

# COUNTRY PROGRAM SNAPSHOT

World Bank Group – Armenia Partnership April 2015

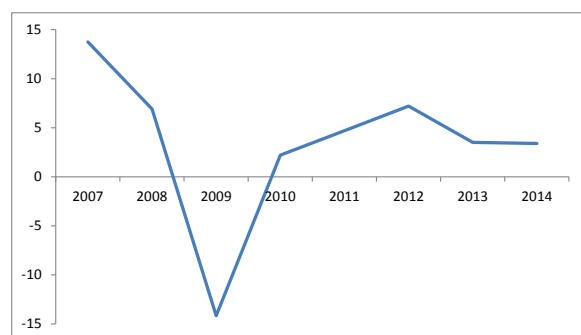


## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

### Growth Performance

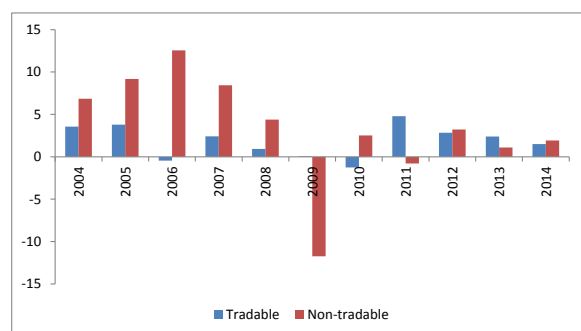
**Low growth continued during 2014.** After losing steam toward the end of 2013, the economy slowed further to around 3.4 percent in 2014 (see figure 1), as the decline in the construction and mining sectors more than offset the growth in agriculture, manufacturing, and services.

Figure 1. Real GDP Growth (percent)



Industry as a whole stagnated in the same period. The mining sector shrank by 5.8 percent, and the energy sector experienced an even larger decline (15.1 percent). Jointly, these losses offset the 7.7 percent contribution to growth from manufacturing. In 2014, growth was mostly driven by the non-tradable sectors (see figure 2).

Figure 2. Contribution of Tradable and Non-Tradable Sectors (percentage points)<sup>1</sup>



### Inflation and Monetary Policy

**Annual consumer price index (CPI) inflation was 4.6 percent in 2014, well within the 2.5–5.5 percent target band.** Food prices grew by 6.2

<sup>1</sup> For the analysis in this section, tradable branches are industry and agriculture, and non-tradable branches are construction and services.

percent and contributed 3.0 percentage points to inflation. Interventions by the Central Bank of Armenia (CBA) have limited depreciation and led to an appreciation in the real effective exchange rate that might, however, hinder export competitiveness.

### Fiscal Performance

**The fiscal deficit contracted in 2014.** Under-execution of spending led to a surplus in the state budget during the first nine months of the year. Overall tax revenues grew by 5.0 percent in 2014. Indirect taxes also grew, mainly due to higher value added tax (VAT), the excise tax on tobacco, and changes in personal income taxation and mining royalties.

**Armenia's borrowing capacity in 2015–16 might be constrained by legally defined fiscal rules on debt thresholds.** Actual indicators for 2013 and World Bank staff estimates for 2014–15 suggest that by the end of 2015, Armenia's public debt-to-GDP ratio might exceed 50 percent. This implies that the Government might be obliged to declare a moratorium on new borrowing in 2016 to comply with the Eurasian Economic Union (EEU) Membership Agreement, i.e., draft a state budget for 2016 that limits the budget deficit to well below 3 percent of the average GDP for 2012–14. Alternatively, the Government may seek Parliament's approval of legislative amendments to expand the borrowing space for providing a fiscal impulse.

### Financial Sector Performance

**Armenian banking sector assets continued to grow rapidly in 2014,** even though the sector's stability and resilience were tested in the fourth quarter by the nominal depreciation of the Armenian *dram* (AMD) and the lower inflow of remittances from Russia. According to the CBA, assets of Armenia's banking system accounted for 69 percent of GDP and loans accounted for 42.1 percent of GDP in December 2014, and the share of nonperforming loans (NPLs) increased to 7.0 percent compared to 4.5 percent in December 2013. The aggregate capital adequacy ratio (CAR) of Armenian banks declined to 14.5 percent compared to 16.7 percent at the end of 2013. However, the country's banking system thus far remains well capitalized above the minimum required 12 percent CAR, with the return on

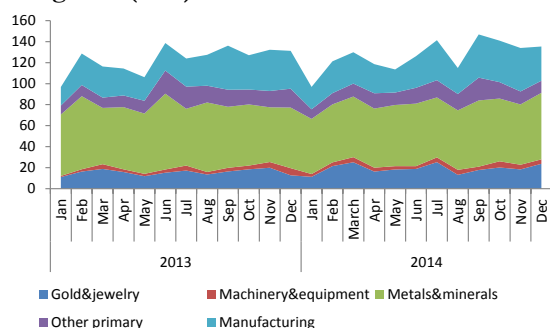
equity (RoE) at 6.4 percent. The financial performance of the sector must be carefully monitored in light of continued foreign exchange and liquidity pressures driven by lower remittances and higher NPLs.

**The CBA has undertaken a number of measures to mitigate the negative impact of exchange rate volatility, foster banks' capitalization to offset growing NPLs, and contain price inflation.** Specifically, at the end of 2014 to early 2015, the CBA: (i) increased the mandatory reserve requirements for commercial banks in foreign currency from 12 percent to 24 percent; (ii) increased the refinancing rate by 375 basis points in three stages; and (iii) increased banks' minimum capital requirement sixfold effective from January 1, 2017.

### External Sector Performance

**The trade deficit narrowed by 0.9 percent in 2014.** The largest reduction came from higher net exports of processed food, due to the unilateral waiver of export duties on natural gas and oil products by Russia (see figure 3). At the same time, low growth, remittances (which fell 10 percent over the course of 2014), and the adjustment in the exchange rate helped reduce imports.

