

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

Approved by the Board of Directors on 11 June 2025¹

ARMENIA

**GRCF3 W2 - YEREVAN CUSTOMS AND LOGISTICS
CENTRE**

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CBA	Central Bank of Armenia
CO ₂	Carbon Dioxide
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EU	European Union
EU NIP	European Union Neighbourhood Investment Platform
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
GCAP	Green City Action Plan
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
GrCF	Green Cities Framework
GrCF3 W2	Green Cities Framework 3 – Window II
HGV	Heavy Goods Vehicles
IMF	International Monetary Fund
LEED	Leadership in Energy and Environmental Design
MoF	Ministry of Finance of Armenia
NDC	Nationally Determined Contributions
PA	Paris Agreement
PIU	Project Implementation Unit
PPR	Procurement Policies and Rules
PR	Performance Requirement
RP	Resettlement Plan
SA	Special Account
SDGs	Sustainable Development Goals
SRC	State Revenue Committee of Armenia
TC	Technical Cooperation
TEN-T	Trans-European Transport Network
TI	Transition Impact
US	United States
USD	United States Dollar
VAT	Value Added Tax

CURRENCY CONVERSION

Annual average	2022	2023	2024
EUR / USD ²	1.053	1.081	1.082

² Annual average of European Central Bank official daily exchange rates.

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Armenia (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan of up to EUR 39 million to be provided in two tranches. The operation will enable the State Revenue Committee of the Republic of Armenia (the “SRC” or the “Client”) to finance the construction of a Customs and Logistics Centre on the outskirts of Yerevan city (the “Project”). The Project will be co-financed with an investment grant of EUR 6 million from the European Union Neighbourhood Investment Platform (“EU NIP”). The Project is presented as a follow-on investment under EBRD Green Cities. The Project addresses the City’s priority environmental challenges of air pollution and climate change mitigation, identified in the Yerevan’s Green City Action Plan (“GCAP”).

The expected transition impact of the Project follows that identified in Green Cities Framework 3 and is to derive from Green, as the Yerevan Customs and Logistics Centre building is expected to be one of the first two Green-building certified public buildings in Armenia. Moreover, by centralising customs clearance operations, it aims to significantly reduce the traffic volume and related greenhouse gas emissions of logistics vehicles in the city. The Project is 94 per cent GET. The Project is also Inclusive, promoting enhanced access to skills and employment in the customs and logistics sector by assisting the SRC in developing digital solutions for its skills development programmes. The Project is Gender SMART through the introduction of a dedicated, gender-responsive online leadership and management training programme within the SRC. The Project is one of the EU’s Global Gateway flagship projects for 2025, as well as forms part of the EU Flagship Initiatives for Armenia under the EU’s Economic and Investment Plan. It is also incorporated within the extended Trans-European Transport Network (“TEN-T”).

TC support for the Project preparation has been provided by the EBRD Shareholder Special Fund (“SSF”). Post-signing TC support for Project Implementation, PIU Support Experts, Green Building Certification and Access to Skills via e-Learning are proposed to be funded by international donors and the SSF.

[REDACTED]

I am satisfied that the operation is consistent with the Bank’s Strategy for Armenia, the Infrastructure Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality, the Equality of Opportunity Strategy for 2021-2025, the EBRD’s response for Armenia’s Refugee Crisis, the EBRD’s Approach to Accelerating the Digital Transition 2021-2025 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

