

# Donor Assistance to Armenia

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# Introduction

Armenia is a land-locked country located in the South Caucasus region of Eurasia. Based on OECD/DAC criteria, it is classified as a lower middle-income country. According to World Bank data, the country had a nominal Gross Domestic Product (GDP) per capita of US \$3,600 in 2016. Economic growth dropped from 3% in 2015, to 0.2% in 2016. It is, however, according to IMF projections, expected to rise to 3% again in 2017.

The country is a member of the Eurasian Economic Union, which aims to increase trade and investment between Russia, Kazakhstan and Belarus. Armenia is also in a process of deepening its cooperation with the EU and participates in their Eastern partnership programme.

Armenia's development remains constrained by volatile regional politics and the unresolved Nagorno-Karabakh conflict, which is negatively impacting the country. In addition to these deficiencies, Armenia suffers from an economic blockade by two neighbours - Azerbaijan and Turkey. Its border with Turkey remains closed and Turkey currently refuses to open diplomatic relations.

Armenia is ranked 84th of 188 countries in the human development index (UNDP, 2016). It has made significant progress since independence from the Soviet Union in 1991, but regional disparities and socio-economic inequalities remain high. Over 60% of the country's GDP is concentrated in Yerevan, Armenia's capital. In general, the social and economic situation in Armenia is challenging and the country receives considerable support from international donors.

This report examines the biggest donors in Armenia. It also and provides an overview of the development assistance received by Armenia, based on the OECD Creditor Reporting System Database, for the years 2010-2015. We will also analyse the volume of FDI received and the flow of remittances into the country.

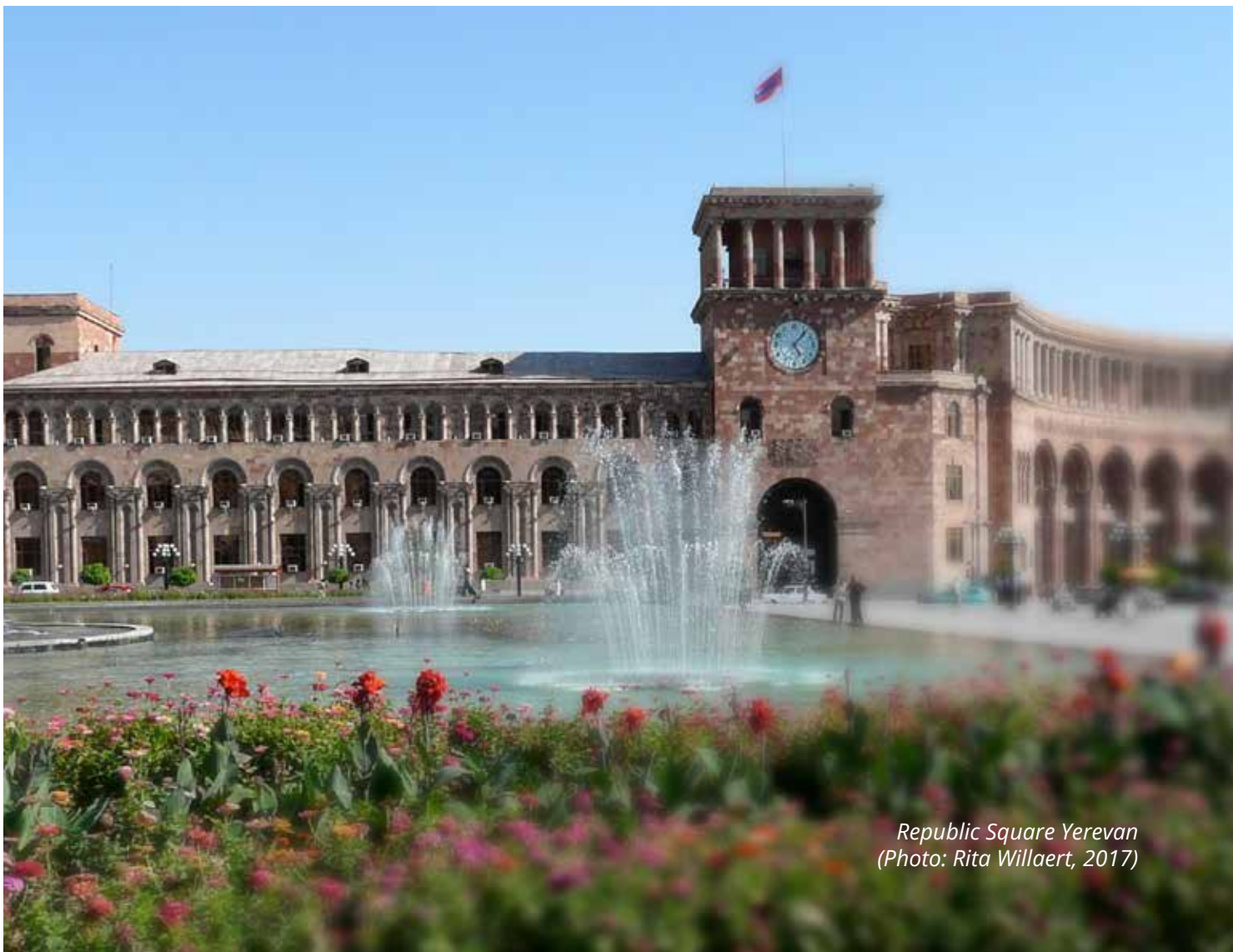


*(Photo: golosarmenii.am, 2017)*

## Donor Activity in Armenia 2010-2015

According to the OECD, during the 2010-2015 period, disbursed development assistance to Armenia amounted to US \$2187.9 m. The highest level of official development assistance (ODA), from bilateral and multilateral donors, was in 2011, at US \$432 m. In 2012, ODA decreased to US \$329 m and continued to decrease slightly until 2014. In 2015, it rose again to US \$409 m.

The decrease in assistance in 2012 and 2013 was most probably influenced by the parliamentary elections in May 2012, and presidential elections in February 2013, that raised many questions. While fundamental freedoms are generally respected in the country, the OSCE's assessment of the parliamentary elections revealed numerous cases "of pressure on civil servants" and recommended the authorities "refrain from putting pressure on voters". The 2013 presidential campaign was overshadowed by the fact that all major opposition parties boycotted the elections.

