



Report and Recommendation of the President to the Board of Directors

Project Number: 51129-002
October 2019

Proposed Policy-Based Loan Armenia: Human Development Enhancement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 October 2019)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.00209494
\$1.00	=	AMD477.34

ABBREVIATIONS

ADB	–	Asian Development Bank
EMIS	–	education management information system
GDP	–	gross domestic product
GIZ	–	Deutsche Gesellschaft für Internationale Zusammenarbeit
MOESCS	–	Ministry of Education, Science, Culture and Sport
MOH	–	Ministry of Health
MTEF	–	medium-term expenditure framework
NIE	–	National Institute of Education
P3F	–	post-program partnership framework
PPP	–	purchasing power parity
TA	–	technical assistance
UMIC	–	upper middle-income country
WHO	–	World Health Organization

NOTE

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

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 51129-002	
Project Name	Human Development Enhancement Program	Department/Division	CWRD/CWSS
Country	Armenia, Republic of	Executing Agency	Ministry of Finance (MOF)
Borrower	Ministry of Finance		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=51129-002-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=51129-002-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Health	Health system development		5.00
Education	Education sector development		5.00
		Total	10.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Making cities more livable			
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 3.2, 3.8		Effective gender mainstreaming (EGM)	✓
SDG 4.2, 4.3, 4.5			
SDG 5.c			
SDG 10.1, 10.3			
4. Risk Categorization: Low		Poverty Targeting	
		General Intervention on Poverty	✓
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB			
Sovereign Program (Regular Loan): Ordinary capital resources		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		10.00	
Currency of ADB Financing: Euro			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to Armenia for the Human Development Enhancement Program.¹

2. The proposed program is closely aligned with the medium-term objectives of the Government of Armenia of improving the quality and coverage of services in the education and health sectors. It supports key reforms that will help create a conducive legal and regulatory environment for expanding investments in human capital development, envisaged under the Armenia Development Strategy, 2014–2025 and the government program, 2019–2023.² The program will lead to Asian Development Bank (ADB) assistance in human capital development requested by the government. The program, with completed prior actions and the adoption of a post-program partnership framework (P3F), will be followed by technical assistance (TA) and investment projects, including results-based loan programs and TA.³ The proposed support is consistent with ADB's Strategy 2030.⁴

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Economic context.**⁵ With per capita gross national income of \$4,230 (Atlas method) in 2018, Armenia was classified an upper middle-income country (UMIC) in July 2018. After high economic growth, averaging more than 11% during 2000–2008, Armenia entered a low-growth, low-investment phase during 2010–2016. Growth rates rose to 7.5% in 2017 and 5.2% in 2018, but growth is highly dependent on the external environment because of the narrow economic base. Armenia's poverty rate is higher than that of other UMICs, with about 50% of the population below the UMIC poverty line of \$5.50 in 2011 purchasing power parity (PPP) per capita per day.⁶ In addition to the relatively high poverty rate, income inequality has been increasing.⁷

¹ The proposed policy-based loan was originally planned to follow a programmatic approach. As part of the discussions on the country operations business plan, 2020–2022, the government has indicated that its preference for policy-based loans for service delivery reforms in education and health in 2019, and for investment projects and results-based loans in 2020–2022, as articulated in the government's medium-term expenditure framework, 2020–2022. The subsequent reforms will be supported through the post-program partnership framework (P3F).

² Government of Armenia. 2014. *Armenia Development Strategy for 2014–2025*. Yerevan; and Government of Armenia. 2019. Programme of the Government of the Republic of Armenia. Yerevan.

³ ADB. Forthcoming. *Country Operations Business Plan: Armenia, 2020–2022 (expected for consideration by the ADB Board of Directors in November 2019)*; and ADB. Forthcoming. *Country Partnership Strategy: Armenia, 2020–2023*. Manila (expected for consideration by the ADB Board of Directors in November 2019).

⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila. The program addresses mainly operational area 1 (addressing remaining poverty and reducing inequalities through increasing emphasis on human development, improving education and training, and achieving better health for all). It also contributes to operational area 2 (accelerating progress in gender equality and women's empowerment by rolling out the gender mainstreaming action plan in both sectors); operational area 4 (making cities more livable by banning smoking in public places and improving road safety through child seat restraint decree); and operational area 6 (strengthening governance and institutional capacity by supporting the development of the governance and implementation arrangements for the National Institute of Education).

⁵ Sector Assessment (Summary): Education and Health (accessible from the list of linked documents in Appendix 2); and International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

⁶ Based on the international poverty thresholds, 1.8% (2016) of the population live on less than \$1.90/day (2011 PPP), and 14.1% (2016) of the population on less than \$3.20/day (2011 PPP).

⁷ Statistical Committee of the Republic of Armenia (Armstat) and World Bank. 2018. *Social Snapshot and Poverty in Armenia: Statistical and Analytical Report*. Yerevan.

4. With current fertility rates of 1.6 children per woman and life expectancy of 75 at birth,⁸ Armenia is in a late stage of demographic transition and has started facing rapid decline of the working age population. From 1990 to 2019, the share of children under the age of 18 shrank from 37% to 25% of the total population. Labor productivity in Armenia has been lagging other UMICs, and its growth has remained well below 2008 levels.⁹ In addition to having a direct impact on economic activity, productivity improvements are important as the country's population ages.¹⁰ Thus, to sustain economic development in the future, the country needs to ensure that its children and youth are able to develop their full human capital potential, and investing in human development has to be a priority of the government's development program.

5. **Human capital development.** Children and youth in Armenia do not attain their full human capital potential because many lack access to quality education and health services. This is exacerbated by unhealthy practices and low social sector government expenditure. Children born in Armenia today will only be 57% as productive when they grow up compared to their full potential if offered a complete suite of education and health services.¹¹ Armenia's education and health services need to improve in coverage and quality. This will help to underpin greater participation in an economy increasingly based on services and technology, and contribute to higher growth potential.

6. **Education.** Public expenditure on education was about 2.2% of gross domestic product (GDP) in 2017, lower than the 5% recommended by the Organisation for Economic Co-operation and Development. Overall, gross school enrollment in Armenia is high, at 85.7% in 2017, but gross enrollment for children below age 5 remains low. As of 2017, the gross enrollment ratio for children below 5 years of age was only 30.9%, with most in urban centers. Early child education has a significant cognitive effect on children and impact on their subsequent learning at school.¹² The government aims to increase preschool education enrollment to 70% among children above 3 years of age by 2023. Lack of a legal framework and regulatory conditions has hindered the development of alternative solutions for preschool education, including limited private sector provision. To remedy this and promote an enabling environment, the government has endorsed a law on preschool education for consideration by the National Assembly.

7. The higher education subsector suffers from compromised quality of higher education products and services because of the absence of robust governance, rigorous monitoring, and control mechanisms.¹³ Low public confidence and the high cost of higher education have led to modest enrollment rates—at 56%—with 62% female enrollment and 52% male enrollment. Systemic inefficiency has led to a shortage of key equipment, underqualified and poorly motivated faculty, and a limited number of facilities. Students from richer households are more likely to attend tertiary education than those from poorer households. Government scholarships are limited

⁸ World Bank. Life expectancy at birth, total (years). <https://data.worldbank.org/indicator/SP.DYN.LE00.IN> (accessed 26 September 2019).