ARMENIA – YEREVAN CUSTOMS AND LOGISTICS CENTRE - DTM 54835 Framework: Armenia - Green Cities 3 – Window 2 - DTM 55845	
Transaction / Board Decision	<p>Board approval³ is sought for a sovereign loan of up to EUR 39 million, structured in two tranches, in favour of the Republic of Armenia to construct Customs and Logistics Centre (“CLC”) on the outskirts of Yerevan city.</p> <p>Tranche 1 will be committed at signing. The approval to commit Tranche 2 will be delegated to Management.</p> <p>The proposed investment will address Yerevan’s priority environmental challenges as identified by the GCAP, which was approved by the City of Yerevan (the “City”) in September 2017. The Project is a follow-on investment under Green Cities Framework 3 – Window II (“GrCF3 W2”).</p>
Client	The Borrower is the Republic of Armenia, represented by the Ministry of Finance (the “MoF”). The Implementing Agency is the SRC.
Main Elements of the Proposal	<p><u>Transition impact</u></p> <p><i>Green:</i> The Yerevan CLC building is expected to be one of the first two Green public buildings in Armenia to receive internationally recognised certification. Additionally, the centralisation of customs operations is expected to result in reduction of the traffic volume of logistics vehicles in the city, with substantial positive impact on greenhouse gas emissions from transport.</p> <p><i>Inclusive:</i> The Project aims to enhance human capital development and broaden access to economic opportunities for people living outside of Yerevan, including refugees within the territory of Armenia and those living in remote regions, by supporting the digitalisation of the SRC’s certified customs training programme and introducing new training modules on data literacy and data software skills.</p> <p><u>Additionality</u></p> <p><i>Financing structure:</i> The Bank offers long-term financing for infrastructure project, which is not available from other commercial banks in Armenia.</p> <p><i>Standard-setting:</i> The Project will achieve compliance with an internationally recognised green building scheme and will be one of the first green public buildings in the country.</p> <p><i>Gender SMART:</i> The Project will establish a gender-responsive leadership and management training programme, fostering career advancement opportunities for women within the SRC. The Client will also leverage its partnerships with educational institutions to organise dedicated annual career days for women to develop future talent pipelines.</p> <p><u>Sound banking</u></p> <p>Sovereign loan. The Bank’s Standard Terms and Conditions apply. [REDACTED]</p>
Key Risks	<p><i>Borrower’s creditworthiness:</i> [REDACTED] The country’s sovereign credit rating stands at BB- with Stable outlook from Fitch and S&P, and Ba3 with Stable outlook from Moody’s.</p> <p><i>Implementation risk:</i> [REDACTED]. A comprehensive TC package is included to enhance the Project implementation. The Bank’s Procurement Policies & Rules (“PPR”) will apply.</p>
Strategic Fit Summary	The Project is aligned with the Bank’s Infrastructure Sector Strategy, the Bank’s Country Strategy for Armenia; the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality, the Equality of Opportunity Strategy for 2021-2025, the EBRD’s Approach to Accelerating the Digital Transition 2021-2025, and the EBRD’s response for Armenia’s Refugee Crisis.

³ Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan of up to EUR 39 million to be provided to the Republic of Armenia to finance the construction of a CLC in Yerevan. The loan will be co-financed by an investment grant of up to EUR 6 million from the EU NIP.</p> <p>The loan will be provided in two tranches:</p> <ul style="list-style-type: none"> • Tranche 1 of up to EUR 30 million, to be committed at signing. • Tranche 2 of up to EUR 9 million (uncommitted). <p>The decision to approve the commitment of Tranche 2 will be delegated to Management and will be at the sole discretion of the Bank.</p> <p>This is a follow-on project from Yerevan's GCAP. The Project addresses the GCAP-identified need for improvements in the city's management of traffic volume, negatively impacting air quality and climate change. It is eligible to be presented under GrCF3 W2 as it is consistent with GET and reduces heavy goods vehicles' ("HGV") greenhouse gas ("GHG") emissions from cargo transit [REDACTED]. Additionally, the building will obtain green building certification and achieve [REDACTED] improvement in energy efficiency.</p> <p>[REDACTED]</p>
Existing Exposure	Sovereign exposure: The total amount of sovereign portfolio stands at EUR 297.8million as of the end of April 2025 [REDACTED]: (OpID: 40718, 41356, 43253, 43826, 46437, 46540, 46736, 50310, 51293, 51749, 54703).
Maturity / Exit / Repayment	Fifteen-year maturity [REDACTED]
Potential AMI eligible financing	None.
Use of Proceeds - Description	<p>The CLC is expected to include a warehouse, unloading and inspection buildings, auxiliary buildings and infrastructure, parking, a laboratory, X-ray inspection devices, a weighing and preliminary inspection building for cargo vehicles.</p> <p>The proposed EBRD loan will be used to finance works, goods (equipment), consultancy services[REDACTED].</p> <p>Advance procurement provisions in line with PPR 3.76 are expected to be used to select the Project Implementation Support consultant and PIU Support Team. [REDACTED]</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Republic of Armenia represented by the MoF as the Borrower; • SRC as the Implementing Agency and the beneficiary of the Project.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security /	Sovereign loan.