**Figure 3. Merchandise Exports by Major Categories (US\$)**



**Inflows of foreign direct investment (FDI) did not improve in 2014.** In the first nine months, net inflows of FDI amounted to US\$359.3 million, or 4.8 percent of GDP. However, the bulk of those investments were earnings accruing to Russian investors engaged in the energy sector. The energy sector attracted almost 40 percent of FDI inflows.

**The stock of external public debt decreased by 2.7 percent from January to September 2014 and reached US\$3.3 billion.** During the first nine months of the year, the CBA repaid around US\$66 million of the Stand-by Arrangement with the International Monetary Fund (IMF), which accounted for the bulk of the decrease in the CBA's obligations to multilaterals. Those declined by 8.3 percent in the reporting period and contributed 0.9 percentage points to the overall decline of external public debt.

### Outlook and Risks

**Economic contraction in Russia represents a significant downside macroeconomic risk for Armenia in 2015.** The 2014 slowdown of economic activity in Russia—the key destination for Armenian labor migrants and the largest market for agricultural and manufacturing exports—has already led to a contraction in remittances, exports, and FDI. Armenia is also heavily dependent on copper exports and thus susceptible to base metal prices, which are likely to continue to decline over the medium term.

### Financial Sector

**Armenian banks remain severely exposed to currency-induced credit risk and AMD funding constraints.** Despite heavy dependence on foreign currency deposits and external funds from parent banks and international lenders, local currency lending grew until mid-November 2014, with a negative impact on dollarization. The AMD lost about 14 percent of its value against the U.S. dollar (December 2014 vs. 2013). As of December 2014, foreign currency-denominated deposits year-on-year grew by 11 percent and reached 72 percent of total deposits, while foreign currency-denominated loans increased by 30 percent year-on-year and reached 66 percent of total loans.

**The Armenian financial sector remains heavily dominated by the banking sector, which comprises 21 private and one development bank, accounting for 92 percent of financial sector assets.** Fifteen foreign-owned banks dominate the banking sector, with a 70 percent market share in total assets and 73 percent in statutory capital. Ameriabank is the largest bank in terms of assets, with a market share in June 2014 of 11.7 percent in assets, 13.9 percent in loans, and 13.5 percent in deposits. Market

concentration is not high, and further consolidation of the banking sector is expected during 2015–16 in response to the CBA’s capital increase requirement. Non-bank financial institutions (NBFIs) account for only 7 percent of financial sector assets.

## Private Sector Development

**The World Bank is a strong advocate of micro, small, and medium-sized enterprise (MSME) growth.** The Bank’s support is aimed at (i) establishing a clearer legal framework to strengthen government capacity to deliver services and (ii) reducing regulatory barriers to improve the business environment and investment climate, thereby encouraging new business entries and improving access to finance.

**Armenia has undergone extensive business environment reforms over the past years** and has achieved a remarkable turnaround in its investment climate. In 2014–15, Armenia improved its ranking by four to 45th position out of 189 economies in the *Doing Business* ranking, and the World Economic Forum’s Global Competitiveness ranking improved from 98th place in 2010–11 (out of 139) to 85th in 2014–15 (out of 144). However, this has not yet translated into substantial increases in FDI or business activity. Fostering entrepreneurship and stimulating the growth of MSMEs continue to be among the major development challenges.

## Mining

**Since 2007, the International Finance Corporation (IFC) has been investing equity in Lydian International to finance the Amulsar gold mine project.** Mining is Armenia’s main export-generating sector. IFC’s investment has enabled Lydian to prepare the Amulsar mining project, with a potential to attract additional mining exploration and investment to the country. The World Bank is also engaged in the mining sector through budget support operations and technical assistance, with support to the new Mining Code as well as measures to incentivize responsible mining to better align the industry with good environmental practices.

## Public Sector/Governance

**Since 2011, the state budget has been designed using a program-based budgeting format.** This informal exercise has sought to strengthen the linkages between policy objectives and budgets, although the formal budget continues to be prepared based on economic classification. Since fall 2013, based on the revised Law on the Budgetary System, the presentation of program budgets to the National Assembly has been mandatory. A Public Expenditure and Financial Accountability (PEFA) assessment in 2013 provided an overview of the post-crisis public financial management (PFM) system, observing improvements in 11 out of 31 PEFA indicators.

**E-government is an overarching direction for all public sector reforms supported by the World Bank, the European Union (EU), and other donors.** Both the executive and judicial branches of government have introduced their own e-government portals, with a growing number of services and an increasing amount of information available online.

## INFRASTRUCTURE DEVELOPMENT

### Energy

**Armenia’s energy sector has moved from severe crisis to a state of stability that is more characteristic of developed countries than emerging markets.** A combination of policy, legal, regulatory, and institutional reforms has rendered remarkable results, as improvements in operating efficiency have helped create commercially viable service providers, a decrease in technical and nontechnical line losses, and an increase of nearly 100 percent of sales in collections as of December 2013.

**However, Armenia faces three principal challenges in meeting these energy sector objectives:** (i) an emerging supply gap; (ii) the need to maintain energy supply reliability; and (iii) the need to maintain affordable tariffs. Poor households spend around 15 percent of their disposable income on energy.

## Roads

**As a landlocked country with limited transport routes, the road network is essential to Armenia's sustainable economic development.** The road transport network has a significant impact on the country's economic competitiveness and to a large degree determines the success of the export-oriented economy.

**The total length of Armenia's road network is 7,704 kilometers, excluding urban roads, less than half of which is in good or fair condition.** The Government has prioritized the rehabilitation and reconstruction of roads, as reflected in the Transport Sector Strategy and the Armenia Development Strategy.

