

THE EUROPEAN INVESTMENT BANK IN  
**ARMENIA**



European  
Investment  
Bank

*The EU bank*





## Vazil Hudák

Vice-President of  
the European Investment Bank

“For the last 10 years, we have been working together with Armenians to create a society that thrives, by investing in projects which build opportunities and a better quality of life for people. The EIB, through its projects, helps to improve people’s daily lives with new roads, warm kindergartens, and clean and safe water, in addition to the business opportunities, new jobs and better education facilities that we have supported. Our commitment is as strong as ever and we will continue to deliver results for Armenians.”



## Piotr Antoni Świtalski

EU Ambassador to Armenia,  
Head of the European Union Delegation

“The European Union and the European Investment Bank are partners working with the citizens of Armenia. EU mandates and financing facilities underpin the EIB’s projects. Together we aim to increase Armenia’s competitiveness, which in turn creates much needed jobs and powers economic growth.”

# ARMENIA'S ECONOMY AT A GLANCE

Total lending  
**EUR 379 million**  
since **2008**

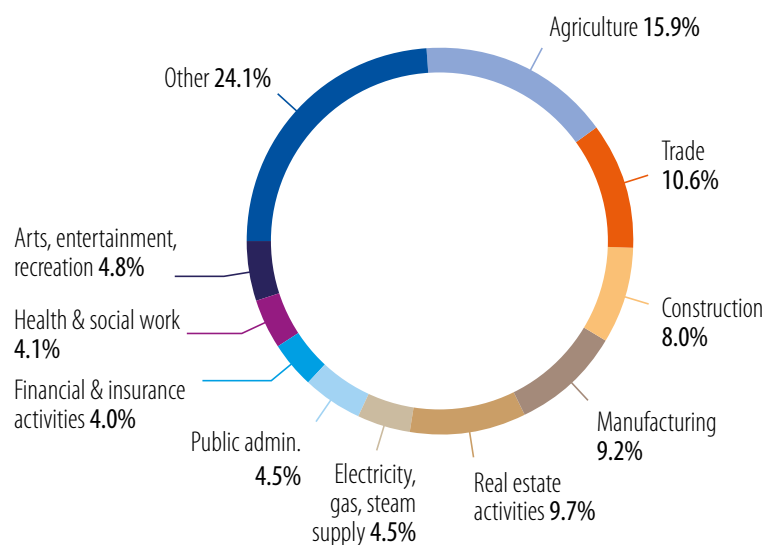
The Republic of Armenia is a small, lower middle-income country with GDP per capita of almost USD 9 500 in terms of purchasing power and a total population of around three million. Small-scale farming drives Armenia's economy. Agriculture accounts for almost 15% of GDP – although this share is declining. Continuous structural reform has considerably improved competitiveness and the business climate, which is now on a par with the Eurasia average. The country's dependence on remittances and commodity exports, primarily minerals and metals, exposes it to external shocks and fluctuations in international prices.

Since late 2014, lower commodity prices and tighter credit conditions have pushed down domestic demand. These developments resulted in significantly slower growth in 2016, which lowered tax revenues and increased public debt. Stronger demand for exports and a more dynamic private sector, however, spurred growth in recent years. The pace is expected to moderate somewhat in 2019.

Over the  
**last five years,**  
we have helped:

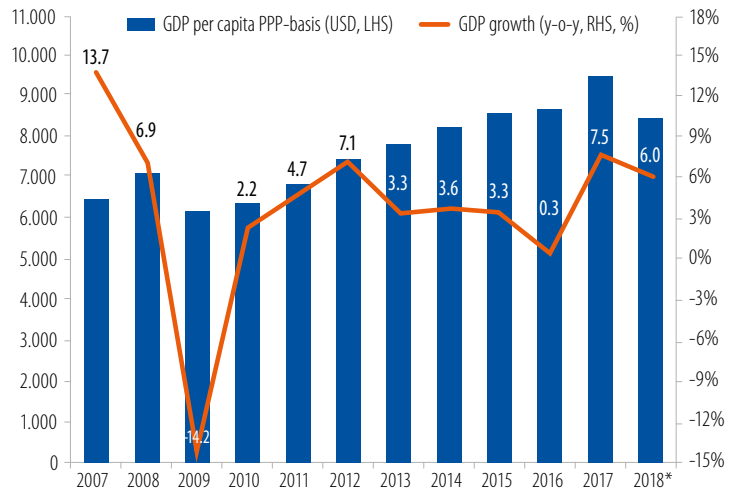
- Build **180 kilometres** of roads
- Provide safe drinking water for **8 600 people**
- Improve sewerage services for **20 000 people**

