

# COUNTRY REPORT ON INFRASTRUCTURE AND FINANCE ARMENIA

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## TABLE OF CONTENT

I. COUNTRY INFRASTRUCTURE AND POLICY DIRECTIONS .....	2
1.1 IMPLEMENTATION PROCESS .....	4
1.2 LEGAL AND REGULATORY FRAMEWORK FOR INFRASTRUCTURE.....	5
II. GOVERNMENT PERSPECTIVE ON THE ROLE OF PRIVATE SECTOR INVOLVEMENT.....	6
2.1 RESPONSIBLE AGENCY FOR PRIVATE SECTOR INFRA-STRUCTURE PROCUREMENT.....	7
2.2 LEGISLATIVE CONSTRAINTS REGARDING PRIVATE SECTOR PARTICIPATION 7	
III. SOURCES OF FINANCING .....	9

## I. COUNTRY INFRASTRUCTURE AND POLICY DIRECTIONS

In Armenia there is a law on State budget, which defines the annual expenditures of the state budget, including those allocated for investing in infrastructure.

As for the transport sector, there is a Transport Sector Development Strategy, which has been elaborated by the assistance of the Asian Development Bank and it defines investment priorities in transport sector. The Strategy pursues improved management, infrastructure, and technology to maximize the transport sector's performance until 2020, and envisages a long-term prosperity through the establishment of efficient, cost effective, and environmentally and socially sustainable transport infrastructure and services. The Strategy has the following overarching goals:

- (i) Efficient and cost-effective transport infrastructure and services for the whole country
- (ii) Cross-border trade facilitation
- (iii) Environmentally and socially sustainable transport infrastructure and services

The Strategy entails an Action Plan which comprises a time-bound program of policy reforms and investment and technical assistance projects identified for 2009-2020, totaling about \$2.2 billion. The Action Plan details policy reforms and investment, technical assistance (TA), and policy and management reform projects for the short term (2009-2012), medium term (2013-2016) and long term (2017-2020).

### Extract from the Action Plan Summary

*(As cited from Armenian Transport Sector Development Strategy 2020)*

Goals and Objectives	Major Actions
<p><b>Roads and Road Transport Subsector Objectives</b></p> <ul style="list-style-type: none"> <li>• Development of international and interstate corridors focusing on the North-South Corridor</li> <li>• Completion of LRNP</li> <li>• Development of an efficient asset management system</li> <li>• Development of efficient road transport operations in accordance with international standards.</li> </ul>	<ul style="list-style-type: none"> <li>• ARD Capacity Development</li> <li>• Road maintenance database and condition survey</li> <li>• North-South Corridor <ul style="list-style-type: none"> <li>➢ M2/M6: Bagratashen-Vanadzor, Vanadzor-Dilidjan, Yerevan-Ararat</li> <li>➢ M1: Bavra-Gyumri and Ashtarak-Yerevan</li> <li>➢ Yerevan Western Bypass/Links</li> <li>➢ M15 Yerevan Eastern Bypass</li> <li>➢ M4 Yerevan-Sevan-Dilijan</li> <li>➢ M2: Yerevan-Yeraskhavan</li> <li>➢ Gyumri Eastern Bypass</li> </ul> </li> <li>• Lifeline Roads Network Program (LRNP) <ul style="list-style-type: none"> <li>➢ MCC 2009-11 - Balance of 330km</li> <li>➢ World Bank - 250km</li> <li>➢ Govt. - Balance of 532km</li> <li>➢ ADB Rural Roads SP - Balance of 227km</li> <li>➢ H45: M2-Tatev-Syunik 75km</li> <li>➢ JICA Rural Roads - 366km</li> </ul> </li> </ul>