**The improvement of the road network for rural communities has been one of the Government's key objectives.** These roads are called "lifeline" roads and they cover about 40 percent of Armenia's rural roads. As part of its anti-crisis policy aimed at creating temporary employment through investment in public works, the Government has embarked on a program to make significant investments in the improvement of the "lifeline" road network.

**Lifeline Roads reconnect isolated rural communities to their urban centers.**



## Water

**Over the past decade, the Government has strived to improve access to, and the reliability and quality of, drinking water and its infrastructure.** However, there are still several sector-related challenges that need to be addressed to further improve the water sector in the medium to long term. Nonrevenue water (NRW) remains high, but the costs entailed in reducing it are also very high—given the needed infrastructure

investments—making the returns on such an investment low.

**Water and sanitation tariff adjustment and cost recovery are an important sector reform element** that is being supported by the Development Policy Operation Series (DPO, 2013–15). The reform is expected to result in adequate tariff levels, allowing for the fulfillment of services in the long term with a robust method of dealing with future change to ensure the water sector's long-term sustainability.

## Irrigation and Drainage

**The Government is working to recover irrigated areas and consequently to increase rural incomes** by rehabilitating the country's irrigation and drainage infrastructure. More than 80 percent of agricultural GDP is generated from irrigated lands. Thus, the deterioration of the irrigation infrastructure threatens rural employment and rural incomes.

## Agriculture

**Agriculture constitutes 19.2 percent of GDP and contributes substantially to employment and rural incomes,** as 40 percent of total employment is involved in the sector.

**Large disparities remain in the rural poverty levels between Armenia's regions.** In the mountain communities, rural poverty incidence grows with altitude: 34.7 percent above 1,700 meters, as opposed to 27.1 percent below 1,300 meters or 29.5 percent in the 1,300–1,700 meter range. Access to sufficient land resources is also critical. Poverty affects 40.6 percent of landless rural residents, 32.4 percent of those with access of up to 0.2 hectares of land, and around 30 percent or less of those who own more than 0.2 hectares.

**Some 335,000 farms operate in the sector,** with an average landholding of around 1.4 hectares per household. This is rather small for efficient agriculture and a diversified production system, involving both crops and livestock. The agro-processing subsector is the main employer in rural areas.

**The economic downturn increased the vulnerability of small-scale operators,** making

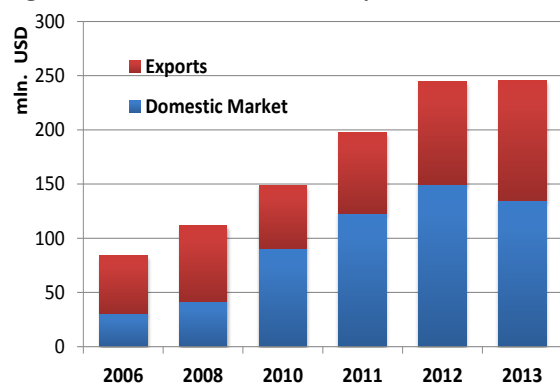
them more dependent on livestock and natural resources for their livelihoods. At the same time, the livestock sector is facing serious challenges, such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. Additionally, there are huge fluctuations in the supply of dairy products, with most milk produced in the summer months and almost no production in winter and spring.

**These challenges limit Armenia’s capacity to exploit opportunities stemming from increasing domestic demand.** Imported meat now accounts for half of national meat consumption, due to low productivity in the livestock sector and the unreliable supply of meat and milk. The dairy and meat sectors are competitive in the domestic markets, however, and there is scope for strengthening their competitive position through addressing productivity and supply constraints.

### ICT Sector and Innovation

**Information and communications technology (ICT) has become one of the important sectors of the Armenian economy,** contributing to technological innovation and productivity growth in the country. In 2013, the turnover of the Armenian software and services sector reached approximately US\$245.7 million, resulting in a 21.4 percent compound annual growth rate (CAGR) during 2008–2013. This turnover constitutes about 3.6 percent of Armenia’s nominal GDP and 9 percent of export (see figure 4), although the sector employs only 1 percent of labor of the country.

**Figure 4. Armenian ICT Industry Turnover**



## HUMAN DEVELOPMENT

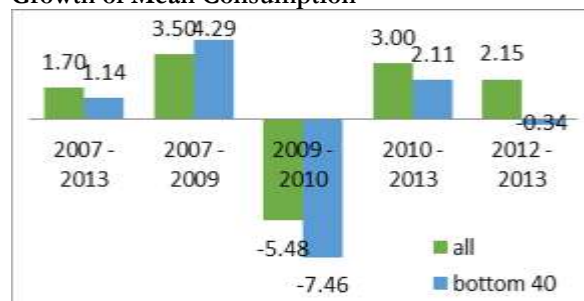
### Shared Prosperity, Poverty Reduction, and the Labor Market

**Since the 2009 global economic crisis, Armenia has made limited progress in reducing poverty.** Patterns of shared prosperity between 2010 and 2013 show that growth has benefited the top 60 percent of the income distribution more than the bottom 40 percent. Analysis of the drivers of poverty reduction and profiles of the bottom 40 percent clearly show the importance of labor markets, remittances, and public spending on social protection.

**The World Bank’s shared prosperity indicator measures growth in the mean consumption of the bottom 40 percent of the welfare distribution** (see figure 5). This indicator, reflecting the extent to which aggregate growth in the economy reaches the less well-off in society, shows that in the early 2000s, economic growth in Armenia benefited the poor and vulnerable in the country. However, the global economic crisis of 2009 and the sluggish recovery diluted those gains.

**Prior to the crisis, the bottom 40 percent enjoyed an annual growth in mean consumption of 4.29 percent,** exceeding the population average of 3.50 percent per year. In 2009, the bottom 40 percent were hit hard by the contraction of the economy, facing a reduction in consumption of 7.46 percent per year, a contraction larger than that experienced by the economy as a whole. Especially between 2012 and 2013, the annual growth rates in mean consumption suggest that the bottom 40 percent of the welfare distribution was not able to grow at a speed similar to the rest of the population.