Guarantees	
Other material agreements	[REDACTED]
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><i>Pre-signing:</i></p> <ul style="list-style-type: none"> • TC 1: Feasibility Study covering two projects – Syunik CLC and Yerevan CLC. The cost of the assignment is EUR 346,410, financed by the SSF. <p><i>Post-signing:</i></p> <ul style="list-style-type: none"> • TC 2: Advance Procurement Support, covering two projects – Syunik CLC and Yerevan CLC, to assist the SRC to tender and select the consultants under TC3 and TC4 under both projects. The estimated cost of the assignment is [REDACTED] to be financed by the SSF. • TC 3: Green Building Certification Advisory Support⁴, covering two projects – Syunik CLC and Yerevan CLC to assist the SRC to receive Green Building Certification. The estimated cost of the assignment is [REDACTED] expected to be financed by the SSF and remaining proposed to be financed by an international donor or SSF. • TC 4: Project Implementation Support assignment will include: (i) support with the preparation/review of technical design; (ii) procurement support; (iii) assistance in project management and reporting; (iv) construction supervision acting as the FIDIC Engineer; and (v) Environmental and Social Action Plan (“ESAP”) implementation support.[REDACTED] . • TC 5: Access to Skills via e-Learning will support the comprehensive digitalisation of certified customs training modules and integrating new advanced data literacy components. This digital transformation will enable nationwide access to specialised customs training, benefiting people living outside of Yerevan. The estimated cost of the assignment is [REDACTED] to be financed by Taiwan and the SSF. • TC 6: Site Risk Assessment to be carried out in line with the EBRD Performance Requirements (“PR”) to identify any legacy contamination of soil and groundwater. The estimated cost of the assignment is [REDACTED] proposed to be financed by an international donor and/or the SSF. • TC 7: PIU Support Team consisting of local experts to support the SRC’s PIU in efficient implementation of the EBRD-financed Projects with the SRC. [REDACTED] <p>[REDACTED]</p> <p>B. Blended Concessional Finance</p> <p>The Project is co-financed by a EUR 6 million investment grant from the EU NIP. Please refer to Section 6.3.</p>

[REDACTED]

⁴ The TC3 was merged with the identical TC, approved under Syunik CLC, with estimated cost of EUR 200,000.

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Armenia is a landlocked country located in the Caucasus region. The country shares borders with Georgia, Iran, Turkey, and Azerbaijan. Due to historic and ongoing geopolitical disputes with the two latter countries, there are no open borders with Turkey and Azerbaijan at present. Import and export of freight cargo in Armenia is dominated by road-based transport, with land-based freight entering and exiting Armenia solely via four operating border crossing points: three border crossing points on the northern border with Georgia (Bavra, Gogavan and Bagratashen) and one border crossing point in the south (close to the southern town of Meghri) where land border with Iran is only around 40 kilometres long.

At the national level, the Yerevan customs operations are the most extensive, encompassing multiple facilities throughout the city. According to 2023 data, 47 per cent of all reported HGVs crossing the borders arrive at customs facilities in Yerevan, which involves traveling across the Yerevan city, contributing to high traffic congestion.

The Yerevan CLC is designed to increase the efficiency and transparency of customs operations, improve service quality, and reduce the time required for customs clearance services. The use of high-quality scanning and inspection equipment will substantially decrease the reliance on labour-intensive, manual cargo handling practices. Additionally, by introducing a “One Stop Shop / Single Window” in place of multiple centres in Yerevan, the Project will enable the reduction of HGVs’ GHG emissions[REDACTED], thus addressing the GCAP-identified need for improvements in the city’s management of traffic volume, which negatively impacts air quality and climate change (GHG emissions).

Yerevan CLC, along with a similar Syunik CLC project, is targeted to be one of the first two public buildings to achieve green building certification, specifically LEED certification. Certification through reputable certification schemes, such as LEED, ensures that new buildings are designed and constructed according to a low carbon trajectory. Hence, according to the joint Multilateral Development Banks (“jMDB”) aligned list and the buildings sectoral guidance in the EBRD Paris Agreement (“PA”) alignment methodology, the Project is assessed as aligned with the PA mitigation goals. This makes the Project consistent with the Bank’s Green Economy Transition Approach 2021-2025 and its “green buildings” thematic area, which aims to “accelerate the decarbonisation of buildings”. Furthermore, the Yerevan CLC building will have a highly demonstrative effect, directly supporting the Yerevan GCAP buildings sector aim to promote green buildings principles.

Yerevan was one of the first three cities to join EBRD Green Cities, piloting the development of the GCAP to identify and address its environmental and climate challenges.

The Project aims to deliver significant inclusive outcomes by enhancing human capital development and expanding access to economic opportunities for individuals across Armenia, including refugees. This will be achieved by digitalising the SRC’s certified customs training programmes, transforming the centralised in-person training, currently available only in Yerevan, into digital formats accessible nationwide. This comprehensive digitalisation also includes new dedicated data literacy training modules to enhance analytical capabilities and drive operational efficiency in customs operations through better data management and analysis. The Project will annually target [REDACTED] people outside of Yerevan, including

refugees residing in Armenia, and will help integrate them into the labour market by improving their employability in the sector nationwide.