Goals and Objectives	Major Actions
	<ul style="list-style-type: none"> <li>➤ Completion of LRNP</li> <li>• Other Interstate Rehabilitation (M3, M5, and M14 – 151 km)</li> <li>• Other Bypasses <ul style="list-style-type: none"> <li>➤ Aparan Western Link to M3</li> <li>➤ Yeghegnadzor S. Link to M2</li> <li>➤ Vaik S. Link to M2</li> <li>➤ Alagjaz W. Link to M3</li> </ul> </li> <li>• Shortcuts <ul style="list-style-type: none"> <li>➤ Noubarashen-Sovetashen</li> <li>➤ Gorbaik-Gndevaz</li> <li>➤ Artashat-Martuni</li> <li>➤ Geghard-Martuni</li> </ul> </li> <li>• Other TA Projects <ul style="list-style-type: none"> <li>➤ Road Safety Strategy</li> <li>➤ Road Maintenance Financing</li> <li>➤ Highway Design Standards</li> <li>➤ Road Maintenance Manual</li> <li>➤ Axleload Control</li> </ul> </li> </ul>
<p><b>Railway and Railway Transport Subsector Objective</b></p> <ul style="list-style-type: none"> <li>• Successful implementation of the Concession Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• SCR - Concession Agreement 2009-2020 <ul style="list-style-type: none"> <li>➤ Rehabilitation/ Repairs</li> <li>➤ Rolling stock</li> </ul> </li> <li>• Other investment projects <ul style="list-style-type: none"> <li>➤ Bridge Renovation Gyumri-Georgia Border</li> <li>➤ Tamping Machine</li> <li>➤ Akhouryan Check Point</li> <li>➤ Optic Fiber Cable Macis-Nournous-Sevan-Zod</li> <li>➤ Optic Fiber Cable Yeraskh-Macis</li> <li>➤ Electrification Gyumri-Akhouryan-Turkey</li> </ul> </li> <li>• Other TA projects <ul style="list-style-type: none"> <li>➤ Small P&amp;E for Operating Works</li> <li>➤ Network Development</li> <li>➤ Logistics &amp; Market Development Training</li> <li>➤ Railway Monitoring</li> </ul> </li> </ul>
<p><b>Urban Transport Subsector Objective</b></p> <ul style="list-style-type: none"> <li>• Development of integrated public transport network and services, with a sustainable balance between public and private transport.</li> </ul>	<ul style="list-style-type: none"> <li>• Metro <ul style="list-style-type: none"> <li>➤ Refurbish Metro cars (30)</li> <li>➤ Refurbish stations</li> <li>➤ Training Program</li> <li>➤ New entrance at Yeritasardakan</li> <li>➤ Safety improvements</li> <li>➤ Smart card ticketing</li> <li>➤ Escalator modernization</li> <li>➤ Passenger information (real time)</li> <li>➤ New Metro cars (24)</li> </ul> </li> <li>• Bus/Trolleybus <ul style="list-style-type: none"> <li>➤ Medium/large buses</li> <li>➤ Trolleybuses</li> <li>➤ Passenger information etc.</li> <li>➤ Bus interchanges with hub facilities</li> <li>➤ Bus Maintenance Depots</li> <li>➤ Suburban dispatch centers</li> <li>➤ Inter-provincial bus terminals</li> <li>➤ BRT Line Komitas Avenue</li> </ul> </li> <li>• Traffic Management/ Parking <ul style="list-style-type: none"> <li>➤ Traffic signals, traffic management</li> </ul> </li> </ul>

Goals and Objectives	Major Actions
	<ul style="list-style-type: none"> <li>➤ Underground car parks</li> <li>➤ On-street parking &amp; cycling</li> <li>• Roads               <ul style="list-style-type: none"> <li>➤ Road Surfacing and Maintenance</li> <li>➤ Grade Separation</li> </ul> </li> </ul>
<p><b>Airports and Civil Aviation Subsector Objectives</b></p> <ul style="list-style-type: none"> <li>• Development of competitively priced air services providing comprehensive international connectivity at efficient airports.</li> </ul>	<ul style="list-style-type: none"> <li>• Erebouni airport passenger</li> <li>• Airport Operations               <ul style="list-style-type: none"> <li>➤ Zvartnots Terminal Phase 2</li> <li>➤ ARMATS Telecom &amp; Nav. Equip</li> <li>➤ Avia TC A/craft &amp; simulators</li> <li>➤ Reopen Stepanavan airport</li> <li>➤ Reopen Goris and Sisian airports</li> </ul> </li> <li>• Other aviation projects               <ul style="list-style-type: none"> <li>➤ National Aviation Strategy study</li> <li>➤ Avia TC needs assessment</li> <li>➤ Broaden fuel supply base</li> <li>➤ Stepanavan, Goris, Sisian study</li> <li>➤ Enhance small airlines</li> </ul> </li> </ul>