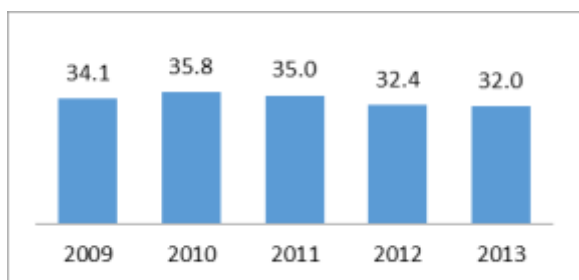
**Figure 5. Patterns of Shared Prosperity: Percentage Growth of Mean Consumption**



*Source:* World Bank Armenia Poverty Assessment 2015, based on data from the Integrated Living Conditions Survey.

In 2013, 32.0 percent of the population lived below the national poverty line of 39,193 drams, an incidence of poverty that has decreased only marginally since the 2009 economic crisis, and GDP per capita declined by 14.1 percent (see figure 6). Between 2008 and 2011, the poverty headcount increased by 7.4 points—from 27.6 percent to 35.0 percent—but growth did not translate into sustainable poverty reduction. Between 2011 and 2013, the poverty rate decreased only 3 percent.

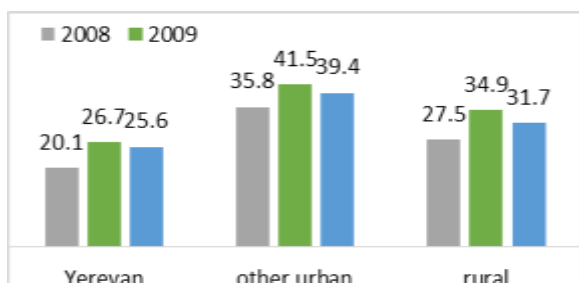
**Figure 6. Changes in Poverty in the Aftermath of the Crisis (as percentage of population)**



Source: Integrated Living Conditions Survey (ILCS) data 2009–2013.

The geography of poverty in Armenia shows substantial gaps between the capital city Yerevan (25.6 percent), rural areas (31.7 percent), and other urban areas (39.4 percent) (see figure 7). Between 2008 and 2009, poverty in Yerevan increased dramatically from 20.1 to 26.7 percent of the population and then slowly declined to 25.6 percent in 2013. Regional disparities are linked to structural differences related to employment and economic activity across regions.

**Figure 7. The Geography of Poverty in Armenia (as percentage of population)**



Source: Integrated Living Conditions Survey (ILCS) data 2009–2013.

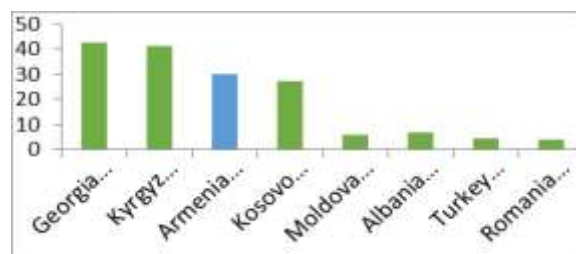
**Consumption inequality is relatively low in Armenia but shows an increasing trend.** Although inequality is a concern in itself, it can also weaken the transmission of the possible

effects of growth on poverty reduction. During the time period following the global economic crisis, Armenia witnessed a widening gap between the relatively rich and the poor in society.

**Although Armenia has had success in reducing poverty, since the 2009 crisis the country has not performed as well as other low-middle-income countries in the Europe and Central Asia (ECA) region** (see figure 8). Comparisons over time show that poverty in Armenia fell sharply between 2001 and 2008; poverty at US\$2.50 per person per day fell from 67 percent in 2001 to 26 percent in 2008. Cross-country comparisons show a high level of poverty in Armenia, although lower than in neighboring Georgia.<sup>2</sup> In 2013, 30 percent of the population lived on less than US\$2.50 per person per day, while about 80 percent lived on less than US\$5.

**The poor and those in the bottom 40 percent are more likely to:** (i) live in urban areas outside the capital; (ii) have larger households with more children; (iii) have less education; (iv) be out of the labor force or unemployed; (v) live in households headed by women; and (vi) be more dependent on income from agriculture.

**Figure 8. Relative Poverty in Armenia based on Consumption Data (as percentage of population)**



Source: World Bank Armenia Poverty Assessment 2015; calculations based on Integrated Living Conditions Survey.

**The size of the working-age (15–75 years) population was 2.3 million in 2012, or 75 percent of the population.**<sup>3</sup> Of these, 63 percent were economically active. The economically inactive population was made up of students, homemakers, and pensioners. Among the economically active, 17 percent were unemployed.

<sup>2</sup> The differences between the national and ECA-harmonized poverty rates lie in the different consumption aggregates used, as well as the application of adult equivalence in the national measure as compared to per capita in the ECA-harmonized measure.

<sup>3</sup> Republic of Armenia, “Social Snapshot and Poverty in Armenia 2013” (Yerevan: National Statistical Service, 2013).

Among the employed, nearly 60 percent were engaged in paid work, 30 percent in own-account work, and 14 percent in unpaid family work. Services followed by agriculture accounted for the largest share of employment. Only 20 percent were employed in the public sector. Nearly half of the unemployed were in Yerevan. About 50 percent of the jobs were informal, mainly in agriculture, and about 26 percent of the employed and 40 percent of the unemployed were poor.

**The share of the working-age employed is low.** Over time, employment growth has not kept pace with the increase in the working-age population or economic growth. The employment-to-population ratio is low, largely because of the low employment-to-population ratio of women. The GDP contraction in 2009 was accompanied by a fall in men's employment-to-population ratio from 60.6 percent in 2008 to 56.7 percent in 2009; women's employment share remained unchanged.