⁹ Y. Ustuygova, L. Ersado, and J. Sarvi. 2019. Armenia's Labor Market and Education System. Republic of Armenia, Selected Issues. *Country Report* 19/155. Washington, DC: International Monetary Fund.

¹⁰ United Nations Statistics Division (UNSTAT). <https://unstats.un.org/home/>.

¹¹ World Bank. Human Capital Project. <https://www.worldbank.org/en/publication/human-capital>.

¹² B. R. Delalibera and P. Cavalcanti Ferreira. 2018. Early Childhood Education and Economic Growth. Rio de Janeiro: Fundação Getulio Vargas; W. T. Dickens, I. Sawhill, and J. Tebbs. 2006. The Effects of Investing in Early Education on Economic Growth. *Brooking Policy Brief Series*. No. 153. Washington, DC: Brookings Institution; and M. Nores and W.E. Steven Barnett. 2010. Benefits of early childhood interventions across the world: (Under) Investing in the very young. *Economics of Education Review*. 29 (2), pp. 271–282.

¹³ Organisation for Economic Co-operation and Development. 2018. *Anti-corruption reforms in Armenia: 4th round of monitoring of the Istanbul Anti-Corruption Plan*. Paris.

and only cover the tuition fee, while the high cost of living in urban centers (where most universities and colleges are located) limits opportunities for disadvantaged youth. Therefore, the government has revised the higher education law to bring it into line with international best practice on accreditation and quality assurance of higher education institutions.

8. Despite improved access, student achievement outcomes in international tests point to the relatively poor quality of the education system. Armenia performed below average in the tests, and results in mathematics and science have been stagnant from 2003 to 2015.¹⁴ The World Bank is providing assistance to modernize the school curricula, especially for science, technology, engineering, and mathematics. However, the ability of teachers to implement the new curricula remains a constraint to improved quality of education. No standards are in place for the teaching profession, creating challenges for pre- and in-service training, attestation, and performance monitoring. An inadequate education management information system (EMIS) undermines effective monitoring of school performance and evidence-based policy and solution making.

9. **Health.** Health financing in Armenia remains a major hurdle. Government health expenditure in Armenia is 1.3% of GDP in 2017, well below average of 3.5% in emerging markets.¹⁵ In 2017, 84% of current health expenditure came from out-of-pocket payments—the highest in the world.¹⁶ While the health sector accounts for about 10% of GDP, the public sector accounts for only a fraction of health expenditures. The vast majority comes from private spending, driven by the absence of effective health insurance. This leaves poor households vulnerable to unexpected health care expenditures, elevates overall spending in the sector, and reduces health outcomes.

10. The government earmarks budgetary resources to target the socially vulnerable population and the socially important diseases.¹⁷ The budget pays for primary health care services, and emergency services for all Armenian citizens, with a co-payment schedule for some services and exemptions of the poor and vulnerable from significant co-payments, which are typically 50% of the cost. Curative care is provided free only for the poor, vulnerable, and special categories, including children under the age of 7.¹⁸ The remaining 50% of the population, including children aged 7–18, lack effective coverage for curative care (footnote 17).

11. While physical access to facilities is not a major issue, the 2018 Armenia Health System Performance Assessment underlines quality of care as one of the main challenges of the health system.¹⁹ For instance, the rate of postnatal complications related to anemia remained very high, at 66 per 1,000 deliveries in 2017 compared with three in 1990; the proportion of mothers receiving early prenatal care was 69% (compared with the target of 90%); and the early detection rates of cancer have been stagnant since 2008, at about 56%.²⁰ Although some progress has been made in modernizing facilities and equipment, increasing hospital occupancy rates, and

¹⁴ D. Caro and J. He. 2018. [Equity in Education in Armenia: Evidence from TIMSS 2003–2015](#). Yerevan: Open Society Foundations – Armenia.

¹⁵ World Health Organization (WHO). [Global Health Expenditure Database](#). (accessed 26 September 2019).

¹⁶ Government of Armenia, Ministry of Health (MOH). 2019. *National Health Accounts*. Yerevan; and WHO. [Global Health Expenditure Database](#) (accessed 26 September 2019).

¹⁷ R. F. Lavado, S. Hayrapetyan, and S. Kharazyan. 2018. [Expansion of the Benefits Package: The Experience of Armenia](#). *Universal Health Coverage Study Series*. No. 27. Washington, DC: World Bank.

¹⁸ Government Decree No. 318, 4 March 2004.

¹⁹ Armenia had 125 hospitals, 501 primary health care facilities, and 625 obstetrics stations in 2017 for a population of less than 3 million; and D. Andriasyan et al. 2019. *Armenia Health System Performance Assessment, 2018*. Yerevan: National Institute of Health after Academician S. Avdalybekyan.

²⁰ D. Andriasyan et al. 2016. *Armenia Health System Performance Assessment, 2016*. Yerevan: National Institute of Health after Academician S. Avdalybekyan.

shortening the average length of stay, the country requires a clear strategy to improve the quality of health services. Public providers show low responsiveness to patient needs. Medical care standards and quality assurance systems are limited in functionality and not widely adopted. Systems for accreditation and continuous medical education of health care professionals, as well as the licensing of facilities, are inadequate or nonexistent. Despite an operational e-health system since 2013, the central e-health system and the electronic medical records of hospitals or primary health care institutions have not been integrated. As such, data collected cannot be used to make evidence-based decisions. Manual data entry also makes the current e-health system prone to inaccuracies, leading to inefficiency and lack of transparency in health sector operations.

12. **Unhealthy practices.** One of the major obstacles to human capital development in Armenia is the absence of safety regulations and enforcement. Tobacco use is among the leading behavioral risk factors in Armenia for premature mortality. Almost half of the male population smoke, and about 20% have been smoking since they were 15.²¹ For young people at the peak of their productive lives, motor vehicle injuries are among the leading causes of death and injury.²² Seat belt enforcement is still limited (70% of drivers wear seatbelts), while child car seat laws are yet to be implemented. Risky behavior such as smoking and reckless driving deplete productive human capital.²³

13. **Gender inequality.** Armenia has a gender inequality index of 0.262, ranking 55th out of 166 countries. Women's gross national income per capita is almost half of that of men.²⁴ The health and education sectors struggle with gender stereotypes. Gender parity exists in school enrollment rates, yet female labor participation remains significantly lower than that of males.²⁵ Women are concentrated in "traditionally female" areas of study, which limit their access to higher paid, often male-dominated jobs (footnote 25). Higher education and state institutions lack facilities for lactating mothers, while reproductive health services, including infertility treatment, are difficult to access in rural areas. Limited early childhood education hinders women's participation in the workforce. Households headed by women are also poorer and more susceptible to fall into poverty because of out-of-pocket expenses (footnote 7).

B. Policy Reform and ADB's Value Addition

14. The proposed policy-based loan, based on 11 critical and completed policy actions, helps the government lay critical foundations to improve the provision of services by (i) improving access to education and health services, (ii) addressing structural impediments affecting the quality of services, (iii) improving financing and sector management, and (iv) exercising its stewardship function to promote healthy practices. ADB's support is timely, fills a fiscal gap, and ensures the legal and institutional reforms needed to give the government confidence in enhancing investments in education and health. Without ADB's quick and timely support for these reforms, significant expansion of expenditure in the social sectors would be unsustainable.