The Project is Gender SMART as it incorporates dedicated gender-responsive elements, including the development of a leadership programme and the establishment of career days for women aimed at enhancing women's participation and advancement in the customs sector. The Project is thus aligned with the Equality of Opportunity Strategy and the Strategy for the Promotion of Gender Equality, the EBRD's Refugee Crisis Response initiative, as well as the EBRD's Approach to Accelerating the Digital Transition 2021-2025.

The Project is consistent with the Bank's Infrastructure Sector Strategy as it improves connectivity through enabling better-connected, safer and more integrated infrastructure and promotes a low-carbon/zero-carbon approach, by pursuing improved energy efficiency. Moreover, the Project is aligned with the Bank's Country Strategy for Armenia as it addresses the key priority to *"strengthen connectivity via enhanced transport through public and private projects, telecommunications networks and border-crossing infrastructure and support for international corridors, such as the Crossroads of Peace and the Middle Corridor"*.

The Project is aligned with the EU Flagship Initiatives for Armenia under the EU's Economic and Investment Plan, namely Flagship No.5 *"Investing in a green Yerevan: energy efficiency and green buses"*. The Project is also one of the EU Global Gateway Flagships and is located on the extended TEN-T network, aiming to promote the efficient transportation of people and goods, improve access to employment and services, and facilitate trade and economic development.

This Project is also consistent with Armenia's updated Nationally Determined Contribution ("NDC") under the PA, by promoting 'green buildings' principles; in fact, energy use is amongst the sectors contributing to the NDC's mitigation contribution. The Project also contributes to a host of UN Sustainable Development Goals ("SDG"), namely: *SDG 5: Gender Equality, SDG 8: Decent work and economic growth, SDG 9: Industry, Innovation and Infrastructure, SDG 11: Sustainable Cities and Communities, SDG 13: Climate Action, and SDG 17: Partnerships for the SDGs*.

1.2 TRANSITION IMPACT

The GrCF3 represents a strategic and multi-project approach seeking to help identify and address climate and environmental challenges in selected cities in our countries of operation. The primary goal is to achieve significant climate and environmental improvements and to promote the **Green** transition quality within the relevant cities. In addition to the environmental objective, the GrCF3 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, **Well-governed, Inclusive, Resilient, Competitive or Integrated** will be pursued and presented as the secondary transition quality for sub-Projects under the framework. Relevant follow-on sub-Projects might have only one quality (Green). These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify climate and environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the climate and environmental challenges through targeted investments, services and policy instruments.

The Project will primarily promote the **Green** transition quality. The centralisation of customs clearing operations at the Yerevan CLC will result in the reduction of HGVs transit across the city of Yerevan, significantly decreasing emissions, directly supporting transport-related

strategic objectives and environmental challenges identified in Yerevan’s GCAP⁵. Specifically, the Project is expected to lead to the reduction of GHG emissions from HGV [REDACTED] compared to the baseline scenario, making the Project eligible for inclusion under EBRD Green Cities. Furthermore, the Yerevan CLC building will have a highly demonstrative effect as one of the first two public green certified buildings in the country (targeting at least LEED Silver [REDACTED]), thereby directly supporting the Yerevan GCAP buildings sector vision to promote green buildings principles.⁶

The Project will also support the **Inclusive** objective by addressing a critical gap in the availability of certified customs training, which is currently only offered in-person in Yerevan. This limited geographic access to training restricts skills development and employability for individuals residing outside the capital, including refugees. To overcome this issue, the Project will assist the Client in digitalising its training programme, thereby significantly increasing its reach nationwide. Through a dedicated TC, the Project will enable the SRC to leverage its existing training centre to expand access to high-quality skills training by converting approximately thirty modules of their certified customs training programme into a digital format and introducing new data literacy modules to enhance analytical capabilities and operational efficiency in customs operations. This initiative is expected to benefit [REDACTED] individuals annually, including refugees, equipping them with essential skills and improving their employment prospects across Armenia.

Delivery risks: The main risks to transition impact relate to: (i) physical implementation of the Project; (ii) implementation of the ESAP actions and recommendations. These risks are mitigated by the following factors: (a) support from international consultants to the PIU; (b) including [REDACTED] incorporating technical cooperation, where appropriate; and (c) maintaining policy dialogue with governments and to sponsor green cities events to facilitate knowledge sharing.