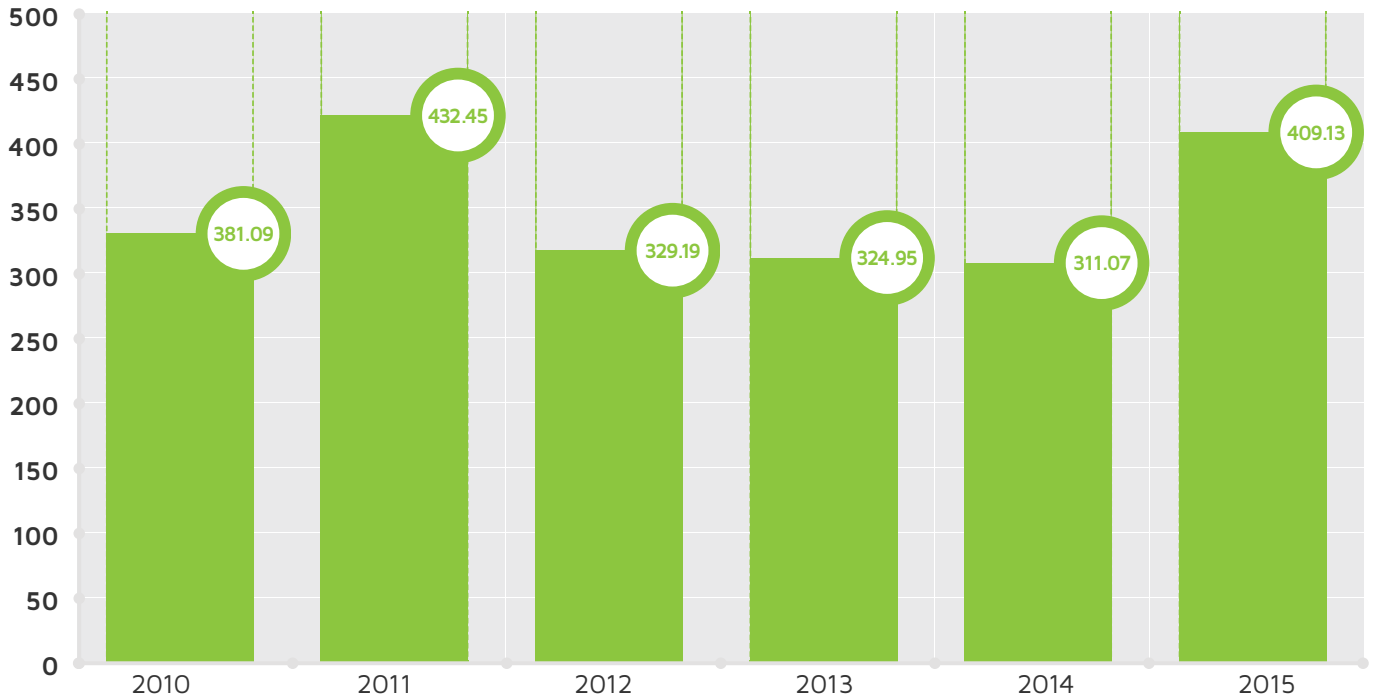


*Republic Square Yerevan  
(Photo: Rita Willaert, 2017)*

In 2015, aid inflow to Armenia rose sharply to US \$409 m. This coincided with the adoption by the European Commission of the new IPA II (Instrument for Pre-accession Assistance) funding mechanism and a new strategy for Armenia a year before.

### Development Assistance Inflows (\$, m)

2010-2015



Source: OECD, 2017



President Serzh Sargsyan with Piotr Antoni Świtalski, Ambassador of the European Union in Armenia (Photo: president.am, 2017)

Analysing the fluctuations in the total amount of development assistance, we could study the largest bilateral and multilateral donors, and how the level of assistance fluctuated year by year.

As can be seen from the table above, during these six years, aid from EU institutions increased considerably, to 36.4% of the total in 2015. Similarly, the Asian Development Bank also strengthened its role as a donor, especially in the last two years, increasing its share from 6% to 21.7%. In contrast the United States of America decreased assistance substantially from 25% in 2010 to 6.6% in 2015. The same can be said of the World Bank, which had slumped to a 3.7% share, by 2015.

## Largest donor's share in development assistance inflows to Armenia (\$, m) 2010-2015

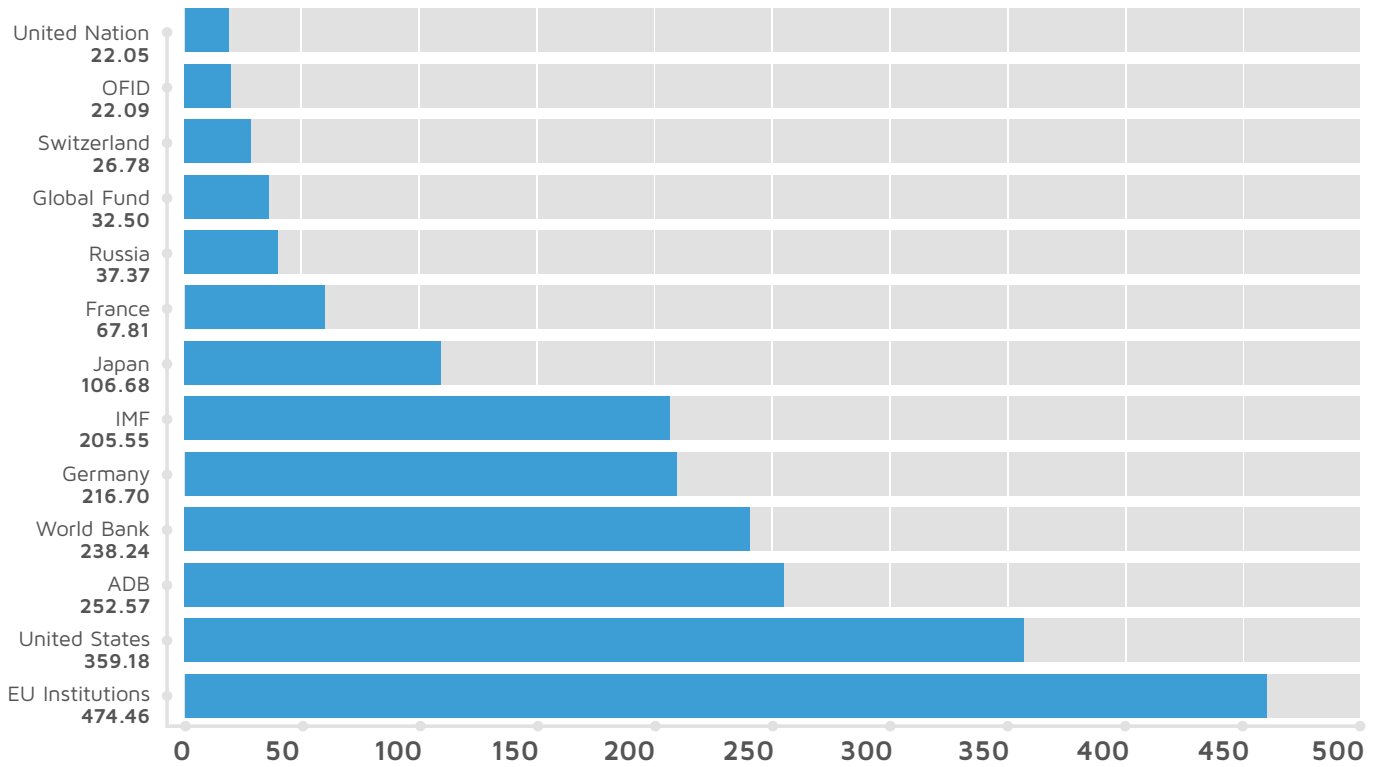
Sectors	2010	2011	2012	2013	2014	2015	Average
<i>EU Institutions</i>	33.35	99.79	43.46	69.67	79.23	148.96	<b>79.08</b>
<i>% in Total</i>	8.8%	23.1%	13.2%	21.4%	25.5%	36.4%	<b>21.4%</b>
<i>United States</i>	94.38	108.50	54.93	42.21	32.35	26.81	<b>59.86</b>
<i>% in Total</i>	24.8%	25.1%	16.7%	13.0%	10.4%	6.6%	<b>16.1%</b>
<i>ADB</i>	22.26	19.53	20.76	21.67	79.62	88.72	<b>42.09</b>
<i>% in Total</i>	5.8%	4.5%	6.3%	6.7%	25.6%	21.7%	<b>11.8%</b>
<i>World Bank</i>	35.57	49.23	64.92	56.15	17.10	15.28	<b>39.71</b>
<i>% in Total</i>	9.3%	11.4%	19.7%	17.3%	5.5%	3.7%	<b>11.2%</b>
<i>Germany</i>	18.18	42.89	48.44	38.19	43.57	23.43	<b>36.12</b>
<i>% in Total</i>	4.8%	9.9%	14.7%	11.8%	14.0%	6.2%	<b>10.2%</b>