**Between 2008 and 2012, poverty rates were substantially lower than what would have occurred in the absence of certain public policy measures.** Government efforts to maintain public spending on social protection cushioned and helped alleviate poverty during this severe downturn. Poverty would have been much higher in the absence of these transfers before and during the crisis. In 2013, poverty incidence would have been 46 percent in the absence of social protection, as opposed to the actual rate of 32.0 percent. Pensions represent the largest social transfers, reaching 53 percent of households, and thus have the greatest impact on poverty alleviation among the whole population.

**The family benefits program (FBP) is Armenia's flagship noncontributory social assistance program, covering 12 percent of the population, and the most pro-poor transfer in Armenia.** The FBP is means tested and accords priority to the poor and other vulnerable social groups, such as the elderly, persons with disabilities, and orphans. Although still fairly well targeted to the bottom 40 percent, the precision has fallen over the past two years, in part because of the categorical component of the targeting formula that allows coverage to socially vulnerable but non-poor households.

**The Ministry of Labor and Social Issues (MLSI) is actively pursuing complementary**

**policies to cash transfers in order to reduce the root causes of poverty through the provision of integrated social and employment services.** To this end, the World Bank has been supporting the realization of new Integrated Social Service Centers and the modernization of employment services through Social Protection Administration Projects. These centers will allow for the administration of benefits and delivery of services in a single location, and should with time facilitate the provision of well-coordinated social policies to tackle the different challenges faced by household members, in line with international best practices.

## Education

**Considerable progress has been made to improve access to preschool, general education, and higher education.** Armenia has nearly achieved universal enrollment rates at the primary (grades 1–4) and lower secondary (grades 5–9) levels with little geographical or socioeconomic disparity. Indicators compare well with the countries at similar stages of economic development in the ECA region. In terms of financing, Armenia invests 2.6 percent of GDP in education overall, of which 0.3 percent is invested in higher education. Both of these figures are low.

**A wide range of reforms aiming at improving education quality and efficiency have taken place in the sector.** The Government developed a National Curriculum Framework with new standards and syllabi, extended general education from 10 to 12 years, and introduced a network of high schools that offer specialized streams. Furthermore, there has been a concerted effort to provide all 1,431 schools in Armenia with computers and Internet access. The Government has also introduced a teacher certification system, complemented by the implementation of comprehensive professional development policies and performance-based salary differentiations.

**Improving student performance remains a key challenge.** The results of the Trends in International Mathematics and Science Study (TIMSS) indicate that Armenian student performance at 4th and 8th grades is not improving and that the overall level of achievement is low compared to the Organisation for Economic Co-operation and Development (OECD) average. These results corroborate with



the gap between the formal qualifications of graduates and the skills employers actually require. Employers are increasingly pointing out that those graduating from post-secondary education institutions often lack the skills to meet their needs and to succeed in today's labor market.

## Health

**Since the late 1990s, Armenia has made significant achievements in redesigning its health system.** Key reforms have included: (a) strengthening primary health care (PHC) provision; (b) downsizing excess hospital capacity; (c) changing provider payment mechanisms and introducing a purchaser-provider split; and (d) targeting the poor in providing free-of-charge health care services.

**Many health indicators are improving, but challenges remain.** Since 1995, the average life expectancy in Armenia has increased. Infant, child, and neonatal mortality continue to decline, approaching targets set in the country's maternal and child health (MCH) strategy. Nevertheless, Armenia's health care system is still struggling to effectively respond to the epidemiological changes in morbidity and mortality patterns in recent years. The greatest burden of disease now comes from noncommunicable diseases (NCDs); roughly 80 percent of all deaths are due to a combination of circulatory system diseases, malignancies, respiratory system diseases, and diabetes mellitus.

**A major challenge in addressing the current NCD burden is the relatively low government health budget.** The health budget for 2014 was increased by 14 percent, and the number of poor covered by a free health benefits package went up by 46 percent. Despite this, at a level of 1.51 percent of GDP in 2013, Armenia has one of the lowest state allocations to health in the region. The share of public sector expenditures comprises only 36.8 percent of total health expenditures, and the level of out-of-pocket payments remains high.

**Utilization of health services, both PHC and hospital, has increased.** PHC per capita visits per year have doubled since 2001, increasing from 1.8 to 4.0 in 2014. A further increase is expected in the next three years following the full-scale implementation of active screening programs on NCD early detection and management. Between

2010 and 2013, hospitalization rates significantly increased in the different regions.

## THE WORLD BANK GROUP PROGRAM IN ARMENIA

### World Bank Program

**The Country Partnership Strategy (CPS) for FY14–17 supports accelerating growth, reducing poverty, and boosting shared prosperity.** This is to be accomplished by providing policy advice and investments in three strategic clusters: (i) supporting competitiveness and job creation; (ii) improving the efficiency and targeting of social services; and (iii) improving governance and anti-corruption measures.

**The World Bank's portfolio in Armenia performs satisfactorily and consists of 18 operations with a total commitment of US\$592.7 million.** It includes US\$200 million in International Development Association (IDA) credit and US\$391 million in International Bank for Reconstruction and Development (IBRD) loans, along with a Global Environment Facility (GEF) project amounting to US\$1.8 million. An active program of 42 trust fund operations totaling US\$18 million is cofinancing ongoing projects that support institutional capacity building and activities in key reform areas.

### Financial Sector

**The World Bank continues its support to financial sector development through a number of policy reforms supported by the third Development Policy Operation (DPO-3),** specifically in the area of consolidated supervision and secured transaction reform, information disclosure, insolvency, and NPL foreclosure. In addition, the Bank provides technical assistance to the Ministry of Finance to enhance its capacity in financial sector regulation, pension reform oversight, and financial sector policy formulation.