Digital Approach: The Project is aligned to the Adaptation area of intervention outlined in the EBRD Approach to Accelerating the Digital Transition 2021-2025. The digital components of the Project are expected to be in support of the Inclusive Transition Quality as outlined above.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).	The Project can be considered as a repeat transaction with the same client (the SRC). EBRD provided (i) in 2020, a sovereign loan of up to EUR 10.6 million for the modernisation of the Meghri Border Crossing Point (Meghri BCP Modernisation) and (ii) in 2024, a sovereign loan of up to EUR 10 million for the construction of a Customs and Logistics Centre in the Syunik

⁵ The transport vision of the Yerevan GCAP states that commercial transport (logistics) needs to be targeted, to contribute to the City’s long-term vision of sustainable development. The GCAP includes a specific 2030 strategic objective to “[introduce] specific rules on the movement of commercial transport around the city, particularly focusing on the transit of heavy-duty vehicles and supply of goods to areas of restricted traffic” supported by a mid-term objective of “[introducing] a car-free centre and special rules for supply of goods into the area.” The reduction of HVG traffic volume due to the centralisation of customs operations at the Yerevan CLC directly supports this objective.

⁶ The Yerevan GCAP’s buildings sector vision presents the commitment to “apply the principles of near-zero energy, low-carbon footprint and green architecture in all new construction and reconstruction initiatives” and “foster and feature green building solutions and renewable technologies in its built environment”.

	region of Armenia (Syunik Customs and Logistics Centre).
Additionality sources	Evidence of additionality sources
<p>Financing structure EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing etc. Such financing is necessary to structure the Project. EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.</p> <p>EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	<p>The EBRD loan offers a 15-year tenor [REDACTED]. Long-term financing required for infrastructure projects in Armenia continues to be available predominantly from the IFIs. Local commercial banks are unable to provide loans of the required tenor for a project of this kind.</p>
<p>Risk Mitigation The EBRD's long-term relationship with a client encourages the client to take on more risk and/or finance, enabling outcomes such as innovation or expansion into new markets. The EBRD helps the client to mitigate carbon transition risks and to take climate action, such as to move along a low carbon transition pathway.</p>	<p>The Project involves Green certification of public buildings. The Project will contribute to the climate change mitigation by delivering primary energy savings of [REDACTED] (based on the LEED Silver targets) and reducing GHG emissions by [REDACTED] considering Scopes 1, 2 and 3. Without the Bank's participation, higher environmental standards are unlikely to be achieved.</p>
<p>Standard-setting: helping projects and clients achieve higher standards The Client seeks the EBRD's expertise on higher environmental standards, above 'business as usual'.</p> <p>Client seeks/makes use of EBRD expertise over energy and resource efficiency and climate resilience financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.</p> <p>The Client seeks the EBRD's expertise on the best international procurement standards.</p> <p>Gender SMART: Client seeks/makes use of EBRD expertise on higher Equality of Opportunity /inclusive standards.</p>	<p>EBRD transition impact, environmental and social related conditionalities go far beyond what commercial funding sources would require, including procurement procedures, reform component and a clear link to the green economy.</p> <p>The Project is targeting to achieve green building certification at an adequate level. The Yerevan CLC is expected to be one of the first two Green public buildings in Armenia.</p> <p>Application of the EBRD PPR with the support of a dedicated PPAD Project Implementation Advisor will facilitate structuring and implementation of the Project.</p> <p>Under Tranche 1, the Project will help the Client develop a dedicated leadership and management training programme. To support promoting equal opportunities in the workplace, the programme will ensure [REDACTED] female participation and will be developed in a gender-responsive manner to promote awareness of the specific barriers women face in the workplace and strategies to address them, with the goal of improving women's career advancement opportunities in the company and sector.</p>