²¹ I. Postolovska et al. 2017. *Estimating the Distributional Impact of Increasing Taxes on Tobacco Products in Armenia: Results from an Extended Cost-Effectiveness Analysis*. Washington, DC: World Bank; and Institute for Health Metrics and Evaluation. Tobacco Viz. <https://vizhub.healthdata.org/tobacco/> (accessed 26 September 2019).

²² WHO. 2019. *Global Status Report on Road Safety 2018*. Geneva; and L. Gostin. 2018. *Traffic Injuries and Deaths: A Public Health Problem We Can Solve*. JAMA Forum. 28 February.

²³ World Bank. 2006. *World Development Report 2007: Development and the Next Generation*. Washington, DC.

²⁴ United Nations Development Programme 2018. *Armenia: Human Development Indices and Indicators: 2018 Statistical Update*. New York.

²⁵ ADB. 2015. *Armenia: Country Gender Assessment*. Manila.

15. **Value addition.** ADB has been engaged through the TA since 2015 in the education sector and since 2017 in the health sector.²⁶ This timely program leverages the right reforms to create a structured avenue for further physical investments to help Armenia strengthen its human capital development outcomes. ADB also provided a platform for development partners to consolidate its activities towards the government reform agenda. This program would enable greater public expenditure in the social sectors and leverage support and investments from other development partners and the private sector. ADB's specific contributions include systemic teacher development, education financing and skills gap analyses, and assessment of digital education, actuarial analysis of coverage expansion of the basic benefit package, quality of care and digital health assessments and strategies, and support to the development of education and health strategies.

1. Improving Access to Services

16. **Improving access to education.** To ensure equal access to education, the government endorsed a preschool law to the National Assembly, which will provide a legal framework to increase the coverage of preschool education by adopting alternative preschool models including community-based services.

17. **Foundations for gender-inclusive education and health services established.** The government has demonstrated commitment to gender mainstreaming since 2010 when it approved the first gender policy concept, which aimed to ensure equal rights and opportunities for men and women. In 2019, to ensure continuity and commitment, it initiated the second round of reforms by developing a gender mainstreaming action plan for the education and health sectors for 2019–2023. The action plan (i) ensures equal representation of boys and girls in all levels of education, (ii) ensures inclusive curriculum and training programs that promote equal participation of female and male students, (iii) increases women's involvement in science, (iv) increases the gender sensitivity of health service providers through training, (v) improves the quality of reproductive health services in rural areas, (vi) protects the sexual reproductive rights of women by increasing the provision of infertility treatment, (vii) mandates feeding rooms for nursing mothers at higher education and state institutions, and (viii) informs socially disadvantaged women about the provision of free inpatient care services. The plan will also help ensure more opportunities, particularly for girls, to enroll in vocational and professional education programs in technical fields that lead to higher salaries. This will help reduce the higher unemployment rate among females and give opportunities to women to work in higher-salary positions.

2. Enhancing the Quality of Services

18. **Improving the quality of education.** To improve the quality of education (including preschool), new standards are being set for teachers, including teacher performance monitoring and evaluation mechanisms. The proposed preschool law (para. 16) provides a legal framework for these efforts. The Ministry of Education, Science, Culture and Sport (MOESCS) circulated a draft law on higher education and science for government review, which streamlines the competencies of state bodies and the academy, improves human resources management, sets new licensing and accreditation requirements for higher education institutions, and articulates supervision mechanisms to monitor service quality.

²⁶ ADB. 2014. [Technical Assistance for Education and Skills for Employment in Central and West Asia](#). Manila; and ADB. 2017. [Technical Assistance to Armenia for the Social Sectors Reform Program](#). Manila.

19. **Improving the quality of health care services.** The Ministry of Health (MOH) has been pursuing improvements in the quality of care through guidelines and circulars. In 2017–2019, more than 310 guidelines and protocols were written and localized for Armenia, of which 73 were approved by MOH orders. In 2018, the minister issued guidelines to all hospitals that outline measures to prevent hospital-acquired infections.²⁷ To introduce continuing medical education, the minister issued an order that outlines the regulation for acquiring credits for continuing medical education and an order regulating trainers.²⁸ The Law on Medical Care and Services to the Population, amended and submitted to the National Assembly, provides the legal foundation for all these milestones. The law incorporates provisions that improve quality of care through disease management tools prioritizing women’s health, accreditation of facilities, and licensing.

3. Increasing Financing and Improving Management

20. **Operationalizing governance and capacity improvement of education sector agencies.** In June 2019, the government issued a decree for dissolving the outdated National Institute of Education (NIE), and started to transform the Sustainable School Food Foundation (SSFF) into the National Center for Education Development and Innovation (NCEDI). NCEDI will become a leading change agent and innovator in school education and manage teachers’ in-service training. The SSFF Board of Trustees decision expanded the goal of the new foundation to develop and upgrade the education sector by ensuring quality education for learners. To improve education management and resource planning, the MOESCS issued a decree on developing a sector-wide EMIS system and a detailed plan to strengthen sector performance analysis.

21. **Strengthening the use of data to generate evidence for health sector performance management.** The Minister of Health signed an order establishing the protocol for data entry in the e-health system to improve its quality.²⁹ The MOH mandated computer literacy training of physicians and nurses, focusing on the use of the e-health system.³⁰ The MOH has also been pilot testing an e-prescription system that fills medical prescriptions electronically. Once rolled out nationally, this will facilitate accurate and error-free transmission of prescriptions from physicians to pharmacies.³¹ To provide the legal foundation for these milestones, the Law on Medical Care and Services to the Population has been amended to incorporate (i) sex-disaggregated e-health policies, (ii) data privacy and access rules, and (iii) data interoperability. Data privacy and access rules imply that patient’s data are protected to ensure that no unauthorized individual can access the data. Data interoperability allows for data exchange among different providers. The most significant impact of this provision would be to allow future policy decisions based on robust data, which is currently unavailable.

22. **Increased financing of the education and health sectors based on the government-approved Medium-Term Expenditure Framework, 2020–2022 programmed.** To sustain adequate financing of education, the government increased allocation in the Medium-Term Expenditure Framework (MTEF), 2020–2022 for the education sector by 14.5% in 2020. The MOH defines the list of socially vulnerable and special groups of the population that it subsidizes

²⁷ Government of Armenia, Minister of Health Order No. 1579-A dated 25 June 2018. Health Facility Associated Infections Guideline.

²⁸ Government of Armenia, Minister of Health Order No. 854-A dated 11 April 2019; and Government of Armenia, Minister of Health Order No. 20-N dated 26 April 2019.

²⁹ Government of Armenia, Minister of Health Order No. 1664-A dated 29 June 2018.

³⁰ Government of Armenia, Minister of Health Order No. 1576-A dated 14 June 2019.

³¹ Government of Armenia, Minister of Health Order No. 3362-A dated 24 December 2018.

with the public budget, and this program is called the State Order.³² These categories are occasionally revised, and the most current revision in 2019 includes the addition of children aged 8–17 in the subsidized group.³³ The government also increased the health sector allocation in the MTEF, 2020–2022 by 18.5% in 2020. This reflects the government’s intention to increase financing and gradually attain the levels recommended by the World Health Organization (WHO).