### Private Sector Development

**The World Bank is supporting the diversification of exports and tradable industries.** Specifically, the *Trade Promotion and Quality Infrastructure Project* will strengthen the Government's capacity to provide export promotion, investment attraction, and quality infrastructure services to firms. The project laid the groundwork for IFC's new *Armenia Investment*

*Climate Reform Project*. This will support the Government in designing its investment policy and improving the legal framework for FDI attraction, along with advancing business inspection reforms.

### **Energy**

**The World Bank promotes electricity supply reliability** through a US\$79 million loan to rehabilitate an important segment of the transmission network. The Bank is also supporting improvements in the energy efficiency of social and other public facilities (e.g., schools, kindergartens, hospitals) through a US\$1.82 million GEF grant. The grant, coupled with US\$8.8 million in government cofinancing, supports energy-efficiency investments in social and other public facilities.

**Under the Scaling-Up of Renewable Energy Program (SREP) and with World Bank support, the Government prepared an Investment Plan that identifies priority renewable energy technologies and projects.** Under the SREP Investment Plan, Armenia will receive US\$40 million in concessional financing. The *Geothermal Exploratory Drilling Project* at the Karkar site (a US\$8.55 million SREP grant administered by the World Bank) will help to confirm (through exploratory drilling) whether the geothermal resource at the site is suitable for power generation and, if confirmed, to involve the private sector in the development of a geothermal power plant. Implementation is expected to commence in June 2015. Preparation of the Utility-Scale Solar PV project is also under way to add around 25–30 megawatts (MW) of solar energy-based generation capacity.

### **Roads**

**The World Bank supports the Government's effort to improve the road network for rural communities through the *Lifeline Roads Improvement Project (LRIP)* and two additional investments**, as well as the newer *Lifeline Road Network Improvement Project (LRNIP)*, with total financing of US\$146.6 million. The objective of this reform program is to continue to the rehabilitation of lifeline roads and strengthen the management capacity of the lifeline network, and thereby improve the access of rural communities to markets and services.

**The Bank also provides technical assistance to strengthen the in-house technical capacity**

**of the Armenian Roads Directorate**, upgrade road construction standards, improve road safety, enhance the sustainability of road financing and management, and adopt new road design and maintenance technologies and approaches.

### **Agriculture**

The ongoing IDA-funded *Community Agriculture Resource Management and Competitiveness (CARMAC) Project* and a follow-up CARMAC-2 project are key instruments for addressing farmers' competitiveness through addressing productivity and supply constraints.

### **Water**

**The Bank has supported Armenia's efforts to provide a safe and constant water supply** and reduce environmental pollution through water management projects (US\$50 million for Yerevan and US\$58 million for the areas outside Yerevan). Over 332,000 households in Yerevan and 264,000 households in the regions have benefited from improvements in the duration of water supply and water quality.

**The Government opted to partner with the private sector to introduce significant reforms.** With the Bank's support, the Government introduced a performance-based management contract for Yerevan. Building on its success, the authorities decided on a lease contract for 10 years, supported by a second project. A public-private partnership (PPP) model was subsequently replicated for urban areas outside Yerevan, covering about 45 percent of the population.

### **Irrigation and Drainage**

**While much has been achieved, the need for irrigation rehabilitation investments in Armenia remains high.** The ongoing *Irrigation System Enhancement Project* helps improve the availability and reliability of important sector data and information for decision makers and continues the institutional reforms with a focus on water management, including the wider use of modern irrigation techniques and a more efficient use of water.

### **ICT and Innovation**

**The World Bank is supporting the development of the ICT sector under the *E-Society and Innovation for Competitiveness Project*.** The project has contributed to an increase in the share of the population with access to a computer, a share that more than tripled

between 2009 and 2013. Under the project, the first regional technology and innovation center was opened in Gyumri in September 2014.

### **Education**

**Bank support includes two investment projects.** The second *Education Quality and Relevance Project* (EQRP) (US\$25 million) aims at enhancing school learning in general education and improving the school readiness of children entering primary education. The *Education Improvement Project* (EIP) (US\$30 million) targets investments in preschool, general school, upper secondary, and higher education.

### **Health**

**The Bank has supported the health sector through two *Health System Modernization Projects*** amounting to US\$60 million, which focus on providing more accessible, high-quality, and sustainable health care services to the population. The new *Disease Prevention and Control Project* will improve MCH services and the prevention, early detection, and management of selected NCDs at the PHC level.

## **The IFC Program and Strategy**

**Armenia became an IFC member in 1995.** Since then, IFC has invested more than US\$320 million in 52 projects across a range of sectors, including financial markets, manufacturing, and mining, and mobilized nearly US\$23 million from other lenders. IFC Advisory Services provide advice through projects focusing on the financial sector, sustainable energy, regulatory simplification, and food safety.

### **Financial Sector**

**IFC's strategy in Armenia is part of the joint World Bank Group CPS.** IFC's priorities include supporting the development of MSMEs to create employment opportunities, promoting energy efficiency to increase the competitiveness of local companies and mitigate climate change, and helping banks improve risk management to reduce their vulnerability to economic downturns.

**IFC loans to financial institutions** are strengthening lending to MSMEs, including those in rural areas, and helping several banks engage in international interest rate and currency swap transactions to reduce risks. Under the *Global Trade Finance Program* (GTFP), IFC helped banks

finance the foreign trade transactions of Armenian companies, thus boosting trade. IFC has provided two loans of US\$4 million and US\$3 million in local currency, which will be lent to MSMEs and entrepreneurs nationwide.

**IFC, together with other international financial institutions,** has invested in the first professionally structured and managed private equity fund in the South Caucasus region, Small Enterprise Assistance Funds (SEAF) Caucasus, to provide debt and equity capital to MSMEs. In December 2013, IFC issued a AMD 2 billion (approximately US\$5 million) bond to strengthen Armenia's capital markets and boost lending to the private sector. The bond is IFC's first dram issuance; it is also the first placement by a nonresident issuer and the first foreign corporate bond issued in Armenia's capital markets.