Summarizing and supplementing the above mentioned, the following projects can be outlined as the most significant on-going major transport projects in Armenia

- North South Transport Corridor
- New railroad Vanadzor-Fioletovo (construction of 47km missing link)
- North-South Railway (there is no railroad in the Southern regions of Armenia and this planned railway project is to build railroad in the southern regions leading towards the border of Iran)
- Container services and intermodal/multimodal terminals in Yerevan and in Gyumri

## 1.1 IMPLEMENTATION PROCESS

In general, the ideas are either generated based on the local needs and researches or based on the generalized findings and recommendations of various international organizations, such as UNECE, UNESCAP, TRACECA, EU, etc., during different types of working groups on transport development.

In the first step, the proposal is being discussed internally among the administration and in case of finding it essential, it is being discussed with other interested and involved entities and stakeholders, such as related ministries, municipal administrations, communities, NGOs, international organizations, etc. The next step is elaborating documents, such as preliminary studies, project proposals, feasibility studies, action plans, master plans or strategies, etc. Afterwards, the necessary steps are taken for identifying the potential sources for securing the necessary funding for the project, which is usually the most challenging part. During this phase all possible sources are being considered, among them State budget, grants/loans from donor countries and international financial institutions, etc. If successful, then the next

step is the detailed design, bidding, actual implementation, which then follows by monitoring and reporting, operation and maintenance.

## 1.2 LEGAL AND REGULATORY FRAMEWORK FOR INFRASTRUCTURE

When the infrastructure investment project is approved for implementation, it is usually being reflected among the List of Projects and Priority Programmes of the Government of Armenia, which is formed in accordance with RA Prime Minister's decision No 803-N dated 24.09.2009. According to the latter, every governmental entity should submit the list of its projects and master programmes before the start of each financial year. This list, among others, should indicate the exact deadlines and sources for financing the projects, together with the name(s) of the administration(s) which is/are responsible for the implementation of that particular project.

Also, at the earlier phase, the projects or the intension for the implementation of the projects are reflected in other documents, such the Presidential pre-electoral programmes, Government Programmes (the current one if for the years 2008-2012 adopted by the Government Decree N380-A dated 28 April 2008 and can be found at <http://www.gov.am/files/docs/77.pdf>), international bilateral or multilateral agreements, memorandums of understanding, development concepts and programmes, etc. Another legislative source is the development strategies (such as Transport Sector Development Strategy, Poverty Reduction Strategy, etc.), documents that are adopted by the competent entities which are responsible for defining the infrastructure investment policies for the given sector.

Although in Armenia it might be still a bit early to widely discuss about the large scaled transport infrastructure PPPs that will involve local Armenian private sector companies, however taking into account the current trends of internalization and the growth of the private investment funds worldwide, this is something that should be already considered for initiation, at least for securing the availability of basic Armenian legislation relating to PPP.

It should be mentioned that large-scaled PPPs in Armenia, which usually involve foreign private company as a contractor, mostly are regulated through bilateral contracts and agreements having the government at one side and the private sector partner organization on the other side. In this light, a big challenge exists that the laws on PPP should not be limitative but supportive for attracting the foreign private companies for getting involved in PPP.