## Agriculture dominates the economy, but its share is falling ...



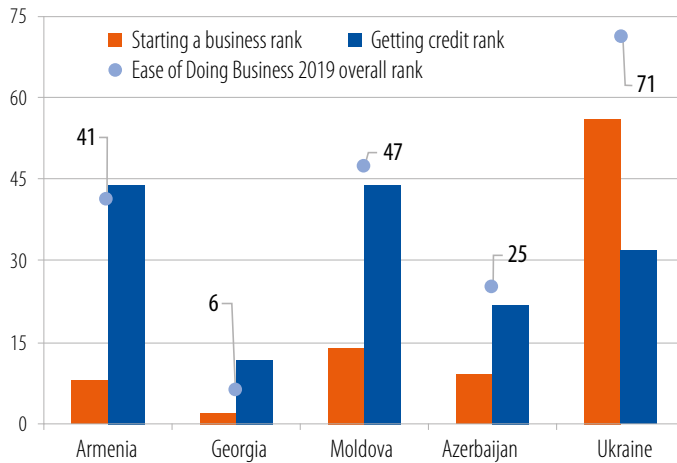
Source: International Monetary Fund, World Economic Outlook, October 2018

## Growth is bouncing back ...



\* IMF estimate.  
Source: International Monetary Fund,  
World Economic Outlook, October 2018

## Doing business has become easier, but remains challenging.



Source: The World Bank,  
Doing Business 2019

# PUBLIC SECTOR LENDING

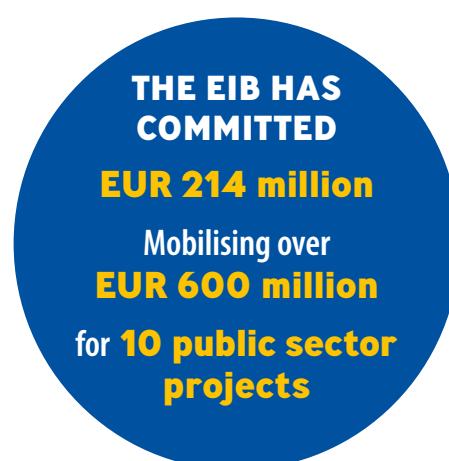
Public infrastructure is the most important area of EIB lending in Armenia. EIB-sponsored projects improve Armenia's links to the global economy, helping to create the conditions necessary for growth and stability. EIB loans allow local governments to make investments that improve citizens' daily lives.

Across the country, the EIB is helping Armenia update water and waste infrastructure, roads and energy transmission. In the capital of Yerevan, where one-third of the Armenian population lives, the EIB has backed projects that have renovated the metro, rehabilitated kindergartens and improved the management of solid waste.

Armenia is landlocked and shares borders with Iran, Georgia, Turkey and Azerbaijan. But only two of those borders, with Georgia and Iran, are open, which limits the country's access to the surrounding region. As Armenia's economy depends heavily on trade, renovating the main transit roads to Georgia and Iran is vitally important for integrating the country with the rest of the region. With that in mind, the EIB funds projects that support cost-effective, environmentally compatible and socially sustainable transport infrastructure and services. To date, the EIB has lent EUR 142 million for three transport infrastructure projects (see the case studies box).