	[REDACTED] Under Tranche 2, the Client will leverage its existing partnerships with educational institutions and will organise dedicated annual career days for women, aligning with its broader goal of attracting more female talent to the customs sector.
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1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project specific risks		
Fiscal/Macro-economic risk	Medium / Medium	Armenia's public debt to GDP rose slightly to 50.7 per cent in 2023 due to higher fiscal expenditures, before easing to 48.9 per cent as of September 2024. Fiscal deficit is estimated at 4.6 per cent of GDP in 2024, up from 1.9 per cent in 2023, reflecting higher security and social expenditures. The government aims to resume fiscal consolidation from 2026, gradually reducing the deficit to 2–2.5 per cent of GDP, guided by the 2026–28 Medium-Term Expenditure Framework. Inflation remains well below the Central Bank of Armenia's revised target of 3 per cent (± 1 per cent). In August 2024, S&P maintained its 'BB- Stable' rating, citing fiscal resilience and improving institutional strength but also noting persistent geopolitical risks and external vulnerabilities.
Cost over-run risk	High / Medium	The Project costs have been estimated by an independent consultant as part of the feasibility study completed in February 2024. Due to volatile economic environment, a long-term implementation period future cost escalation is possible. Appropriate level of contingencies is considered in total investment cost to mitigate cost overrun risks.
Implementation risk	High / Medium	Following assessment of the procurement and implementation capacity of the SRC, it is proposed that the Client's PIU will be supported by a team of experts embedded within the PIU, as well as an experienced project implementation support consultant who will have experience in carrying out procurement and contract administration in line with IFI requirements. The internationally recognised forms of contract for construction works (FIDIC) will be used and the works will be supervised by an experienced international consultant. Please refer to Annex 3 for more details on the Project implementation and procurement arrangements.
External risks		
FX risk	Medium / Medium	Following strong appreciation since early 2022, Armenian Dram remained broadly stable in 2024, depreciating by less than 0.1 per cent on average year-on-year against USD and EUR. Nevertheless, depreciation may affect the cost of the Project, especially noting relatively long implementation period of the Project, as well as increased interest and principal payments for the Borrower for hard-currency loans. The risk is partly mitigated by the strong macroeconomic management and access to concessional financing from multilateral creditors and increasing reliance on domestic and fixed-interest debt, mitigating the refinancing risks.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators (FW)

Primary quality: Green

Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date	TC-related ?
1.1	Improved energy management standards (including building/good certifications)	Number of public buildings that have received Green Building Certification (minimum Leadership in Energy and Environmental Design (“LEED”) Silver or equivalent).	[REDACTED]	[REDACTED]	[REDACTED]	
1.2	CO2e emissions reduced (tonner/year)	The Project is expected to result in annual reduction of [REDACTED] CO2 emissions [REDACTED] .	[REDACTED]	[REDACTED]	[REDACTED]	

Secondary Quality: Inclusive

Obj. No.	Monitoring Indicator	Details	Baseline	Target	Due date	TC-related?
2.1	Tailored training programme developed and implemented	Through a dedicated TC, the Project will support the SRC’s training centre in expanding access to skills training nationwide by digitalising thirty existing customs training modules and introducing a new data literacy module. This will transform the certified customs training programme, currently limited to in-person delivery in Yerevan, into an accessible e-learning format, significantly increasing its reach to individuals outside the capital, including refugees.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of individuals enhancing their skills as a result of training	By expanding access beyond Yerevan, the new online certified training will reach at least two thousand individuals across the country [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Objective	FW level aggregate indicator	Indicator (sub-Project)	Details (sub project)	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC-related?
Gender SMART	Practices of the relevant stakeholder improved (skills development)	Practices of the relevant stakeholder improved (skills development)	Under Tranche 1, the Project will introduce a dedicated, gender-responsive leadership and management training programme aimed at enhancing the skills and career advancement opportunities of female employees and students at the Client’s training centre. The programme will support [REDACTED] t female	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

			participation, compared to the current 33 per cent representation of women in leadership, helping to bridge gender gaps in managerial roles. [REDACTED] .				
	Practices of the relevant stakeholder improved (community outreach, advocacy, awareness-raising)	Practices of the relevant stakeholder improved (community outreach, advocacy, awareness-raising)	Under Tranche 2, the Client will leverage its existing partnerships with educational institutions and will organise [REDACTED] dedicated career events annually for women to attract more female talent to the customs sector.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Borrower is the Republic of Armenia, represented by the Ministry of Finance. An overview of the Borrower's creditworthiness is presented in Section 5.1.

3.2 IMPLEMENTING AGENCY

The Implementing Agency for the Project is the SRC. The SRC is a regulatory body, established under Armenian law, to oversee tax services, customs regulations and customs services in Armenia. Its responsibilities include ensuring the collection of income controlled by the tax authority of the Government of Armenia. As part of customs services, it also maintains economic security through customs administration and control. The SRC has been the member of the Intra-European Organisation of Tax Administrations since 2010. It is a budgetary organisation and relies on the state budget financing.