Another fact is that the Ministry of Territorial Management of Armenia together with the Ministry of Economy are drafting a law on Public Private Partnership, which has been circulated among the involved state entities and later on will be submitted to the Parliament for further elaboration. This basically outlines the framework and responsibilities of the public and private partners upon implementing joint projects.

It is also worth to mention that there is a Law on Foreign Investments which is in force from 31 July 1994, which also related to the aspects of public-private partnerships. This statement is also witnessed by EBRD Assessment on Commercial Laws of Armenia (2009), which mentions that Armenia is one of the very few EBRD countries of operations that do not have a specialist single-act concession law applicable to infrastructure, municipal utilities and public services. General laws do not refer to, or regulate, concessions apart from a general reference in the Law on Foreign Investments, providing that concessions are one of the forms of foreign investment.

## **II. GOVERNMENT PERSPECTIVE ON THE ROLE OF PRIVATE SECTOR INVOLVEMENT**

Based on the interactions with public officials and private sector representatives, also taking into consideration the current tendencies of providing the existing transport infrastructure for concessional management for a long term period (such as in the field of railroad and airports in Armenia, as well as planned for Armenian intercity bus station network) with the purpose of ensuring long-term financial investments, it is obvious that the will of the government for enhancing private sector involvement truly exists. This confirmation is also stipulated in the RA Government Programme for 2008-2012, which defines that the Government intends to keep the investment-to-GDP ratio at least around 27-30%, which will be sufficient to achieve 8-10% annual growth. The required volumes of capital investments are going to be financed mainly from private sources and, in some cases (especially in infrastructure), on the basis of public-private partnerships. Long term large national projects, especially in high productivity sectors and infrastructure will lead the Government's efforts in attracting investments. Meanwhile, the Government considers the introduction of a public-private partnership concept as one of the main priorities of its activities, which will ensure high quality public services and development and implementation of the most important national and local programs.

However, it should be mentioned that investing in infrastructure usually requires quite significant amount of investments, while the IRR is very low, so the local (Armenian) private sector is not very interested in investing in local transport infrastructure, although they seem to be open for discussions on this topic. In this light it should be mentioned that all infrastructure related civil works in Armenia are carried out by private companies, which are selected based on tenders as state procurement of services, rather than PPP.

In spite of the political will to enhance PPP, another obstacle is that in case of investing in infrastructure, particularly in roads, railroads or multimodal logistic centres, the existing traffic intensively and transport volumes, as well as the ability to pay by the end-users, do not allow to be optimistically supportive for the PPPs at this stage, although certain studies prove that such projects can serve as a threshold for transport development in Armenia, which can be true by all means. But nowadays the Armenian private sector is not that interested in investing in such large-scale public projects and only limited insignificant contribution to the total amount of the required investment funds might be considered by the Armenian transport/logistics related companies, as they prefer investing in their own assets with the

purpose of developing and further expanding their own warehouses, fleet or logistics centres based on the current market trends and short-term forecasts. However, private sector representatives emphasize that enhanced transport infrastructure will be of extreme benefit for all, but such investments being of strategic nature should be secured by the government.

The political will of the Armenian government for enhancing PPP is also witnessed by the Concept Note prepared by UNDP in 2008, which covers the situation of Public-Private Partnership in Armenia. It mentions that the Armenian government has shown strong political will in introducing PPP, which over the last decade has been the centre piece of the national infrastructure development strategy.

UNDP Concept Note on Public-Private Partnership in Armenia further emphasizes that PPPs can be found in every major part of economic infrastructure in Armenia, including energy, telecommunication, transport, postal service, water distribution, local utilities and urban development. PPP has been instrumental in rehabilitation and maintenance of energy generation and distribution, national highways, water distribution networks, etc. All main types of PPP models – concessions, divestitures, green field projects, and management and lease contracts are present in Armenia. These include a concession to upgrade and operate nation's main airports; management contracts to run the national postal service; urban and regional water supply networks; contracts to design, build and operate hydropower stations; concession to operate the national railways; etc.