Source: OECD, 2017

The European Union is Armenia’s largest donor. From 2010-2015, the EU provided 21% of the overall development assistance. Other big donors are the USA, the Asian Development Bank, the World Bank and Germany.

**Volume of assistance by main donors (\$, m)**

2010-2015



Source: OECD, 2017



President Serzh Sargsyan with Richard Mills, United States Ambassador to Armenia (Photo: president.am, 2017)

# Donor Organisations and Donor Countries

## Largest Bilateral Donors

The United States of America is the largest bilateral donor and aid provider to Armenia. From 2010-2015, Armenia received a total of US \$338.1 m in development assistance. The U.S. assistance programmes are delivered primary through USAID, the Millennium Challenge Corporation and the US Department of Agriculture (USDA), which aim to tackle two major development issues:

- Per capita income has stagnated at around US \$9,000 per annum;
- Reform momentum has slowed.

However, in the last few years the United States has reduced its assistance to Armenia considerably. In 2015, its total development assistance amounted to US \$26.8 m, which is substantially less than in 2011, when disbursements amounted to US \$108.5 m. These cuts affected all former Soviet countries as the United States is substantially reducing funding allocated to the post-Soviet space.

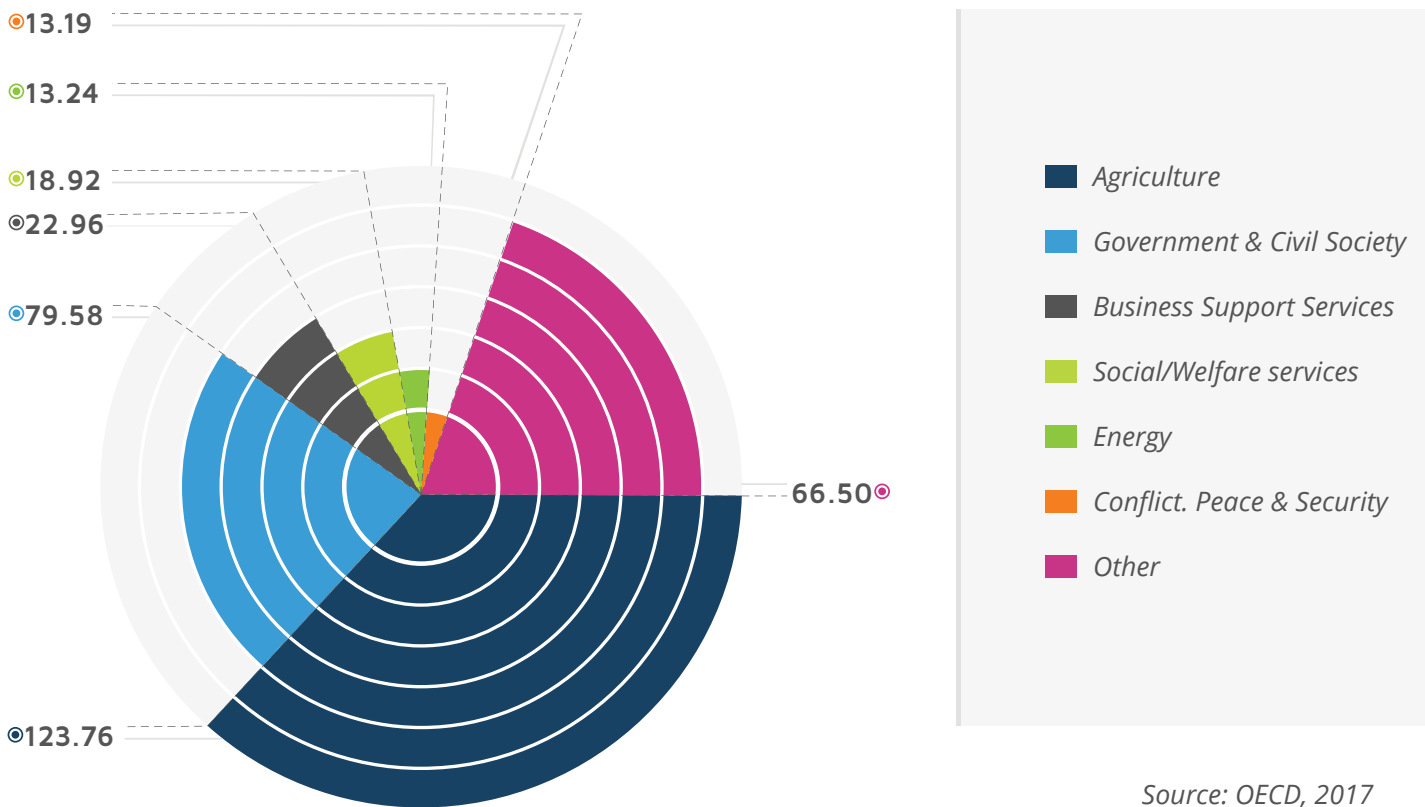


No. 1 bilateral donor: United States of America

*Dr. Karen Hilliard, Director of USAID  
Armenia from 2012 till 2016  
(Photo: armradio.am, 2015)*

The largest share of US assistance went to the agricultural sector, but it was disbursed mainly between 2010 and 2012. In late 2012, the USDA decided to wind down its activities in Armenia. In the new strategy for 2013-2017, the United States is reorienting its focus to more inclusive and sustainable economic growth.

### Top sectors by disbursements from USA (\$, m) 2010-2015



Source: OECD, 2017



USAID assistance is directed to rural communities of Armenia and helps provide better schooling conditions for Armenian children. (Photo: USAID, 2015)

## No.2 Bilateral Donor: Germany

Germany is a major bilateral donor. Since 2010, Germany has disbursed US \$216.7 m in the form of ODA. German development cooperation projects concentrate on small and medium-sized enterprises, developing and reforming the financial sector, improving energy efficiency, promoting renewable energy and regional power exchange, the sustainable management of natural resources and the establishment of nature conservation areas.

