, have hindered economic diversification. Armenia's landlocked geography and strained relations with neighbouring countries have restricted full access to regional value chains, including energy trade routes. The quality of roads and efficiency of rail services remains low despite the noticeably enhanced density of road and rail networks. These structural issues have led to high transport costs and may constrain FDI and industrial diversification despite continued growth in the services sector (i.e., IT).</p>
2.	Economic Context	

2.1	<p>On page 10 of the draft Strategy the EBRD highlights that “the government plans to raise education spending to 4% of GDP by 2030”. The poverty reduction strategy of Armenia approved in 2003, the sustainable development strategy of Armenia approved in 2008 and the Armenia Development Strategy for 2014-2025 approved in 2014 had very similar provisions. But the overall education funding as percent of GDP continued to decrease in recent years. The EBRD may need to assess the risk of the country not having sufficient education funding and quality workforce.</p>	<p>Low education spending is indeed an important issue holding back human capital and overall economic development in Armenia. The commitment to allocate 4% of GDP to education by 2030 does represent a substantial increase from recent levels and could be challenging to realise given competing budgetary priorities (e.g., defence, refugee response). However, it is our view that this could be achievable (for example, in 2009, government expenditure on education in per cent of GDP peaked at 3.8%)</p>
3. Government Priorities and Stakeholder Engagement		
3.1	<p>On page 11 of the draft Strategy, among government reform priorities under point six (institutional development) the EBRD mentions “decentralization”. The GoA does not seem to have decentralization on its agenda and views it under the regional governance angle. There might be a misconception on the part of the GoA regarding what decentralization is about.</p>	<p>This section in EBRD country strategies is dedicated to describing government priorities as directly set out in official national development plans or strategies for all EBRD Countries of Operations (COOs). In the case of Armenia, the consulted paper is the 2021-2026 Action Plan of the Government of Armenia, which identifies decentralisation as an action area on page 705.</p>
4. Defining Armenia Country Strategy Priorities		
4.1	<p>On page 12 of the English text EBRD mentions about “lack of institutional capacity within the public administration”. Over the years, the EBRD, the World Bank, the EU, the ADB and several other international partners have assisted the GoA in improving the institutional capacity in public administration. It seems that it did not work. Thus, it is questionable how the EBRD can invest in the country where over the last 25 years the governments have failed to improve the institutional capacity in public administration. It poses a high risk for the EBRD and Armenia.</p>	<p>Limited institutional and administrative capacity are acknowledged as risks to the implementation of the new country strategy and recognised as obstacles to Armenia’s own development agenda in EBRD Country Diagnostic. As noted in Priority 1, the Bank will seek to continue strengthening the capacity of the public sector. Across its operations EBRD will continue to leverage lessons learned from its own experience in Armenia as well as successful examples from other EBRD COOs to support progress in this area, seeking to maximise collaboration with other international entities to avoid duplication efforts.</p>

4.2	<p>The EBRD has an impressive portfolio on green transformation, the impact of which is increasing following the financing decisions taken at COP29 in Baku. The draft Strategy mainly sets out the goals of green financing, but the measures to implement the principles of climate justice are insufficient. In particular, there are no clear indicators by which to evaluate the decisions taken. The role of civil society is defined at the level of proposals, and concerns are expressed about the narrowing of the space for real participation in decision-making processes. There are no measures to protect activists from aggression from businesses supported by the EBRD.</p>	<p>Across its operations and engagements EBRD adheres to environmental and social sustainability principles as set out in our recently approved Environmental and Social Policy 2024 (ESP), whose in-depth elaboration falls outside the scope of the Armenia country strategy. Slide 16 highlights EBRD’s approach to tackling environmental and social implications in EBRD engagements in Armenia during the new country strategy period. The tracking indicators present on page 14 are used to assess the impact of EBRD investments and operations in the remit of Priority 2 over the lifetime of the draft Strategy.</p> <p>The EBRD remains committed to protecting civil society and project-stakeholders from retaliation. The Bank’s ESP integrates retaliation risk management throughout its Environmental and Social Requirements (ESRs), particularly in key areas such as stakeholder engagement and labour conditions. For example, under the requirements of the ESR 10 (Stakeholder engagement), all clients of the Bank are obliged to ensure that “the engagement process is conducted free from any form of manipulation, interference, coercion, intimidation or retaliation against stakeholders”.</p>
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ANNEX 1. Consultation meeting with civil society on 26 June 2024

In the framework of developing a new country strategy for Armenia, an in-person consultation meeting between the Bank's team and Armenia's CSOs was conducted on 26 June 2024 at the EBRD office in Yerevan. The objective of the meeting was for the Bank to collect inputs from CSOs regarding the country's development challenges and opportunities.

CSOs shared their insights on the following topics: (i) rule of law, human rights, transparency, good governance, civil society landscape; (ii) economic inclusion, private sector competitiveness, and digitalisation; and (iii) green economy and sustainable development.