## **2.1 RESPONSIBLE AGENCY FOR PRIVATE SECTOR INFRASTRUCTURE PROCUREMENT**

All the state procurements, including those for infrastructure development, are carried out by the Centre for Assisting State Procurements (<http://www.procurement.am>) which is a specialised entity of the Ministry of Finances of Armenia.

As for the PPPs in Armenia that exist in the fields of railways, airports, water supply, electricity network infrastructure in Armenia, the responsible agency is usually the Government of Armenia, which establishes an inter-administrative panel consisting from officials from different state competent authorities, who deal with the PPP related matters as a board.

## **2.2 LEGISLATIVE CONSTRAINTS REGARDING PRIVATE SECTOR PARTICIPATION**

Currently there are no legislative constraints. However, there is not much interest from the local Armenian private sector to participate in the large scale transport infrastructure partnerships that require huge investments, as the private sector is still in the phase of its development and all the available financial means are directed for the flourishing of themselves.

So basically in Armenia, PPPs are formed with foreign private investment companies that are sometimes selected based on international tenders, sometimes with sole participation, as in the case of railways, and there are no any generalized constraints, as the government is open to discuss any types of PPP (BOT, BOOT, PoP, etc.) with interested private sector parties. The government usually sees PPP as a method for shifting/sharing the financial burden to/with the private sector, as well as an option for benefiting from a more professional management by a specialized, internationally recognized and financially stable private organization.

At their turn, the foreign private organizations, alongside with pure financial objectives, are interested in long term strategic benefits, too. Among these benefits are the expansion of the scope of activities and network, usage of the know-how and past experience for improving the performance and upbringing the assets subjected to PPP into a higher level of operation resulting in the increase of the asset's commercial integrated value, diversification of the company's assets' portfolio, regional reach and presence, as well as for various strategic purposes going beyond the pure financial or commercial interest, etc.

The following constraints can be seen in infrastructure development:

- Limited financial resources.
- Limited level of integration of transport infrastructure in international transit routes, because of lacking quality, insufficient furnishing, safety and low speed.
- Closure of international borders from East (Azerbaijan) and West (Turkey), resulting from Nagorno Karabakh conflict. This problem shifts considerable transit flows to the alternative routes bypassing Armenia. This reduces the transit traffic intensiveness to the minimum and impacts negatively on the development of transport infrastructure in Armenia.
- Mountainous areas, which provide only limited alternatives and in certain cases even no-alternatives. Armenia is a mountainous country and in some areas large scale transport structures, such as state-of-the-art tunnels, suspension bridges and freeways could significantly improve the situation, but the absence of necessary financial resources, as well as absence of funds for their maintenance in case of being constructed, usually forces to abstain from such large-scaled infrastructure development projects.
- Absence of more efficient and viable methods of supervision during the implementation and follow up stages of the infrastructure development activities. One of the constraints is the IMF indicators of current state debt level of Armenia. This sometimes makes certain international financial institutions to abstain from involving in new loan agreements with Armenia.
- Armenia has strategic railroad project which intends the construction of new railroad in the Southern regions of Armenia which leads towards Iran, but in several cases this project has been denied from international financial institutions because of geopolitical considerations.



### III. SOURCES OF FINANCING

The above mentioned financial institutions support infrastructure development through direct investments, grants and loans. Usually the grants are provided for consultation services, trainings and feasibility studies, technical assessments, while the loans are provided for longer periods with certain conditions, through different tranches.

The active financial sources for funding transport projects are the following:

- State Budget of Armenia
- World Bank
- Asian Development Bank
- European Bank for Reconstruction and Development
- European Investment Bank
- Russian Railways (concessionaire of Armenian railways which is now called South Caucasus Railways)
- Armenian International Airports (Argentinean investment), which is the concessionaire for the two civil airports in Armenia, located in Yerevan and in Gyumri
- (1) Lincy Foundation, (2)the Millennium Challenge Corporation (MCC) of the United States (US). Although these funds had significant input in infrastructure development in Armenia during the past decade, presently these funds are not active.