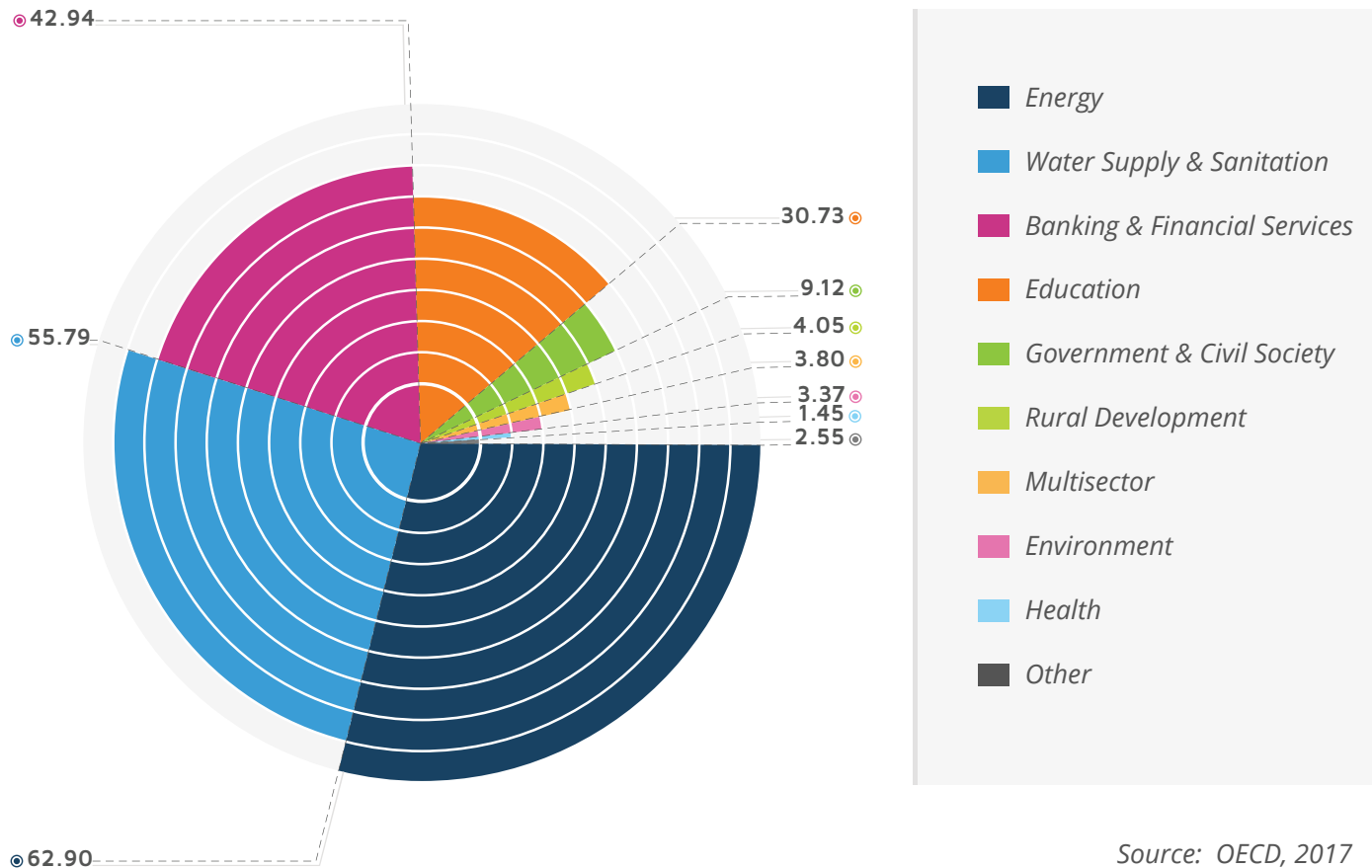
In 1999, KfW (the German government-owned development bank) set up the German-Armenian Fund (GAF), which provides Armenian financial institutions with local currency funding for investment loans. Other priority areas for KfW are: energy and water supply and sanitation. In 2014, KfW provided a US \$58 m loan and a grant worth US \$2.3 m for a water supply project. In 2015, KfW signed a US \$100 m sovereign loan, to finance the construction of an electricity transmission line and a high voltage electricity station to develop a link between Armenia and Georgia.

*GIZ is continuously supporting the Armenian private sector  
(Photo: banks.am, 2017)*



The German Development Agency (GIZ) priority areas are: sustainable economic development, municipal and economic development and legal reform. Within these priorities various programs were implemented in Armenia. The Private Sector Development in South Caucasus and the Local Governance in South Caucasus Programs are among the biggest ones.

## Top sectors by disbursements from Germany (\$, m) 2010-2015



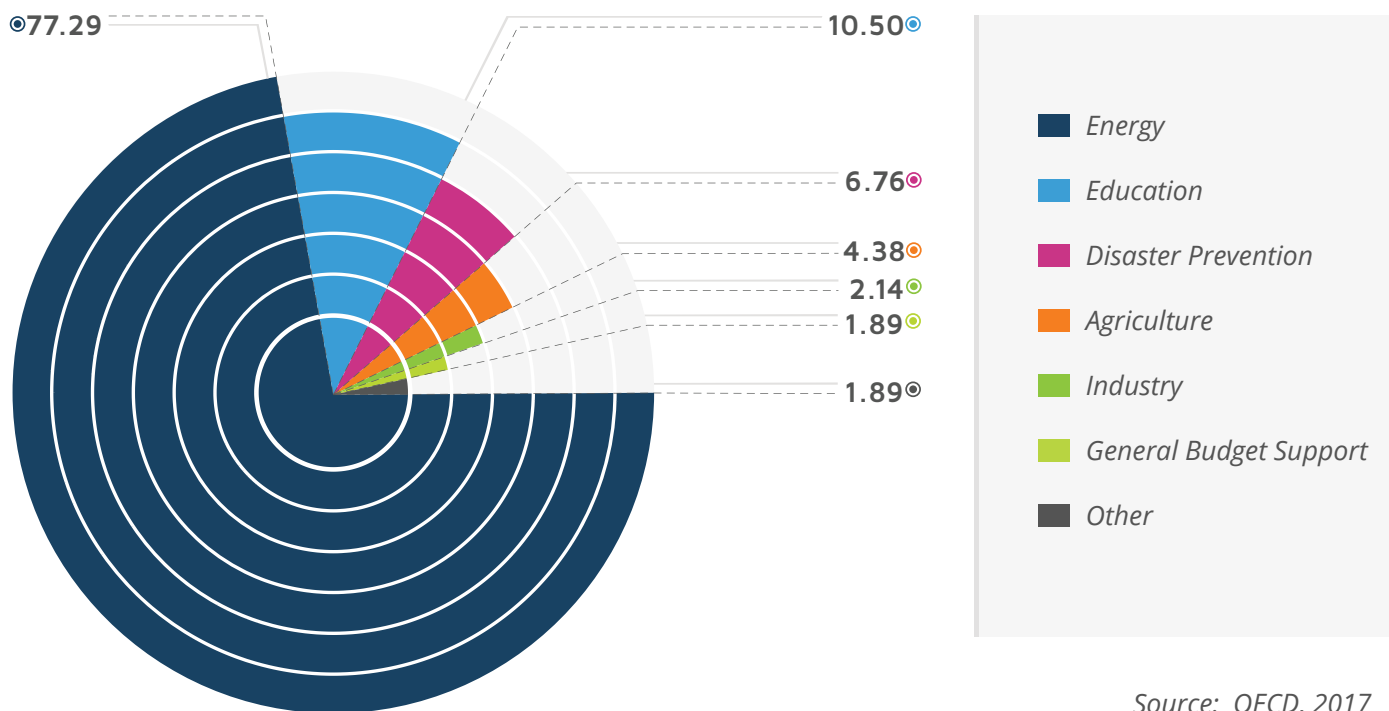
GIZ organised a seminar on the topic of "Public Financial Management" (Photo: finport.am, 2017)