### **Energy**

**IFC has provided a US\$15 million loan to Ameriabank, along with advisory support from the *Armenia Sustainable Energy Finance Project*,** for lending to small hydropower projects, supporting Armenia's renewable energy sector, and helping lower greenhouse gas (GHG) emissions. Projects supported by the loan are expected to reduce carbon dioxide emissions and help increase Armenia's domestic electricity production. As of fall 2014, the bank had financed 12 small hydropower plants (SHPPs) with installed capacity of 40.1 MW, annual generation of 124.9 gigawatt hours (GWh), and expected annual GHG emission reductions of 49,964 tons of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e).

**With the support of the Government of Canada, IFC has partnered with HSBC Bank Armenia to expand the financing of renewable energy and energy-efficiency projects,** promoting the efficient use of resources and reducing GHG emissions. It has provided HSBC Bank Armenia with a US\$30 million loan, including US\$8 million from the IFC-Canada Climate Change Program, and advisory support from the *Armenia Sustainable Energy Finance Project*. The advisory services from IFC support energy-efficient and renewable energy projects for MSMEs in Armenia. So far, the bank has financed nine projects with expected energy savings of 34,991 MWh per year (MWh/y) and an expected annual GHG emission reduction of 6,614 tCO<sub>2</sub>e.

**IFC funding, along with advisory support from the *Armenia Sustainable Energy Finance Project*, is being provided to Byblos Bank Armenia** to increase access to housing finance and support Armenia's first residential energy-efficiency lending packages offered by a local bank. So far, the bank has financed 59 projects with expected energy savings of 801 MWh/y and an expected annual GHG emission reduction of 401 tCO<sub>2</sub>e.

**Advisory support from IFC** also helps partner banks design renewable energy and energy-efficiency financing products, encouraging them to adopt international environmental and social standards and contribute to decreasing GHG emissions.

### **Agriculture**

**IFC has supported agribusiness in Armenia in a wide range of interventions.** A US\$2.5 million loan to Euroterm, a leading producer of Noyan fruit juices and preserves in Armenia, benefits the rural community by creating jobs, boosting agriculture, and increasing exports. IFC has also provided advisory services to Euroterm, helping implement a food safety management system based on international standards. The IFC *Armenia Food Safety Improvement Project* has helped increase the competitiveness of Armenian food producers and facilitated access to market for local food producers by helping them implement food safety management systems and build the capacity of local consultants. Loans to Armenia's ACBA-Credit Agricole Bank (US\$50 million in total) expand lending to local MSMEs and agribusinesses, boosting job creation and economic growth.

## ARMENIA: IRRIGATION SYSTEM ENHANCEMENT PROJECT

### **Key Dates:**

**Approved:** May 22, 2013

**Effective:** July 15, 2013

**Closing:** June 30, 2017

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD loan	30.00	10.07	19.93
Government of Armenia	7.5		
<b>Total</b>	<b>37.5</b>		

**\*World Bank disbursements as of April 2015.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### **Challenge:**

The Irrigation System Enhancement Project (ISEP) is designed to address some of the irrigation and drainage (I&D) sector challenges with the aim of contributing to the country's ultimate goal of ensuring efficient, cost-effective, and sustainable irrigation. ISEP will consolidate the results achieved to date through past operations and develop synergies with ongoing and planned outcomes.

The **Project Development Objectives** are (i) to reduce the amount of energy used and to improve irrigation conveyance efficiency in targeted irrigation schemes; and (ii) to improve the availability and reliability of important sector data and information for decision makers and other stakeholders.

### **Results achieved to date:**

- ✓ Energy savings of slightly more than 38 million kilowatt hours (kw/h), equivalent to about 30 percent of the total needs of the irrigation system in Armenia;
- ✓ Improvement in the conveyance efficiency of the outlet canals of selected schemes by reducing water losses from 1.91 liters per second per 100 meters (liters/s/100m) to 0.71 liters/s/100m;
- ✓ Crucial information for irrigation water management made available, including: (i) an updated estimate of the operations and maintenance (O&M) needs of the I&D system; (ii) an updated estimate of the extraordinary maintenance (EM) needs of the I&D system; (iii) information on the amount of water made available to the system and to its operators—water supply agencies (WSAs) and water users associations (WUAs); and (iv) an analysis of the effectiveness of irrigation institutions (WSAs and WUAs) in the performance of their duties.

**Key partners:** The Bank works closely with the Ministry of Agriculture and State Committee of Water Systems (SCWS), as well as the Ministry of Finance.

**Key development partners:** The Bank team closely cooperates with the Eurasian Development Bank (EDB), which the Bank assists in preparing a project in the sector in order to ensure that the principles underlying the project design are confirmed (cofinancing request to WUAs for tertiary rehabilitation, respect for environmental and social considerations for any pump-to-gravity interventions, etc.). Other partners involved in the sector are the German Development Bank (KfW), the French Development Agency (AFD), and the Japanese International Cooperation Agency (JICA).

## ARMENIA: LIFELINE ROAD NETWORK IMPROVEMENT PROJECT

### Key dates:

**Approved:** January 31, 2013

**Effective:** July 15, 2013

**Closing:** June 30, 2017

### Financing in million US Dollars:

Financier	Financing	Disbursed*	Undisbursed
IBRD Loan	45.00	17.8	27.2
Government of Armenia	11.25		
<b>Total</b>	<b>56.25</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Since the launch of the Lifeline Road Improvement Project (LRIP) in 2009, there have been noticeable improvements in both local employment and journey time. Despite the extensive rehabilitation and visible improvement, about 50 percent of Armenia's Lifeline Road Network (LRN) remains in poor condition, and there is still an important investment shortage. The degraded part of the LRN causes high transport costs and journey times for road users, restricting connectivity to key markets such as agriculture and to important services such as health and education, as well as negatively affecting the country's competitiveness. This has occurred due to a historic pattern of underinvestment and deferred maintenance, resulting in a considerable maintenance backlog. Deferred maintenance leads to a future burden of more expensive rehabilitation and road reconstruction, which increases overall transport costs in the long run.