## “ EIB-sponsored projects improve Armenia. ”

In addition to transport infrastructure, the EIB also supports numerous projects that improve infrastructure or deal with the effects of climate change. One example is the Yerevan Energy Efficiency project, which received a EUR 5 million grant through the Eastern Europe Energy Efficiency and Environmental Partnership. The partnership, also known as E5P, receives support from the European Union and other donors for energy efficiency and environmental projects in Ukraine, Moldova, Georgia, Armenia, Azerbaijan and Belarus.





## MODERNISING CHECKPOINTS

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Opened in 2017, three new border crossing points **strengthen Armenia's link with Georgia** and the rest of the world. The project, which received a **EUR 31 million** loan from the EIB, improves cooperation, transparency and accountability through the automated exchange of information between the two countries. It also modernises the checkpoints' customs clearance systems. The EU supported the project through a Neighbourhood Investment Facility (NIF) grant of EUR 12 million.

The investments bring the checkpoints in line with EU standards, facilitating the **movement of people** and goods across the border. In 2008, it **took an average of 28 days** for goods entering Armenia to clear customs. The project has reduced that time to less than five days. The new system also cuts the average time it takes to process people travelling by car by 70% to around five minutes. As a result, trade and travel between the two countries are on the rise.

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## UPGRADING A VITAL CORRIDOR

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A section of the **Silk Road** is getting a revamp. The M6 Interstate, a transit route that connects Central Armenia to Georgia, is being refurbished thanks to an EIB loan of **EUR 51 million**. The **90-kilometre, two-lane road** will link Vanadzor, the third-largest city in Armenia, to Bagratashen on the Georgian border in the country's northeast. The upgrade will improve the **safety of the road**, which cuts through a deep valley and which is known for its hairpin turns, steep inclines and narrow bridges and tunnels. The M6 Road is a vital corridor for Armenian goods travelling through Tbilisi in Georgia to ports on the Black Sea and on to Europe or to other countries in Central Asia. A EUR 5.15 million NIF grant from the EU will also pay for the project.

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## CRISS-CROSSING THE COUNTRY

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The North-South Road Corridor project will improve **556 kilometres** of a much-used transport route in Armenia, which runs from Bavra at the border with Georgia, to Meghri at the border with Iran, through the cities of Gyumri, Ashtarak, Yerevan, Goris and Kapan. The project, which received a **EUR 60 million** loan from the EIB, also attracted a EUR 12 million NIF grant. Half of the NIF money will pay for technical assistance. The new road will improve links between rural Armenia and the rest of the region, promoting social and economic development.

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## IMPROVING SCHOOLS

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Cracked plaster, peeling paint, drafty windows and leaky roofs — the list of problems at Armenian kindergartens is long, and the children suffer the most. “**Children’s health and safety is paramount,**” says Armine Hayrapetyan, the director of a kindergarten in Yerevan.

Kindergartens in Armenia’s capital have been decaying for years. “Renovation of just our doors and windows is extremely important, as children are more susceptible to disease,” says Anoush Davtyan, a parent with a kindergartner in the Yerevan school district.

Nearly **150 kindergartens** will be renovated under the Yerevan Energy Efficiency project, which runs up to 2020. The works will reinforce the buildings for seismic activity and improve energy efficiency in a climate known for big swings in temperature from summer to winter. Cracked walls will be fixed; roofs will be insulated; and new heaters will be installed. LED lighting and solar energy systems will cut down energy consumption.

The work is made possible by a **EUR 5 million** grant under E5P. The Yerevan kindergarten project will reduce carbon dioxide emissions by 5 502 tonnes a year and will improve the lives of **34 500 children, teachers and staff members**.

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## EXTENDING BASIC SERVICES

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People who have access to **clean water, sanitation and safe trash disposal** often take those services for granted. Making sure that an entire population is covered, however, requires regular maintenance and investment.

In that aim, the EIB is providing **EUR 38 million** to finance investments into water supply services and wastewater treatment. One of the projects receiving funding, the Water Sector Communal Infrastructure Programme, is being implemented in conjunction with the German development bank KfW. The EU is also supporting the **water projects** through NIF grants.