Rule of law, human rights, transparency, good governance, civil society landscape:

- **Public participation, transparency, and accountability of institutions.** There is a lack of transparency in public decision making, and the public engagement in the development of policies and adoption of laws remains low. CSOs have limited possibility to participate in and influence Armenia's public policy. This results to a lack of trust between the authorities and communities.
- **Access to information.** Armenia's law on freedom of information is poorly enforced. Public institutions, including local authorities, often fail to provide the requested information, which affects the monitoring and investigative work of CSOs and journalists. There is no regulation promoting proactive transparency actions on the part of state/community-owned enterprises.
- **Integrity in the public service.** The ethics system in the public sector remains underdeveloped. There are neither integrity checks for civil servants, nor a requirement for declaration of property, income, expenses, and interests. Furthermore, the whistleblowing system should be improved as whistleblowers often fail to secure legal assistance and necessary protection.
- **The system of checks and balances.** Armenia's parliament does little oversight over the executive branch given the lack of interest of the ruling faction to oversee the executive bodies. The Audit Chamber's work is relatively active, but it needs improvement in terms of reporting, communication, engagement with stakeholders.
- **Public procurement.** The country lacks regulations for revealing anti-competitive measures or violations of public procurement processes. The level of due diligence in public contracting is insufficient.
- **Civil society landscape.** Armenia's civil society needs further development through the simplification of reporting requirements imposed by the state on CSOs, improved funding, and capacity building support. Stronger cooperation is needed between the civil society, public, and private sectors which could be achieved by supporting the establishment and functioning of relevant associations.

Economic inclusion, private sector competitiveness, and digitalisation:

- **Private sector competitiveness.** Private sector competitiveness is crucial for Armenia's economic growth and resilience. The country needs economic frameworks and conditions supporting the development of diverse businesses and healthy competition. The public-private dialogue could be fostered by establishing relevant dialogue platforms. Associations should play a key a role in helping businesses to grow from micro and small to medium size.

- **Anti-corruption measures.** It is vital to ensure fair competition across the country. The Ministry of Justice of Armenia developed a comprehensive Strategy for 2023-2026, which aims at strengthening corruption prevention, improving legal frameworks, enhancing public awareness, and integrating anticorruption measures within the business sector. International partners are encouraged to help with the implementation of this Strategy.
- **Women's economic inclusion.** Currently, the Corporate Governance Code of Armenia is actively discussed by stakeholders and should be adopted in the second half of 2024. With regards to the women's economic inclusion, this Code is groundbreaking as it will require that women should be represented on the boards of directors. If approved, this would be a significant step towards ensuring women's participation in the economic life of the country.
- **Armenia's high-tech industry.** The high-tech industry can become a key driver of the country's economy but Armenia lacks a strategy and roadmap for the development of this sector. Armenia should be transformed from an IT outsourcing country into an IT exporting country. Investments should be made into the country's micro-electronics, artificial intelligence, quantum computers, chip design, etc. A well-established start-up ecosystem would be an important tool to advance Armenia's IT sector.
- **Road safety and inclusion.** Road safety remains a key challenge for the country. Around 4.5% of national GDP is lost every year due to road accidents. By 2027, road safety audits will have become mandatory for road projects which is a positive development. Armenia needs national and international investments into road safety infrastructure and logistics. While initiating road projects, close engagement with communities would be key to minimize negative impacts on communities.
- **Digitalisation of the economy.** Armenia's progress with digitalising its economy is very limited. Internet of things, robotics, digitalisation of business and corporate management, and artificial intelligence have limited representation in the economy. National and international partners should invest into improving the technological literacy of businesses, using various IT tools and solutions, accessing finance and incentives, etc.
- **ICT infrastructure.** The level of ICT infrastructure development in Armenia is insufficient, especially in the regions. There is a strong need in investments into new infrastructure and communication technologies. The government and international partners are encouraged to foster a new business environment and conditions that will encourage existing companies to better cooperate and grow.

Green economy and sustainable development:

- **Investment in renewable energy.** Investment in renewable energy and sustainable development is key for greening the country and should be supported by national and international actors. The Bank's new country strategy for Armenia should advance green transition, evaluate climate risks, and envisage active public and community participation in the monitoring of banking projects.
- **Access to finance.** Access to national and international finance mechanisms is essential for the country to advance with its reforms agenda in the green sector and beyond.
- **Information disclosure.** Proper disclosure of environmental and social information on green energy projects is key for CSOs to be able to monitor and provide feedback on projects.

- **Management of retaliation risks.** It is key to assess and mitigate retaliation risks and develop effective response mechanisms as part of EBRD projects. CSOs, human rights defenders, and journalists should be protected against lawsuits by the Bank clients which are used as a method of pressure and silencing (Strategic Lawsuits against Public Participation (SLAPPs), etc.).
- **Alignment with EU regulations.** The greening of the country's economy should be in line not only with local standards, but also with EU norms and regulations. Alignment with EU norms would ensure faster integration of Armenia into European community.
- **Waste management.** The country's waste management system is underdeveloped due to poor infrastructure. Armenia lacks facilities and logistics for waste storage and processing, as well as a national strategy for waste management. A change of social behaviour towards waste is needed to ensure that society understands that waste can be a valuable resource.
- **Mining projects.** Armenia's civil society is not against mining projects in general, but such initiatives should be based on sound and environmentally safe practices and principles. Close engagement with communities is essential for designing and implementing all mining projects.
- **Environmental and Impact Assessments.** Environmental and Impact Assessments (EIA) should be mandatory for all projects. At the same time, the country lacks mechanisms for proper monitoring of the EIAs. The Bank and international partners are encouraged to ensure that clients have resources and tools to implement EIA recommendations.
- **Transparency in green economy.** It is advisable to increase the transparency of green and sustainable projects. This could be achieved by disclosing more information on energy initiatives and engaging with CSOs to ensure that civil society can perform its oversight role.

List of CSOs that participated in the consultation process:

- Center for International Private Enterprise (CIPE)
- Democracy Development Foundation
- Ecolur NGO
- EcoRight NGO
- Eurasia Partnership Foundation
- Innovative Solutions for Sustainable Development of Communities (ISSD)
- National Road Safety Council of Armenia (NRSC)
- Transparency International Armenia
- Union of Employers of Information and Communication Technologies