4. MARKET CONTEXT

Import and export of freight cargo in Armenia is dominated by road-based transport, accounting for over 80 per cent of all trade by volume of the country. [REDACTED]

Goods that enter and exit the country by these borders are processed and warehoused almost exclusively at five regional customs centres, which serve the central, north, south, east, and west regions of the country, and loosely correspond to the border crossing point locations outlined above. At the national level the Yerevan customs centre is the largest facility, operating across multiple sites within the city.

[REDACTED] Currently, trucks undergoing customs clearance in Yerevan are directed to one of the customs warehouses, primarily located in the south of the city.[REDACTED] . Trucks travelling from Bagratashen Border Crossing Point must pass through the centre of Yerevan to reach the customs warehouses in the south of the city. This movement of freight vehicles through key corridors of the city contributes to traffic congestion and leads to negative economic and environmental impacts. Furthermore, smaller vehicles collecting imported goods need to make additional trips through the city due to inconvenient locations of the custom warehouses.

[REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 SOVEREIGN ASSESSMENT

[REDACTED]

5.2 ECONOMIC ANALYSIS

[REDACTED]

5.3 Projected Profitability for the Bank

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). The independent Environmental and Social due diligence was completed in March 2024. The Project is subject to the national EIA, which has to be commissioned upon the finalisation of the detailed design. The proposed site is located at the land previously owned by the Ministry of Defence and had a number of abandoned buildings and facilities. Signs of contamination by heavy fuel oil were observed by the consultants. It is possible that the site has other hazardous materials, and therefore, additional site investigation will need to be conducted as part of the national EIA to assess the contamination risk. The site is adjacent to the residential area; therefore, the structural integrity of the buildings will need to be surveyed and documented prior to the commencement of construction. Both the construction and operation of the CLC will trigger increased traffic and therefore detailed traffic and road safety assessment will need to be completed prior to the commencement of construction. Key social impacts associated with the Project include potential land acquisition and resettlement of the land/structures located in the close proximity of the Project site. After completing the national EIA and finalising the detailed design, including establishing and enforcing the sanitary zone around the CLC, the Client will confirm if displacement impacts take place and, if required, prepare and submit a PR5-compliant Resettlement Plan (“RP”). The Client will implement the RP and certify its compliance with PR5 via submission of RP Completion Report to the Bank. Other social risks relate to the labour practices during the construction phase that will be mitigated through integrating key PR2 requirements (e.g. worker accommodation, written contracts for workers, worker engagement, non-discrimination, anonymous grievance handling) into the tendering documentation and subsequently contractor’s/sub-contractors’ agreements. Worker grievance mechanism will be put in place by the contractor to register and respond to workers’ concerns. Stakeholder Engagement Plan includes the list of key stakeholders that will be regularly consulted as part of the stakeholder engagement programme during the implementation of the Project. The ESAP has been developed. The ESAP will need to be further strengthened to ensure that high risk actions are assessed promptly. Required mitigation measures shall be agreed with the Client and included in the Loan Agreement as Condition Precedent to disbursement and in tendering documentation for the construction contractor(s).

6.2 INTEGRITY

In conjunction with OCCO, integrity (including sanctions) due diligence was undertaken on the SRC, its senior management and key officials, in connection with Syunik CLC project. Since then, and in the course of integrity due diligence for this transaction, no adverse developments or new material sanctions risks have been identified. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

6.3 OTHER ISSUES

The Project is co-financed by a EUR 6 million investment grant from the EU NIP. The Project will be one of the first two state-owned buildings in the country constructed in accordance with the sustainable practices with public access. The Client will lead the implementation of technologies with low market penetration, resulting in both early mover advantages and environmental externalities. The use of concessional finance will enable the implementation of higher standards, which, in turn, is expected to catalyse further investments in green administrative buildings.

ANNEXES TO OPERATION REPORT

ANNEX 1	Green Assessments
ANNEX 2	Implementation Progress of Green Cities Framework
ANNEX 3	Project Implementation

ANNEX 1 - GREEN ASSESSMENTS

SUMMARY

- The Project is a sovereign loan of up to EUR 39 million (in two tranches, with Tranche 2 uncommitted) enabling the Borrower to finance the construction of a Customs and Logistics Centre on the outskirts of Yerevan city.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **94 per cent GET.**
- [REDACTED]

PARIS ALIGNMENT ASSESSMENT

Alignment with the mitigation goals of Paris Agreement - General screening

- The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.
- The Project's activity is included in the 'MDBs' aligned list' under the category Buildings (education, healthcare, housing, offices, retail, etc.)
- There are no activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the 'aligned' project/economic activity have been met: the Project will achieve green building certification of at least LEED Silver (or equivalent).