4. Promoting Healthy Practices Through Government Policies

23. **Public health policies that reduce risks and mortality for children and youth drafted and approved.** The best way to avoid future loss of productive human capital is to make it difficult to engage in risky behavior through regulations and public campaigns. The government issued a government decree in April 2019 stipulating that children under 7 years old must be in a car seat and that children above 7 years of age must wear a seatbelt or use a child restraint system; and the MOH approved a program on child injury prevention. The MOH drafted comprehensive tobacco control legislation as an update to the existing Anti-Tobacco law, 2005. The Law on the Reduction and Prevention of Health Damage Resulting from Using Tobacco Products and Tobacco Substitutes, submitted by the government to the National Assembly, includes provisions such as placing pictorial warnings on not less than 50% of the area of the pack, prohibiting sales to children under 18 years of age, restricting advertising, prohibiting smoking in public places, and introducing smoking cessation mechanisms. These laws would significantly decrease the incidence of tobacco smoking-related diseases (including lung cancer and chronic obstructive pulmonary disease), and car seat restraints would reduce fatalities in motor vehicle crashes. Although these are intended to improve productive human capital, they have other benefits including a lower disease burden and a reduction in health expenditure related to trauma and emergency cases or possible chronic illnesses such as lung cancer.

24. **Post-program partnership framework.** The P3F provides a common understanding and proposes possible actions to be supported by ADB and other development partners following this policy-based lending (Appendix 4) that will sustain the reforms initiated under the program. Under the P3F, the MOESCS will prepare operational plans for expanding the preschool network, rolling out the gender mainstreaming action plan, working toward the approval of the Comprehensive Education Sector-wide Strategy and Implementation Plan,³⁴ rolling out the implementation plan for transforming the NIE and professional standards for teachers nationwide, and implementing a sector-wide EMIS. The MOESCS will also complete its shift to program budgeting and alignment with the MTEF. For its P3F, the MOH will reflect relevant indicators on quality of care in the government budget paper, pilot test clinical decision-making tools in vulnerable districts,³⁵ work toward developing an e-health strategy, and roll out an e-prescription system if the pilot test is successful. The MOH will also undertake various activities toward the approval of the Law on Decreasing and Prevention of Negative Impacts of the Use of Tobacco Products; and prepare the 5-year tobacco control strategy and implementation plan. To ensure budget predictability, the government commits to keep the deviation of the actual budget from planned increases in the MTEF, 2020–2022 within 1% in 2020, 2021, and 2022; and for the MOESCS and the MOH to sustain budget execution rates at more than 95% for these years. The MOESCS will also develop formulas for determining the funding levels for different activities, while the MOH will work toward

³² Government of Armenia. Ministry of Health Decree No. 318-N dated 4 March 2004.

³³ Government of Armenia. Ministry of Health Order No. 782-N dated 27 June 2019.

³⁴ ADB. 2017. *Technical Assistance to Armenia for the Social Sectors Reform Program*. Manila.

³⁵ The Government of Japan has expressed interest in supporting the implementation of the Health Service Provision Law through quality improvement mechanisms, e-health, and governance solutions funded by a \$0.5 million grant from the High-Level Technology Fund.

the approval of the concept note for Universal Health Insurance. ADB is providing TA support to help implement the P3F.³⁶

25. **Lessons.** Major lessons learned from ADB’s policy-based lending programs include setting realistic policy actions, program ownership, conducting in-depth consultations, and engaging implementing agencies’ technical staff (footnote 36). International lessons in education reforms stress the importance of a holistic approach to bring about policy reforms that include access, quality, and institutional and governance improvements.³⁷ Lessons learned in pursuing health reforms in Armenia were incorporated, including ensuring that changes in provider payment mechanisms are supported by better information flow and quality assurance to achieve best results, ensuring that the introduction of health financing policy changes does not negatively affect quality.³⁸

26. **Development partner coordination.** In education, the European Union is supporting Armenia to improve the quality of science, technology, engineering, and mathematics education at all levels of the education system. The World Bank is financing the reconstruction of up to 14 high schools as well as the development of curricula. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) supports the government’s efforts to improve technical and vocational education and training and link it with the requirements of the labor market. In health, the World Bank’s program supports prevention, early detection, and management of selected noncommunicable diseases at the primary health care level and construction of selected hospitals in Armenia.³⁹ The Global Fund focuses on reducing the burden and transmission of HIV and tuberculosis and the WHO provides technical assistance and expertise for developing important strategic documents in the health sector. ADB has led consultations on the program. In education, ADB co-chaired regular coordination meetings with development partners and civil society, with MOESCS leadership. In health, it participated in joint mission with the World Bank, WHO, and Global Fund.

C. Impacts of the Reform

27. The program is closely aligned with the reform agenda of the government’s 5-year program.⁴⁰ The ultimate goal of the program is to develop Armenia’s human potential by providing quality education that meets international standards, and ensuring affordability of and access to health services. The reform will help increase children and youth benefitting from improved education and health services.⁴¹ The program aims to improve human capital development by (i) improving access to education and health services, (ii) enhancing the quality of services, (iii) increasing financing and improving management, and (iv) promoting healthy lifestyles through government policies.

³⁶ ADB. 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to Armenia for Public Efficiency and Financial Markets Program](#). Manila.

³⁷ ADB. 2013. [Completion Report: Second Education Project in the Kyrgyz Republic](#). Manila; and Manila ADB. 2017. Project Completion Report: [Nepal School Sector Program](#). Manila.

³⁸ World Bank. 2004. [Implementation Completion Report on a Credit to the Republic of Armenia for a Health Financing and Primary Health Care Development Project](#). Washington, DC; and World Bank. 2019. [Achievement and Challenges in Improving Health Care Utilization: A Multiproject Evaluation of the World Bank Support to the Health System Modernization \(2004–2016\)](#). Washington, DC.

³⁹ World Bank. [Disease and Prevention Control Project](#).

⁴⁰ Government of Armenia. 2019. [Armenia 5-Year Program](#). Yerevan (8 February).

⁴¹ The design and monitoring framework is in Appendix 1.

D. Development Financing Needs and Budget Support

28. The 2019 state budget envisages a budget deficit of 2.2% of GDP in 2019. The government's 2019 annual borrowing plan, developed in accordance with the macroeconomic framework and indicators of the 2019 state budget in line with the targets and benchmark indicators of the Medium-Term Government Debt Management Strategy, 2019–2021,⁴² estimated the gross financing needs at \$891 million in 2019. The deficit of the 2019 state budget was estimated at \$319 million, 35.7% of which is planned to be financed from domestic sources and 64.3% from external sources. The loan size is justified, considering the government's development expenditure and financing needs in 2019.

29. The government has requested a regular loan of €9,100,000 from ADB's ordinary capital resources to help finance the program. The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offer rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement.

E. Implementation Arrangements

30. The Ministry of Finance will be the executing agency for the program. The MOESCS and the MOH are the implementing agencies. The program implementation period is from June 2017 through October 2019. The loan closing date is 31 December 2019. The proceeds of the policy-based loan will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).⁴³

III. DUE DILIGENCE

31. **Governance.** Armenia's public financial management has steadily improved over time in budget credibility, comprehensiveness and transparency, program-based budgeting and execution, and revenue administration.⁴⁴ The government's Anticorruption Council is responsible for setting anticorruption policies, leading investigations, and imposing remedies. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the Ministry of Finance, the MOESCS, and the MOH.