### No.3 Bilateral Donor: Japan

Japan’s assistance to Armenia, in the form of development aid, amounted to \$106.7 m for the period 2010-2015. As can be seen from the chart below, the largest priority for Japan, in Armenia, is the energy sector. The Japan International Cooperation Agency (JICA) provided two ODA Loans to Armenia for the Electricity Transmission and Distribution Project and Yerevan Combined Cycle Co-Generation Power Plant Project.

Armenia is located in one of the world’s most seismically active regions and frequently suffers from earthquakes. Japan provided assistance worth US \$6.7 m aimed at improving Armenia’s disaster management capacity. The Japanese government also focuses on education, agriculture and industry. This way, Japan strives to improve the Human Development Index and bolster Armenia’s economic base.

**Top sectors by disbursements from Japan (\$, m) 2010-2015**



Source: OECD, 2017



The signing of the Armenian-Japanese Program Against Landslides (Photo: mes.am, 2015)

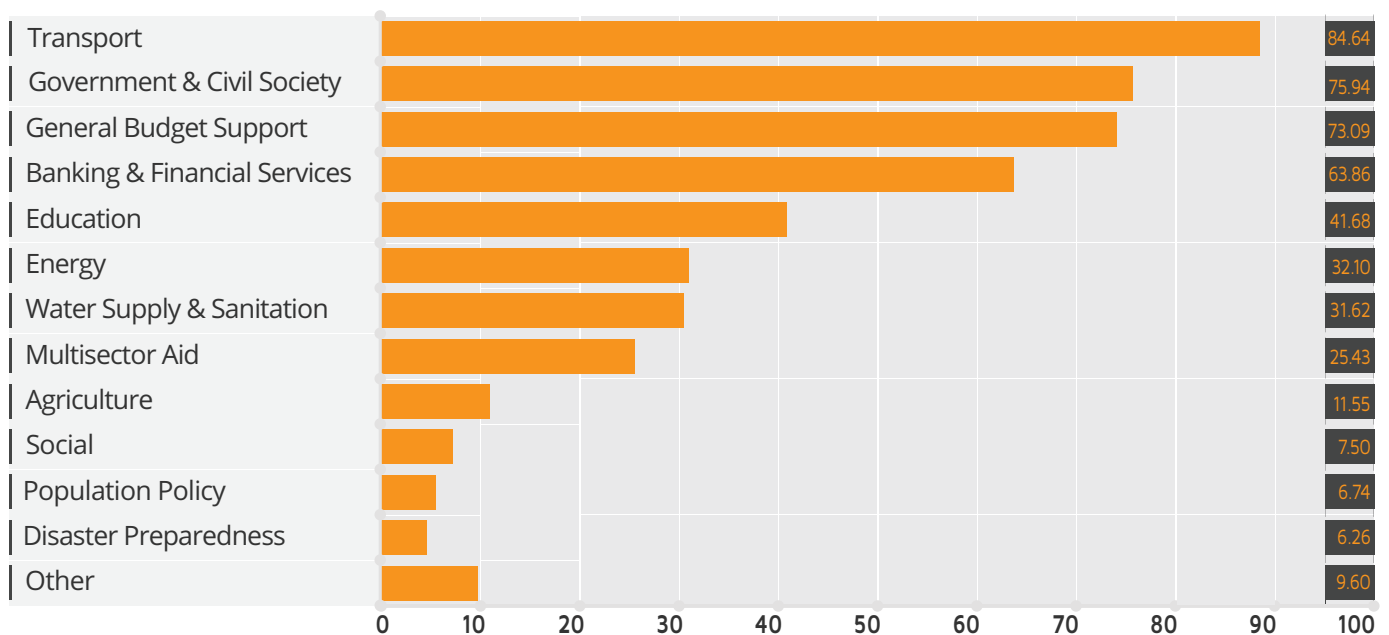
## Largest Multilateral Organisations



EU assistance to Armenia is constantly growing. Based on a “more for more” approach, the development support is provided on the basis of progress in reform implementation. Since 2010, the EU has disbursed a total of US \$474.5 m in development assistance. The EU’s overall objective is to support Armenian national priorities, in line with EU standards and best practices.

### EU Institutions disbursement by sectors (\$, m)

2010-2015



Source: OECD, 2017

After Armenia's decision, in 2013, not to sign the Association Agreement with the European Union/DCFTA, EU resources are being channeled toward three priority areas: judicial reform, public administration reform and private sector development. At the same time, the Armenian authorities have expressed a strong interest in deepening cooperation with the EU, in both economic and political spheres, in a manner that would be compatible with Armenia's commitments under the Eurasian Economic Union, which Armenia joined in January 2015.

As part of the European Neighbourhood Policy, Armenia benefits from the European Neighbourhood & Partnership Instrument (ENPI). The indicative allocation for 2014-2020 is expected to be US \$295-410 m. However, the actual level of assistance so far is only a fraction of indicative amounts, due to the time lag between programme formulation and implementation and the moderate pace of reform.