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. All material physical climate risks have been addressed through the integration of both design (structural) and operational (non-structural) physical climate risks mitigation measures; implementation of such measures is required under the ESAP.

GET ATTRIBUTION

The Project is attributed 94 per cent GET. This share has been calculated in line with the GET Handbook Annex 5.2, guidance for new buildings outside of the EU: the building will achieve green building certification of at least LEED Silver or equivalent, thus making the Project eligible for GET climate and environment. The proceeds dedicated to the purchase of equipment are not eligible for GET.

The expected impacts of the transaction are

- primary energy savings [REDACTED];
- Scope 1 + 2 emissions reduction [REDACTED] from the building's improved energy efficiency;
- Scope 3 emissions reduction [REDACTED] from reduced HGV travel (see further details below).

Whilst the detailed design of the CLC is not yet finalised, in order to achieve higher levels of LEED certification (or other equivalent), the Client may opt for the installation of on-site solar photovoltaics ("PV") panels. Potentially, based on the available area, the PV system could cover the full demand, with excess going to the grid. While the capacity has not yet been defined and thus it cannot be formally reported as a GET benefit, it is beneficial to monitor on the installed capacity to better gauge the Project's impact ex post. Nonetheless, the proposed capacity will not exceed the 5-megawatt threshold requiring additional due diligence for solar PV.

The impact of the Project goes beyond the green building's benefits. The new Yerevan CLC will centralise customs clearance operations currently happening in several locations in Yerevan, thereby reducing the distance travelled by HGVs from each border crossing point within the City and in the immediate proximity. The reduced HGV travel will decrease traffic volume, positively impacting air quality and reducing Scope 3 emissions relevant to the Project.

[REDACTED]

ANNEX 2 - IMPLEMENTATION PROGRESS OF GRCEs

[REDACTED]

ANNEX 3 - PROJECT IMPLEMENTATION

Procurement classification – *Public (sovereign)*

[REDACTED]

This will be the third project undertaken with the Client. Procurement and the management of works contracts are not part of the Client's core business activities [REDACTED]

To address these challenges and ensure compliance with the PPR and other Bank policies, the Client will be supported by experienced consultants. The Client's capacity will be enhanced further by a team of local experts (the PIU Support Team) that will be competitively hired and embedded within the PIU. The enhanced PIU will be in charge of the implementation of all current projects financed by the Bank.

Contracts risk assessment

- Moderate High

[REDACTED]

The assigned risk is based on the relative complexity of the proposed works contract [REDACTED]. The designs would need to incorporate the technology and specifications suitable for the Yerevan CLC to achieve green building certification upon completion, which adds to the complexity of the works. The prequalification for the works contract shall ensure the Client would receive good quality technical proposals from experienced contractors deemed capable of performing the contract satisfactorily, thus reasonably expected to manage contractual risks efficiently. The support of experienced consultants will ensure that designs and technical specifications are suitable for open tendering, including allowing and assessing possible alternatives, and that any issues that may arise and that any procurement and contractual issues that may arise are addressed in a professional and timely manner in accordance with contract conditions and the Bank's requirements. Finalisation of the designs by the consultant will also ensure Bank's environmental, social, health and safety requirements are incorporated [REDACTED].

Project implementation arrangements:

A PIU established within the SRC, enhanced by the PIU Support Team, will have overall responsibility for the implementation of the Project, as well as over Syunik CLC and Meghri BCP Modernisation. At all times the PIU and contract management teams will have access to in-house technical, environmental, financial etc. experts, as necessary. The PIU will be supported by the Project Implementation Support consultant financed from the TC donor and loan funds. This consultant will assist the Client to finalise technical designs for the works and specifications for the specialised weighing and scanning equipment, prepare procurement documents and carry out procurement, as well as act as a FIDIC Engineer/Project Manager. [REDACTED] it is proposed to engage an Advance Procurement Support consultant who will assist the Client in all aspects of procuring consultancy services, specifically for (i) the Project Implementation Support consultant and (ii) the Green Certification Advisory for the projects.

[REDACTED]

Procurement arrangements:

The Project is classified as public sector for procurement purposes. All contracts to be financed out of proceeds of the Bank's loan, TC grant funds and an investment grant will be procured via open tendering in accordance with the PPR [REDACTED]. The auditor shall be acceptable to the Bank and, thus, can only be selected from the shortlist of companies confirmed by the Bank. The Bank's standard procurement documents will be used, and all contracts will be subject to prior review by the Bank [REDACTED]