32. **Poverty and social.** The program addresses key poverty and social issues by improving the human capital of children and youth. The major benefit of the program is improved productivity because of better quality of and access to health care and preschool and tertiary education. While all Armenian citizens will potentially benefit from these reforms, the primary beneficiary group will be children and youth, who will benefit via improved access to better education and health services because of the policy reforms.

33. **Gender.** The program is classified *effective gender mainstreaming*. The policy matrix reflects the adoption and implementation of a gender action plan for education and health. The program will help train teachers to encourage female participation in more technical fields, which are generally male-dominated but have higher salaries.⁴⁵ Increased preschool coverage is also

⁴² Government of Armenia. 2018. *Medium-term Expenditure Framework, 2019–2021*. Yerevan.

⁴³ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

⁴⁴ ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to Armenia for the Public Efficiency and Financial Markets Program*. Manila.

⁴⁵ Silova, I. 2016. Gender Analysis of Armenian School Curriculum and Textbooks. *Policy Brief*. Washington, DC: World Bank.

expected to help women participate in the workforce. In health, increased financing and better information on the provision of free inpatient care services will help reduce out-of-pocket payments for socially disadvantaged women and protect the sexual reproductive rights of women by increasing the provision of infertility treatment. The action plan will also work toward increasing the gender sensitivity of health service providers through training, and mandating feeding rooms for nursing mothers at higher education and state institutions. Improvements in the quality of care will improve the provision of women's health services, including reproductive health services.

34. **Safeguards.** The program is classified *category C* for environment, involuntary resettlement, and indigenous peoples. It is confined to policy and institutional reforms. No activity will result in or lead to involuntary resettlement or negatively affect indigenous peoples or the environment.

35. Major risks and mitigating measures are summarized in the table and described in detail in the risk assessment and risk management plan.⁴⁶

Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Resistance to change, i.e., adoption of new professional standards and new performance evaluation, at all levels of the education system	A comprehensive communication strategy will be implemented by the Ministry of Education, Science, Culture and Sport. Training for principals and head teachers contains messages that the new standards and performance evaluation will be used to identify strengths and weaknesses for improvement.
Citizen groups, professional associations, and private sector may oppose proposed amendments to Law on Medical Care and Services to the Population.	The Ministry of Health will develop a communication strategy with the support of technical assistance. Timely and transparent messaging will be critical in garnering support from different interest groups.

Source: Asian Development Bank.

IV. ASSURANCES

36. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement.

V. RECOMMENDATION

37. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of €9,100,000 to Armenia for the Human Development Enhancement Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

25 October 2019

⁴⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>3. Increasing financing and improving management</p> <p>4. Promoting healthy lifestyles through government policies</p>	<p>Services to the Population to incorporate quality improvement, with provisions to prioritize women's health, submitted to the National Assembly (2019 baseline: not endorsed)</p> <p>3.1 Government order endorsing measures to reorganize the Sustainable School Food Foundation into National Center for Education Development and Innovation" (2019 baseline: not endorsed)</p> <p>3.2 Allocation to the education sector increased (2019 baseline: 2.09% of gross domestic product)</p> <p>3.3 Allocation to the health sector increased (2019 baseline: 1.33% of gross domestic product)</p> <p>4.1 Decree on child restraints approved (2019 baseline: not approved)</p> <p>4.2 Government-endorsed law on decreasing and preventing the negative impacts of tobacco use, especially among male youths, submitted to the National Assembly (2019 baseline: not endorsed)</p>	<p>3.1 Government order</p> <p>3.2–3.3. Government approved the medium-term expenditure framework for 2020–2022</p> <p>4.1 Government-approved decree</p> <p>4.2 Government-endorsed law</p>	
<p>Budget Support</p> <p>Asian Development Bank: €9,100,000 (\$10 million equivalent regular ordinary capital resources loan)</p>			

^a Government of Armenia. 2019. *Programme of the Government of the Republic of Armenia*. Yerevan. Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51129-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Education and Health
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

DEVELOPMENT POLICY LETTER

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MINISTRY OF FINANCE OF THE
REPUBLIC OF ARMENIA
MINISTER
МИНИСТЕРСТВО ФИНАНСОВ
РЕСПУБЛИКИ АРМЕНИЯ
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<<10>> 09 2019

DEVELOPMENT POLICY LETTER

To: Mr. Takehiko Nakao
President of Asian Development Bank
Manila, Philippines

Subject: Human Development Enhancement Program

Dear President Nakao,

On behalf of the Government of the Republic of Armenia we would like to express our appreciation for the support of the Asian Development Bank (ADB) towards our reform efforts and development agenda as we ensure diversified and inclusive growth for all segments of the population.

This letter outlines Armenia's economic developments in light of the changing political landscape in 2018, provides information on our development strategy and explains how the proposed Human Development Enhancement Program (HDEP) addresses our human capital development agenda through provision of quality education and modernizing the health sector.

A. Armenia's Economic Performance

Despite the changing political landscape in 2018, the Armenian economy managed to maintain the stability, with limited implications on economic fundamentals. The economy grew by 5.2% in 2018 as compared with 7.5% in 2017. On the supply side, services and industry drove growth as agriculture contracted. Services, providing more than half of output, expanded by 9.3 % on improvements in trade, finance, insurance, recreation, transportation, and health care. While output of mining and quarrying sector declined by 14.2%, growth in manufacturing



remained relatively stable at 11.1% in 2018, supported by strong gains in processed foods, beverages, tobacco, textiles, and nonferrous metal products. Growth in construction slowed from 2.8% in 2017 to 0.8% as private construction slumped. Adverse weather caused agriculture to contract by 8.5%, compounding a 5.1% drop in 2017.

On the demand side, private consumption and investment were the main sources of growth. Private consumption expanded by 4.8 %, benefitting from low inflation, increased consumer lending, and a government initiative in July 2018 to write off fines and penalties on overdue personal loans. Public consumption grew by 7.4%, reversing 2.1% decline in 2017 and total investment expanded by about 27% in 2018.

Fiscal policy remained consistent with the government’s medium-term consolidation objectives of reducing the deficit and the high ratio of public debt to GDP. The budget deficit narrowed sharply from 4.8% of GDP in 2017 to 1.8% in 2018, greatly outperforming the budget’s 2.7% target. Two-thirds of the deficit was financed from domestic sources. Revenues rose by 8.3% equal to 22.3% of GDP, in particular, as a result of better tax collection, a new tax code with higher excise taxes, customs duties, and increased nontax revenues. Total expenditures however declined by 2.9 percentage points to equal 24.1% of GDP in 2018, as both current and capital spending fell short of the budget target. The ratio of public debt to GDP eased from 58.9% in 2017 to 55.8%, the first drop since 2013, as GDP grew faster than debt.