*A new round of EU-Armenia talks  
(Photo: Delegation of European Union to  
Armenia, 2017)*



## Second largest multilateral organisation: Asian Development Bank

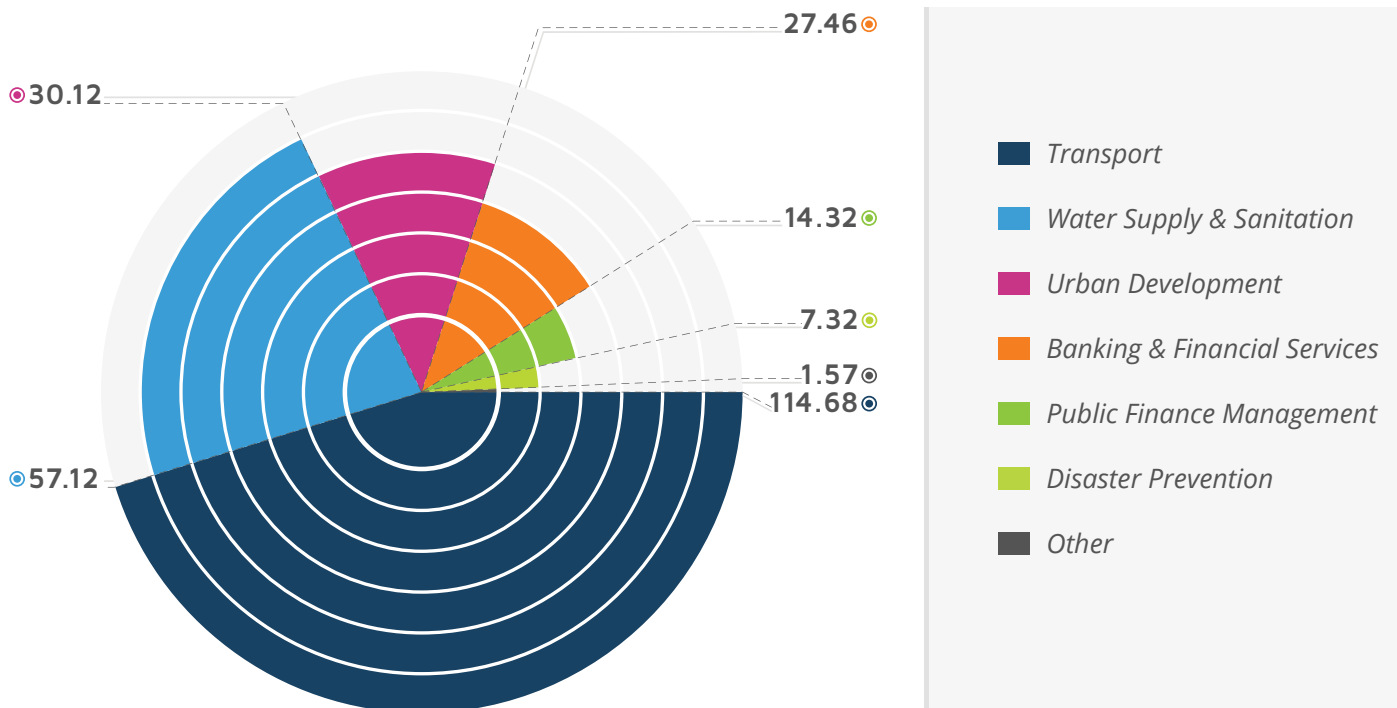
*The Yerevan–Gyumri highway, part of ADB’s North–South Road Corridor Development Program (Photo: ADB, 2017)*

The Asian Development Bank (ADB) has worked with the Armenian Government since 2005. Between 2010 - 2015 the ADB invested more than US \$252 m, aiming to help Armenia integrate its economy regionally and re-balance it toward more resilient, inclusive, and environmentally sustainable growth.

The Asian Development Bank supports three priority sectors: transport, water and urban development and other urban infrastructure. These three sectors account for more than 80% of all ADB disbursements to Armenia. In addition, the ADB supports reforms that build public sector capacity and efficiently allocate public finances to ensure infrastructure sustainability, through planning, governance, and adequate funding for operations and maintenance, as well as improve the environment for female entrepreneurs.

### Top sectors by disbursements from ADB (\$, m)

2010-2015



Source: OECD, 2017



### Third largest multilateral organisation: World Bank

Rural road project in Armenia  
(Photo: World Bank, 2014)

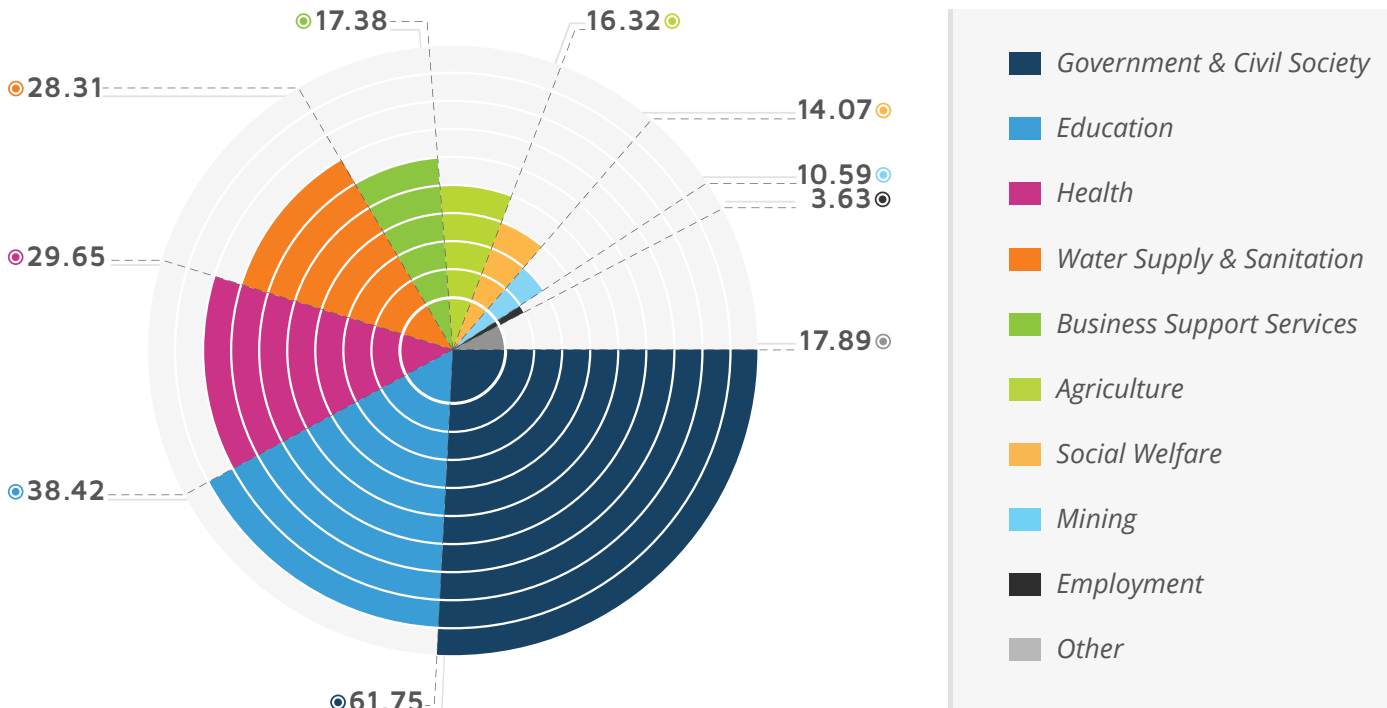
In the period 2010-2015, the WB disbursed US \$238 m. About one quarter of the WB's disbursements were in governance and the civil society sector. Other sectors receiving significant financing were education with US \$38.4 m, health with US \$29.6 m and water supply and sanitation with US \$28.3 m. In the WB Country Strategy for 2014-2017 the key priorities are clustered around supporting competitiveness and job creation, and improving efficiency and equity in social services, with an emphasis on improving governance and anti-corruption measures in the public service.