In addition to water, the Bank is also supporting the Armenian capital, Yerevan, and the surrounding areas in building a new, more sanitary landfill. The EIB is providing a **EUR 8 million** loan and the EU is contributing a EUR 2 million E5P grant and EUR 500 000 via the Municipal Project Support Facility (MPSE). The project will cut the gases emitted by decaying waste, including carbon emissions.

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# PRIVATE SECTOR LENDING: SMALL AND MEDIUM-SIZED ENTERPRISES





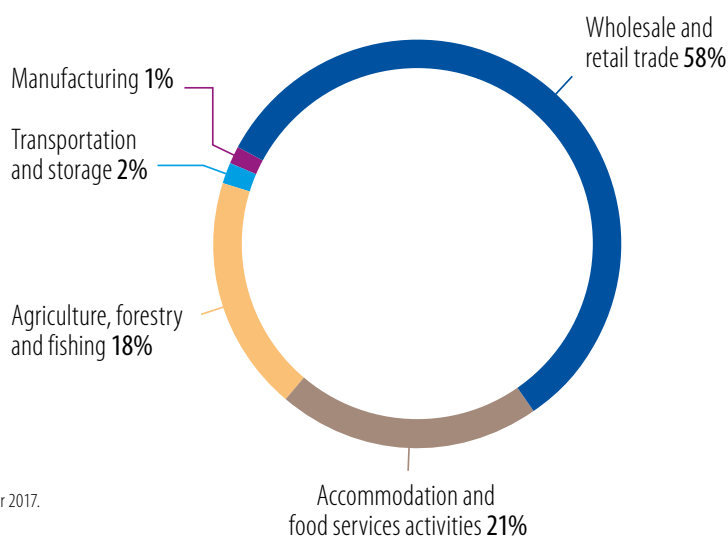
Small businesses are the key driver of economic growth, job creation and innovation in Armenia, representing about 98% of all registered firms. Micro-enterprises with fewer than 10 employees account for 89% of these firms, and small businesses around 6%.<sup>1</sup>

The EIB supports the development of these businesses through credit lines designed to address the scarcity of long-term funding. In addition, the beneficial terms of EIB loans to financial partners on the ground improve the overall availability of credit.

Since 2014, the EIB has also given loans to the Central Bank of the Republic of Armenia, which in turn uses the funds to support small businesses and to improve the availability of financing to the private sector. In 2018, the EIB signed a EUR 50 million private-sector facility with the Central Bank of Armenia to support projects aimed at small businesses in conjunction with the EU4Business initiative. A large proportion of the funds will go to projects in agro-food processing and tourism in rural sectors, important areas of economic activity. Agriculture continues to dominate the Armenian economy. In 2017, it represented almost 15% of GDP and employed about 37% of the working population.<sup>2</sup>



### Breakdown of small business lending



1 OECD, "Monitoring SME policy reforms in Armenia", December 2017.

2 Food and Agriculture Organization of the United Nations.



## EXPANDING IN A TOURIST HAVEN

The Hotel Alpina lies in the heart of Tsaghkadzor, a spa town and holiday resort nestled on the eastern slope of Mount Teghenis. The resort's close proximity to Yerevan makes it a popular tourist destination.

Established in 2004, Hotel Alpina consists of 24 comfortable rooms and 10 cottages, two of which are luxury accommodation, a conference hall, a restaurant, two bars, a spa centre and a children's play area. With help from the EIB, the hotel was able to secure a **EUR 180 000 loan** with a seven-year tenure to renovate the premises and to buy a minibus for guests. Upgrading helped the hotel, which **employs 35 people**, increase its annual guest numbers by 20%.

## GETTING BIGGER AND GREENER

Chanakh, a dairy processor that employs **65 people**, supports local farmers around the village of Zovq through its sales of finished products like pasteurised milk, fermented kefir and drinkable yogurts. The company, which is located about 15 kilometres outside the capital of Yerevan, has grown from a small to a mid-size company and is now slowly automating its production. Financing supported by the EIB will enable Chanakh to replace its plastic **bottling equipment** with a fully automated system capable of filling Pure-Pak cartons. This investment will not only make the company's three main products more competitive, but it will also make Chanakh's packaging more **environmentally friendly**.