The growth momentum continues in 2019 as well, with the economy growing by 7.2 % in the first quarter of 2019 as compared with 10.2% in the same period in 2018, reflecting higher demand. Industry excluding construction expanded by 0.3 %, as growth in manufacturing subsector outweighed declines in mining and electricity subsectors. Construction grew by 9.2%, reflecting higher investment. Services rose by 10.8%, with gains in all subsectors, and agriculture grew by 0.8%, as compared with 0.2% in the same period in 2018 . On the demand side, private consumption grew by a strong 13.8 % in the first quarter of 2019, with higher consumer lending, moderate inflation, and positive consumer sentiment. However, because of fiscal consolidation, public consumption grew by a mere 1.2% and total investment decreased by 18.9%.

Economic transformation remains a key government priority after the Velvet Revolution in April-May 2018. The government has a mandate to foster a more inclusive and diversified pattern of growth with greater competition, transparency and accountability.

B. Development Strategy

The Government of Armenia is currently in the process of revising the Armenia Development Strategy (ADS) 2025, expected to be finalized in December 2019. In parallel, we have also started developing our sectoral and cross sectoral strategies in line with identified five strategic directions. These strategic directions cover i) infrastructure, ii) human capital, iii) financial and economic sectors, iv) public administration, and v) justice. Development of 26 sectoral

strategies will be done in two stages: in the 1st stage, by the end of September 2019, the working groups will draft a strategic vision and directions of the sectors; while the 2nd stage, by the end of March 2020, will produce a full-fledged strategy with its costed action plan.

Our development agenda and reform efforts are currently guided by the following three strategic documents:

- i) Armenia Development Strategy 2025
- ii) The government program for 2019–2023 approved by the National Assembly in January 2019
- iii) The action plan for implementation of the government program for 2019, approved by the Government in May 2019.

Human capital development features prominently in all strategic documents, given their direct social and economic impact.

The ADS covering the period of 2014–2025 is currently the country’s main socioeconomic development strategy and the basis for medium-term, sectoral and other program documents. The main goal of the Armenia Development Strategy is to create more high-productivity jobs. Being the primary guide of the Government, ADS is based on the following four priorities: 1) Growth of employment; 2) Development of human capital; 3) Improvement of social protection system; and 4) Institutional modernization of the public administration and governance.

The government’s program for 2019–2023 released by the new government that was formed in January 2019 and approved by the National Assembly, reaffirmed the importance of performing the main goal of the Armenia Development Strategy. The key objectives of the government’s program are to build a competitive and inclusive economy with high technologies, industrial and environmental standards. Over the next five years, our reform agenda will focus on the following main objectives: (i) expanding the opportunities for economic activities, (ii) enhancing efficiency in governance, (iii) developing human potential, and (iv) developing and expanding access to reliable infrastructure.

The action plan for implementation of the government program lists all actions and set deadlines across all areas of our reform agenda over the next five years. The identified list of detailed measures and actions over the next five years for the Ministry of Education, Science, Culture and Sport is more than 80 and for the Ministry of Health is more than 30.

C. Reforms Priorities in Education and Health for Human Capital Development

We remain fully committed to developing our human potential to achieve inclusive, diversified and sustainable growth.

We believe that the proposed Human Development Enhancement Program will support the government’s reforms objectives in education and health sectors.

In the education sector, the Armenian Development Strategy sets priorities to increase the quality and effectiveness of education at all levels of the educational system, increase the relevance of different levels to international standards, and ensure affordable/accessible education for all groups of the population.

Encouraging education, providing quality education, and internationalizing education; and developing the required professional potential for structural changes through modernization of education and science sectors are **programmatic goals of the government over the next five years.**

In particular, in general education this will be achieved by:

- Increasing the affordability and accessibility of preschool education in all communities achieving enrollment of 70% among children above 3 years of age by 2023;
- Introducing an improved school management framework;
- Introducing effective models of organizing education in schools with a small student population;
- Steadily providing school meals to primary students in general education schools in all provinces;
- Moving to inclusive general education in all marzes and in the city of Yerevan by 2023;
- Conveying new content to 12-year education: revising the standards, curriculum and syllabi, promoting critical thinking, innovation and analytical and creativity competences, paying special attention to civil, financial and business education. Revising the content and teaching approaches of STEM (science, technology, engineering and math) subjects and foreign languages.

The higher education reforms will be aimed at:

- Expanding the autonomy and academic freedom of higher educational institutions, creating the institutional basis for efficient management, balanced accountability and transparency mechanisms;
- Continuously improving the higher education quality, and continuously increasing the research component in higher education;
- Revising the content and structure of educational programs by targeting the learning outcomes in line with the requirement of the national qualification framework;
- Supporting personalized pathways of students by introducing a flexible educational program structure;
- Internalizing higher education and expanding opportunities for mobility;
- Carrying out the directions and principles of the European higher education area;
- Gradually increasing higher education financing, expanding the scope of financing by reviewing the principles of financial resources made available to academic institutions, targeting, purposefulness of financial assistance and performance indicators of the academic institution.

In the health sector, the ADS sets priorities to improve indicators for the health condition of the population, through better access to, as well as affordability and quality of healthcare services.

Modernizing and improving the health sector, ensuring affordability and access to health services and introducing a health insurance system are **programmatic goals of the government over the next five years**. The Government policy will focus on maintaining and improving individual and public health by ensuring that modern, high quality and comprehensive health services are delivered.

These goals will be achieved:

- by developing the areas of communicable and non-communicable disease prevention and early detection.
- to ensure that citizens have access to affordable health services, to continue the introduction of such health insurance system, which will provide proper and timely medical aid and service to each citizen in need of such services. The Government will mitigate the insurance costs of the vulnerable and specific social groups.
- maintaining maternity and child health, improving reproductive health and health issues in early childhood and adolescence, enhance family planning services, increase access to reproductive assistive technologies for couples suffering from infertility
- increasing the effectiveness of treating and controlling cardiovascular and cancerous diseases will be special focus areas.
- continuous enhancement of the professional capacities and readiness of the medical personnel, comprehensive and complex development of human potential in health sector,
- improving the quality of management and supervision of medical aid, including introduction of clinical guidelines and procedures in line with international standards will be important for the Government.
- full introduction of the e-health system, digitization of health and medical records, development of the medical science and pharmaceutical production
- Introducing efficient systems of the quality, safety, effectiveness, prescription and distribution of medicine will also be among important directions.

D. Implemented Reforms in Education and Health

Several reforms have been implemented in the education and health sectors with the objective to develop human potential. These reforms implemented by the government concur well with the key policy reform foci in HDEP Policy Matrix which includes: (i) enhancing quality of services, (ii) improving access; (iii) strengthening governance and sustainability, and (iv) mitigation of risky behaviors through government policies.

These are elaborated below.

We are thankful to ADB for supporting our reform agenda under the technical assistance resources.

D.1. Enhancing Quality of Services

We recognize that crucial to human capital development is actual delivery of quality education and health services. Special emphasis will be put on the protection of mother and child health, reproductive health, early childhood and adolescent health problems.

MOESCS is moving towards revising the content of the 12-year education system and anchoring the reforms in vocational and higher education in continuous quality improvement. The higher education reform will help improve policies to ensure better quality in higher education services, including the programs at pedagogical universities for training teachers for schools and to help modernize facilities and equipment in higher education institutions.

To further improve the quality of care, the medical capacity of the human resources for health will be strengthened by MoH in terms of enhanced medical knowledge, the development, implementation and monitoring of evidence-based clinical guidelines in line with international standards, and improved management and supervision. Latest evidence on improving quality of care posits that it has to be made intentional in all aspects of care provision, encompassing all levels of management.