The World Bank supports the Armenian Government's strategy for the diversification of exports, the design of its investment policy, and the improvement of the legal framework for FDI. WB is also advancing business inspection reforms, through the new Trade Promotion and Quality Infrastructure Project and the Armenia Investment Climate Reform Project. In 2014, Armenia graduated from an IBRD/IDA blend to full IBRD\*.

\*The World Bank divides economies into IDA, IBRD, and IBRD/IDA Blend countries. Only financial creditworthy countries are eligible for full IBRD.

### Top sectors by disbursements from WB (\$, m)

2010-2015



Source: OECD, 2017

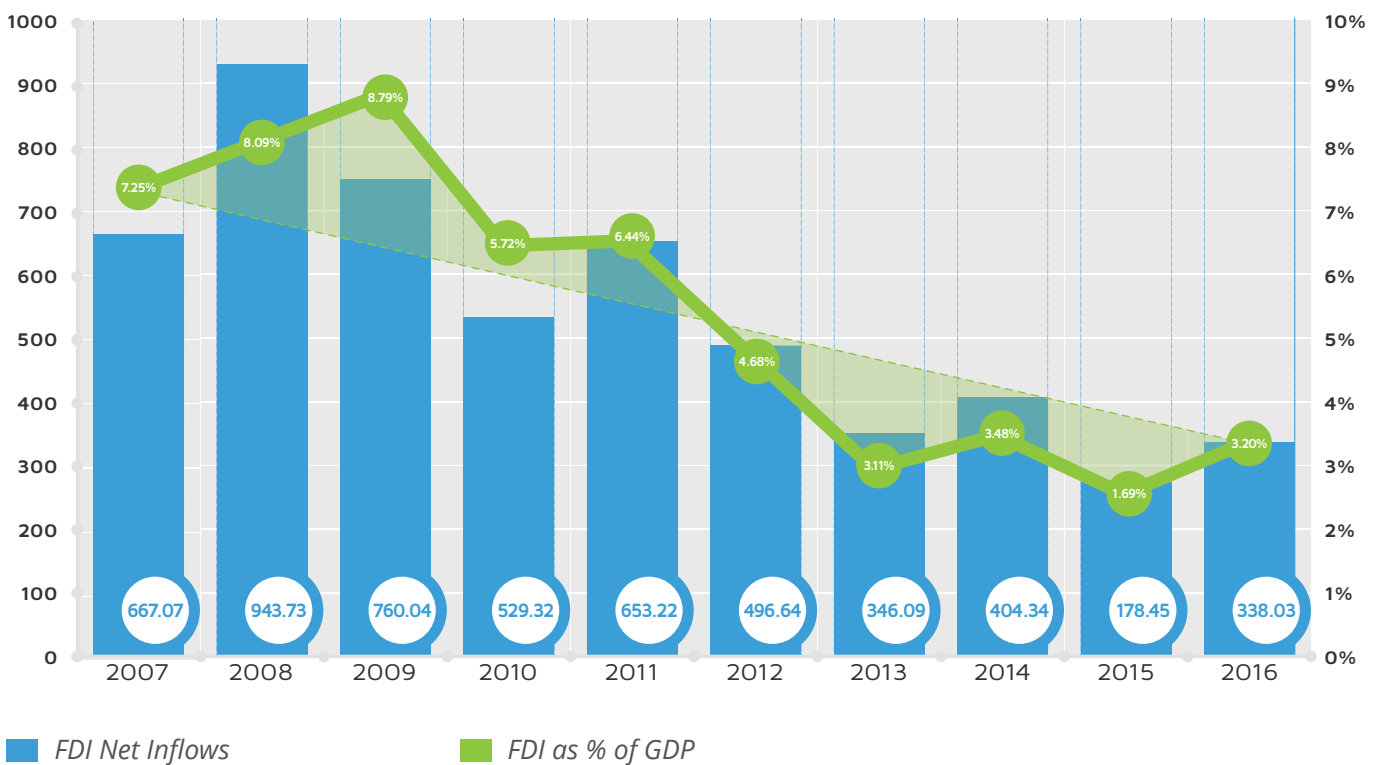
# Foreign Direct Investment

The period between 2007-2009 was rather successful for Armenia in terms of Foreign Direct Investment (FDI). According to the World Bank, in 2008, Armenia registered its highest value of FDI since the country's independence in 1991, at US \$943 m.

The global economic crisis led to a gradual fall in FDI, which continued until 2015 when foreign direct investment in Armenia amounted to US \$178.45 m, which is almost six times less than the 2008 level. In 2016, the level of FDI almost doubled, but it is still far below 2008.