## ADDING CAPACITY

Vensevan, a family-owned business that has been around for four generations, produces wines in the Ararat valley – an area with a unique microclimate and extraordinary terroir that has attracted **winemakers for 6 000 years**.

Until 2016, Vensevan stored and matured the wines produced on its 18-hectare domain exclusively in oak barrels. An EIB-supported loan allowed the winemaker to expand the facilities available for both storage and maturation, with four new tanks substantially **increasing capacity**. Vensevan also used the money to purchase a new filling system and labelling machines, as well as for general working capital purposes.

As a result, the firm has been able to expand production while continuing to comply with the **international standards** required for exports.



# ADVISORY SERVICES

Part from its lending activity, the EIB supports its Armenian counterparts throughout the project life cycle. Our advisory services harness the Bank's broad experience and expertise, guiding beneficiaries through project design and implementation. We also try to blend our own lending and technical assistance with the resources of other EU programmes.

## MAIN ACTIVITIES IN ARMENIA

### Eastern Europe Energy Efficiency and Environmental Partnership (E5P)

Established in 2009, the initiative aims to reduce carbon and other greenhouse gas emissions by financing projects that promote energy efficiency or limit the waste of resources such as water. The initiative began in Ukraine but was expanded to cover Armenia, Georgia and Moldova, and is now preparing to begin activities in Azerbaijan and Belarus. The E5P provided a EUR 7 million grant to support EIB-funded projects in Armenia.

### Eastern Partnership Technical Assistance Trust Fund (EPTATF)

Established in 2010, the fund provides project assistance in Eastern Partnership countries including Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The fund has so far provided EUR 30.4 million in financing for 25 projects, of which EUR 2.2 million was allocated to Armenia.

### EU4Business

This umbrella group covers all EU activities supporting small businesses in Eastern Partnership countries, including Armenia. The programme tackles the obstacles that prevent small businesses from growing, like access to finance, burdensome legislation and barriers to entering new markets.

### EU Finance for Innovators (InnovFin)

A joint initiative of the EIB Group (the EIB and the European Investment Fund) and a European Commission research and innovation programme called Horizon 2020, InnovFin provides EIB financial and advisory services to research organisations in the public and private sectors. As a Horizon 2020 associated country, Armenia is eligible to apply for funds.

### Municipal Project Support Facility (MPSF)

Founded in 2014 with an initial EU contribution of EUR 12 million, the facility provides technical assistance to municipalities in Eastern Partnership countries. So far, the facility has provided a EUR 750 000 technical assistance grant to the Yerevan Municipality for energy efficiency and waste treatment projects.

### Neighbourhood Investment Platform (NIP)



Formerly known as the Neighbourhood Investment Facility, NIP combines European Union grants with other public and private sector resources such as loans and equity. Its primary objective is to contribute to the attainment of the Sustainable Development Goals. To date, NIP has provided almost EUR 80 million of investment and technical assistance grants to support EIB-funded projects in Armenia.

## ABOUT THE EUROPEAN INVESTMENT BANK

The EIB is the European Union's bank, owned by the EU Member States. In 2018, the EIB Group provided nearly **EUR 80 billion** for investments in and outside Europe. We are **the world's largest multilateral borrower and lender**.



**European Investment Bank**  
98-100, boulevard Konrad Adenauer  
L-2950 Luxembourg  
☎ +352 4379-1  
[www.eib.org](http://www.eib.org)

 [twitter.com/EIB](https://twitter.com/EIB)  
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**Maciej Czura**  
Head of the EIB regional office  
for the South Caucasus  
1 G. Tabidze Street, Freedom Square  
0105 Tbilisi  
Georgia  
☎ +995 3220-06284  
✉ [tbilisi@eib.org](mailto:tbilisi@eib.org)

**European Investment Advisory Hub**  
✉ [eiah@eib.org](mailto:eiah@eib.org)

**Dušan Ondrejčka**  
Press Officer  
☎ +352 4379-83334  
✉ [d.ondrejicka@eib.org](mailto:d.ondrejicka@eib.org)