D.2. Improving Access

A key development towards increased access is the new draft law for preschool education which aims to diversify preschool services and provide the framework of scaling up the service provision in the regions. In addition to that, the draft law aims to regulate the various forms of development centers that were out of the scope for the ministry, thus the government had no monitoring functions and could not ensure the safety and security of children at various development centers not being licensed by the ministry. The higher education reform aims to improve access to higher education services for disadvantaged groups such as students in rural areas and female students.

With the support of ADB a Universal Health Insurance concept paper by MoH, that will define the UHI based on the principles of social solidarity and equity in health and consolidation of pre-pooling of funds for different groups of population with unifying re-envisioned benefit packages, based on an actuarially costed analysis. The concept paper will further describe the governance structure of the UH, as well as the responsibility of the Government, who will act as policyholder for the vulnerable and poor within the limits of public health budget funds. Based on the concept paper, a UHI law will be submitted by the Government to the National Assembly by September 2020. In line with the first Government priority of effective access for the whole population to affordable quality health services, increased financing of the health sector budget will promote financial protection, affordability and access to quality healthcare services, to be

gradually rolled out across population groups to ensure proper and timely medical services to each citizen in need, irrespective of sex, age, place of residence and social status.

D.3. Strengthening Governance and Sustainability

The government believes that all policies, initiatives, and actions to be implemented and financed by the budget need to be evidence-based. As per our Medium-Term Expenditure Framework 2020–2022 we remain committed increasing allocations from state budget on education and health and improving the efficacy of public resource usage.

Among the reform strategies is the transformation of the National Institute of Education (NIE) to a reorganized Education Foundation, which spearheads a number of reforms in the school education. Among the mandates of the foundation is the institutionalization National Teacher Professional Standards (NTPS) to ensure a minimum standard for all teacher training providers and their programs and to provide a framework for future reform of the pre-service teacher training programs. Another important function of the foundation is envisaged to be the accreditation of in-service professional development providers.

In line with this, MOESCS will strengthen education management information system (EMIS) to an integrated education sector-wide EMIS. This will strengthen MOESCS capacity for evidence-based education sector policy formulation, policy implementation and monitoring sector performance. It will help MOES develop legal and procedural mechanisms to collect all education sector data on a regular and timely basis. Such a comprehensive and integrated EMIS will help track student progress, transition patterns, and pathways across the various levels of education. It will also assist monitoring resource allocation and reviewing short- and medium-term return on investment analysis.

To assure sustainability, the use and usability of data analytics to increase the transparency, efficiency and effectivity of the healthcare sector will be further developed by MOH. To assure sustainability, the use and usability of data analytics to increase the transparency, efficiency and effectiveness of the health care sector will be realized. The Government will further develop the e-health system and implement digitalization of health and medical records, clinical guidelines, standardize health service processes and promote the use health analytics. Furthermore, to improve the quality of care, especially during patient referrals, the use of and ease of use of the e-health data exchange platform and e-referrals will be promoted.

D4. Mitigation of risky behaviors through government policies

Preservation of public health, disease prevention, promotion of healthy lifestyle and fight against non-communicable and communicable diseases shall be the primary directions and the most important issues of the healthcare system.

For ensuring long-term preventive services at public health level and introduction of effective mechanisms to fight against most common non-communicable diseases and injuries, the

Government of the Republic of Armenia envisages to revise the existing legislation to fight against tobacco. In particular, it has drafted a new draft law titled "Reducing and Preventing Negative Impact on Use of Tobacco Products." It will also develop a comprehensive program to prevent traumas, including child traumas and road traffic injuries. The first of this was the approval of the government decree on mandating the use of child restraints in vehicles.

E. Future Reforms Directions, Way Forward

We remain strongly committed to our reform agenda in education and health sectors, as articulated in our strategic documents. Some specific actions and measures as per the action plan for implementation of the government program for 2019–2023 for the next 5 years are:

By 2020, approval of Comprehensive Education Sector-wide Strategy and Implementation Plan, which includes reform of Preschool Education, Secondary Education, Vocational Education and Higher Education Subsectors; completion of the Education Foundation establishment with a strong mandate for education reforms implementation. Relevant indicators on quality of care reflected in the government budget paper; clinical decision-making tools piloted in vulnerable districts; and approval of e-health strategy.

By 2021, roll-out of e-prescription system; approval and roll-out of implementation plan for transformation of NIE; development and implementation of professional standards for teachers nationwide; roll-out of implementation of education sector-wide EMIS; and approval of Universal Health Insurance Law.

Our Request to ADB

Dear President Nakao

We remain committed to the implementation of our ambitious structural reform agenda and are confident that the reform initiatives supported under the proposed program constitute important prerequisites for long-term sustainable and inclusive growth.

The program will help us:

- (i) expanding the opportunities for economic activities through enhancement of quality education and its system, as well as quality healthcare as cornerstones for human capital development,
- (ii) enhancing efficiency in governance,
- (iii) developing human potential, including development of sector strategies, improved quality of services, improved system of financing and resource allocation, and strengthened and improved monitoring systems.

We requested ADB to provide a loan from its Armenia Human Development Enhancement Program in the amount of US\$10 million equivalent. We are requesting it to be disbursed upon effectiveness of the Loan Agreement and after completion of Policy Actions.

We are grateful for ADB's support during the period of fiscal consolidation in response to our emerging needs for policy-based loans.

We would like to inform you that, starting from 2020 the Government will shift to project financing and hereby our request from ADB is to consider the proposed program as stand-alone program. Meantime we reassure our commitment for continued reforms in education and health as articulated in our strategic documents and as it reiterated in the section E. Future Reforms Directions of our development policy letter.

We would like to thank ADB for working closely with the Government of Armenia in developing this program. With the government's strong leadership and ownership of reforms, we are confident that this will result in successful implementation of the reform programs in education and health sectors.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'A. Janjughazyan', written over a horizontal line.

Atom Janjughazyan

POLICY MATRIX

Policy Reform Areas	Prior Actions (by October 2019)	Verification	Post-Program Partnership Framework
Reform Area 1: Improving access to education and health services			
1.1 Improving access to education	1.1.1 To expand access to Preschool Education, government submitted to the National Assembly the new Law on Preschool Education, which: (i) introduces inclusive and equitable education, and (ii) strengthens child education support system	Government decision to endorse the Law on Preschool Education and to submit it to National Assembly	
1.2 Foundations for gender inclusive education and health services established	1.2.1. To ensure gender equity in education and health services, Government approved the 2019–2023 gender mainstreaming action plan which (i) ensures equal representation of boys and girls in all levels of education (ii) ensures inclusive curriculum and training programs that promotes equal participation of female and male students, (iii) increases women’s involvement in science, (iv) increasing gender sensitivity of health service providers through trainings; (v) improving quality of reproductive health services in rural areas; (vi) protection of the sexual reproductive rights of women by increasing provision of infertility treatments; (vii) mandating feeding rooms for nursing mothers at higher education and state institutions; and (viii) informing socially disadvantaged women about provision of free inpatient care services.	2019–2023 action plan for implementation of gender mainstreaming policy approved by GoA	Roll-out of the gender mainstreaming action plan in the education sector.