## Foreign direct investment net inflows (\$, m)

2007-2016



Source: OECD, 2017

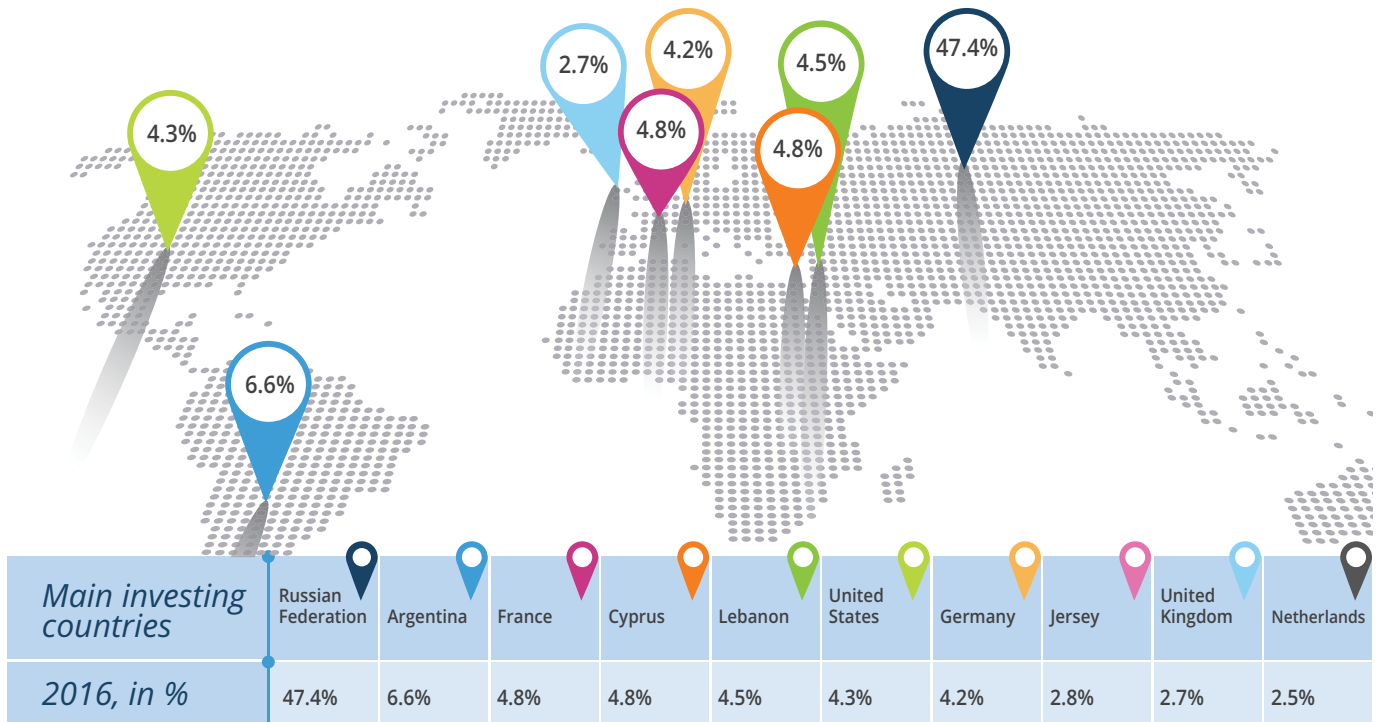


Scenery in southern part of Armenia  
(Photo: arka.am, 2017)

As for the sources of foreign investments, Russia is by far the largest. Other direct investors are Argentina, France, Cyprus and Lebanon.

### FDI stocks by country

2016



Source: National Statistical Service of the Republic of Armenia, 2017



Vahagn Lalayan (on the right)  
Head of Investment Policy Department  
(Photo: asue.am, 2017)

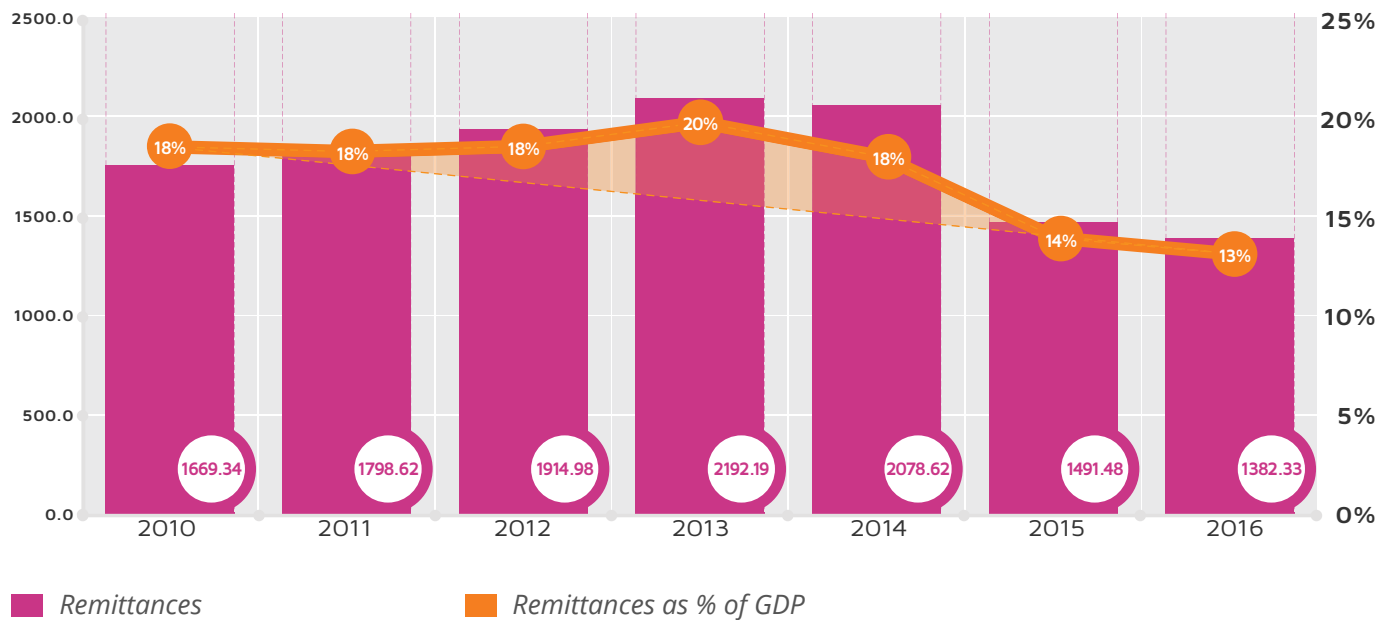
# Remittances

Remittances play a key role in the Armenian economy. On average, over the last two years, remittances have had a share of about 14% of GDP, coming down from 18-20% in 2013 and 2014. The reason for the decrease in remittances, after 2014, is the dramatic fall in oil prices starting in 2014-15, which led to a sharp depreciation of the Russian rouble and an economic slowdown in Russia. Since 70% of all remittances come from Russia, the country is very exposed and vulnerable to shocks in the Russian Federation.

Russia's economy has a key role in the volume of remittances received by Armenia, in contrast with other developing countries from this region, in which the source of remittances are more diversified and usually come from advanced economies.

## Annual remittance inflows to Armenia (\$, m)

2010-2016



Source: OECD, 2017



(Photo: mmmglobal.at, 2015)

## Conclusions

Armenia has made considerable progress since independence in 1991. However, its land-locked geography exposes it to external shocks and challenges Armenia's growth performance and future prospects. The small domestic market, gaps in the business environment, and the fact that 70 per cent of Armenia's borders are closed further constrains the development of the country. The fall in oil prices and the sharp depreciation in the Russian rouble, in 2014, affected negatively both FDI and remittances.

An important number of multilateral and bilateral development financial institutions and donors are active in Armenia and provide financial assistance for development. Two of the largest donors to Armenia are the European Union and the United States, however their focus is changing. The United States is gradually reducing assistance, whereas the European Union is increasing its allocations.

The official development assistance provided to Armenia has helped the country improve its decaying infrastructure. Much of the roadways and water pipelines were built during the Soviet period and need repair and renovation. Another priority of international donors is the democracy and governance sector. Enhanced public administration is required for improving the efficiency and effectiveness of public service delivery.

Also, being a part of the Alpine-Himalayan belt, Armenia is located in one of the world's most seismically active regions and frequently suffers from earthquakes, so disaster risk management also ranks high on the donors' list of priorities. For the foreseeable future, Armenia is expected to continue to be the recipient of significant volumes of ODA, both from individual country donors as well as multilateral organisations.



*Fruitmarket in Yerevan  
(Photo: Rita Willaert, 2014)*

# BID with DevelopmentAid

## Contact information

Company Name	DEVAID LIMITED
Address	22, Spetson str. Amalthia Building, Nicosia 1082, Cyprus
General	<a href="mailto:info@developmentaid.org">info@developmentaid.org</a>
Website	<a href="http://www.developmentaid.org">www.developmentaid.org</a>