Policy Reform Areas	Prior Actions (by October 2019)	Verification	Post-Program Partnership Framework
Reform Area 2: Enhancing quality of services			
2.1 Improving the quality of education	<p>2.1.1 To improve quality of Preschool Education, GoA submitted to the National Assembly the new Law on Preschool Education, which: (i) improves new standards for teachers and managers, (ii) strengthen teacher performance monitoring, (iii) set clear evaluation mechanisms of preschool education services, and (iv) improve mechanisms for staff attestation and training.^a</p> <p>2.1.2 To improve the quality of Higher Education, MOESCS prepared and published for public consultations a new Law on Higher Education and Science which: (i) streamlines roles and responsibilities of state bodies and the National Academy of Sciences, (ii) improve human resource management and organizational and financial autonomy of higher education institutions, and (iii) upgrades licensing and accreditation requirements, state financing principles, supervision mechanisms for quality of services.</p>	<p>Government decision to endorse the Law on Preschool Education and to submit it to National Assembly</p> <p>Law on Higher education circulated to GoA</p> <p>Copy of the MOESCS letter to the GoA</p>	<p>Law on Preschool Education approved by the National Assembly</p> <p>Approval of Comprehensive Education Sector-wide Strategy and Implementation Plan, which includes reform of Preschool and Higher Education Subsectors.</p> <p>Law on Higher Education approved by the National Assembly</p>
2.2 Improving the quality of health care services	2.2.1 To expand access to quality health care services, the Law on Medical Care and Service is amended to strengthen disease management protocols, prioritize women’s health, upgrade standards for facility accreditation, and licensing of doctors and nurses. ^b	Government endorsed “On Making Amendment to the Law on Medical Care and Service of the Republic of Armenia”	<p>Relevant indicators on quality of care reflected in the government budget paper.</p> <p>Clinical decision-making tools piloted in vulnerable districts.</p> <p>Drafting of related government decrees.</p>

Policy Reform Areas	Prior Actions (by October 2019)	Verification	Post-Program Partnership Framework
		<p>Submission of “On Making Amendment to the Law on Medical Care and Service of the Republic of Armenia” that incorporated quality to National Assembly</p> <p>2019–2023 action plan for implementation of gender mainstreaming policy approved by GoA</p>	
Reform Area 3: Increasing financing and improving management			
<p>3.1 Operationalizing the governance and capacity improvement of education sector agencies.</p> <p>3.2 Strengthening use of data to generate evidence for health sector performance management.</p>	<p>3.1.1 To streamline and improve efficiency and effectiveness of education governance, the government transformed the National Institute of Education (NIE) by dissolving the NIE and endorsed measures to reorganize the Sustainable School Food Foundation into National Center for Education Development and Innovation</p> <p>3.2.1 To enhance use of sector-wide EMIS data in policy making ensuring more efficient planning and resource utilization in the sector, MOESCS issued a Decree to develop sector wide EMIS system and a detailed plan to strengthen its capacity to undertake sector performance analysis for effective policy formulation.</p>	<p>Government decree on dissolving NIE</p> <p>MOESCS order on reorganizing the Sustainable School Food Foundation into National Center for Education Development and Innovation Foundation</p> <p>MOESCS decree on approving implementation plan for EMIS system</p>	<p>Approval and roll-out of implementation plan for transformation of NIE.</p> <p>Development and implementation of professional standards for teachers nationwide</p>
	<p>3.2.2 To improve transparency and efficiency, the government amended the “Law on Medical Care and Services to the Population” to incorporate: (i) e-health policies that allows for age and</p>	<p>Government endorsed “Law on Medical Care and Services to the Population”</p>	<p>Roll-out of e-prescription system</p>

Policy Reform Areas	Prior Actions (by October 2019)	Verification	Post-Program Partnership Framework
	gender analysis of diseases, (ii) data privacy and access rules, and (iii) data interoperability. ^b	Submission of “Law on Medical Care and Services to the Population” that incorporated e-health amendments to National Assembly	
3.3 Increased financing of education and health sectors based on the government approved medium-term expenditure framework for 2020–2022 programmed	<p>3.3.1 To improve access and quality of education, GoA commits to increasing allocation for education and science in 2020 by 12% and GoA commits to keeping the deviation within 1%.</p> <p>3.3.2 To improve financial access and coverage of subsidized health care, the government increased the 2019 budget to fund for the coverage of children ages 8–17.</p> <p>3.3.3 To improve financial access and coverage of subsidized health care, GoA commits to increasing the allocation for health sector by 19% in 2020 state budget (for increased coverage for children 8–17) and GoA commits to keeping the deviation within 1%.</p>	<p>Excerpt from the Government decree on approving MTEF 2020-2022 showing increased allocations for education in 2020-2022 and 2020 budget bill</p> <p>Amendments to Government Decree on free medical care services guaranteed by the State Order no N 782 dated 27 June 2019</p> <p>Excerpt from the Government decree on approving MTEF 2020-2022 showing increased allocations for health in 2020-2022 and 2020 budget bill</p>	<p>To sustain adequate financing of education, government to keep the deviation from planned increases and actual allocations in MTEF 2020–2022 within 1% for 2020, 2021 and 2022.</p> <p>To promote efficiency of budget utilization, MOESCS to keep budget execution rates above 95% for 2020, 2021, and 2022.</p> <p>To sustain adequate financing of health, government to keep the deviation from planned increases and actual allocations in MTEF 2020–2022 within 1% for 2020, 2021 and 2022.</p> <p>To promote efficiency of budget utilization, MOH to keep budget execution rates at above 95% for 2020, 2021, and 2022.</p> <p>Concept note on Universal Health Insurance approved by GoA</p>

Policy Reform Areas	Prior Actions (by October 2019)	Verification	Post-Program Partnership Framework
Reform Area 4: Promoting healthy practices through government policies			
4.1 Public health policies that reduce risks and mortality for children and youth drafted and approved	<p>4.1.1 To reduce child injuries, the government issued a decree on child restraints and approved a strategic program on child injury prevention.</p> <p>4.1.2 To protect the population, particularly children and youth from harmful effects of the use of tobacco products, especially by male youths and second-hand smoking, GoA submitted to the National Assembly the “Law on decreasing and prevention of negative impacts of the use of tobacco products” that prohibits smoking in public</p>	<p>Approved GoA Decree N 439 (April 2019)</p> <p>GoA decree N1022-L issued on 27 September 2018 on 2019 annual program and action plan of child rights protection</p> <p>GoA endorsed amendments to Law “Law on decreasing and prevention of negative impacts of the use of tobacco products” submitted to National Assembly</p>	<p>Implementation of the program of child injury prevention</p> <p>“Law on decreasing and prevention of negative impacts of the use of tobacco products” approved by the National Assembly</p> <p>Drafting of related government decrees</p>

EMIS = education management information system, GoA = Government of Armenia, MOESCS = Ministry of Education, Science, Culture and Sport, MOH = Ministry of Health, MTEF = medium-term expenditure framework, NIE = National Institute of Education.

^a This prior action includes both access and quality components. Quality is discussed in 2.1.1. These are counted as one prior action.

^b This prior action includes both quality and e-health components. E-health is discussed in 3.2.2. These are counted as one prior action.

Source: Asian Development Bank.