The **Project Development Objective** is to improve the access of rural communities to markets and services through the upgrading of selected lifeline roads, and to strengthen the capacity of the Ministry of Transport and Communications to manage the LRN.

### Results achieved to date:

- ✓ Average speed on lifeline roads in project areas improved from 20 to 31.6 kilometers per hour (target: 40);
- ✓ Development and use of Risk Assessment and Management System (RAMS) within Ministry of Transport and Communications to support decision making on LRN is in progress;
- ✓ Number of "Safe Village" projects completed is 13 (target: 4);
- ✓ The span of rural roads rehabilitated increased from 0 to 73 kilometers (target: 170).

### IDA Core Indicators:

- ✓ The share of the rural population with access to an all-season road increased from 51 to 57.4 percent (target: 60);
- ✓ The number of rural people with access to an all-season road increased from 600,000 to 675,285 people (target: 710,000), of which 364,654 are women;
- ✓ The proportion of roads in good and fair condition as a share of total classified roads increased from 50 to 52.8 percent (target: 54.2).

**Key partners:** The Bank team works closely with the (i) Ministry of Transport and Communication (MOTC), which is responsible for the overall policy setting and for overall implementation of the project; (ii) Transport Project Implementation Unit State Institution (Transport PIU), charged with coordination and management of implementation activities on a day-to-day basis; and (iii) Armenian Roads Directorate State Non-Commercial Organization (ARD), which is responsible for the technical aspects of project implementation.

**Key development partners** include the Asian Development Bank (ADB), which is implementing a similar project and with which the Bank team coordinates closely on policy issues. The Bank also works closely with many other donors, including the European Investment Bank (EIB), EDB, and European Bank for Reconstruction and Development (EBRD), to coordinate investments in the water and wastewater sector, and these efforts bode well for future reforms in the sector.

## ARMENIA: MUNICIPAL WATER PROJECT

**Key dates:**

**Approved:** February 21, 2012

**Effective:** June 23, 2012

**Closing:** June 30, 2015

**Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	15.00	11.82	3.18
Government of Armenia	3.00		
<b>Total</b>	<b>18.00</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



**Challenge:**

For many years after the collapse of the Soviet Union, most of the water supply systems in Armenia were in a serious state of disrepair. Despite an abundance of water in the country, in most cities and villages it was available only a few hours per day and at low pressure. Over the past decade, the Government has succeeded in improving access to, and the reliability and quality of, drinking water service through the increased use of public-private partnerships (PPPs), which have brought about higher efficiency and improvements in the quality of service to customers. Considerable progress has been made in the delivery of water services in small and medium-sized towns in Armenia. Despite such improvements, however, the sector is still facing some challenges.

The **Project Development Objective** is to support improvements in the quality and availability of the water supply in selected service areas of the Armenian Water and Sewerage Company (AWSC).

**Results achieved to date:**

- ✓ The weighted average daily supply of drinking water service in selected areas increased from 12.30 to 16.60 hours daily (the end-project target is 16.60 hours daily);
- ✓ The weighted average nonrevenue water in selected areas decreased from 83.50 to 82.30 percent (the end-project target is 70 percent);
- ✓ The ratio of billing and collection increased from 93.50 to 95 percent (the end-project target is 98 percent);
- ✓ Annual electricity consumption decreased from 0.23 to 0.15 kilowatts per cubic meter;
- ✓ The amount of water production decreased from 752 to 489 liters/per capita/per day.

**IDA Core Indicators:**

- ✓ The number of piped household water connections benefiting from the rehabilitation work undertaken by the project is 33,819;
- ✓ The number of people in rural areas provided with access to improved water sources under the project is 21,400 (the end-project target is 33,328), of which 13,830 are women;
- ✓ The number of people in urban areas provided with access to improved water sources under the project is 92,530 (the end-project target is 99,263), of which 50,457 are women.

**Key partners:** The Bank team works closely with the (i) State Committee on Water Economy (SCWE) and the Ministry of Territorial Administration; SCWE reports to the ministry and is responsible for the overall policy setting in the water and irrigation sectors; and (ii) Armenia Water and Sewerage Company, a water utility outside the Yerevan service area, which covers about 45 percent of the country’s population and is the implementer of the municipal water project.

**Key development partners** include ADB, KfW, the U.S. Agency for International Development (USAID), and EBRD. The Bank coordinates with ADB on water sector reforms, particularly on the exchange of information on mutual efforts in the AWSC service area. EBRD invests in five treatment plants in the Sevan region. KfW is financing water supply investments in the cities of Armavir, Vanadzor, and Gyumri. The Bank works closely with many donors to coordinate investments in the water and wastewater sector, and these efforts bode well for the significant future improvement of the sector.

## ARMENIA: ELECTRICITY SUPPLY RELIABILITY PROJECT

### Key Dates:

**Approved:** May 26, 2011

**Effective:** November 28, 2011

**Closing:** June 30, 2016

**Additional Financing Closing:** December 31, 2018

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	39.00	13.8	25.2
IBRD Loan	40.00		40.0
Government of Armenia	23.00		
<b>Total</b>	<b>102.00</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Armenia's power transmission infrastructure is old and undermaintained. The average age of transmission assets is 45 years. Some sections of the 220-kilovolt power transmission backbone are in urgent need of rehabilitation. The Government's Energy Sector Strategy and the Sustainable Development Program recognize this challenge, and an increase in power supply reliability is among the key strategic objectives of the sector. The Government prioritizes the replacement of one section of the power transmission backbone, the transmission line connecting two key generation centers in the central part of the country (Hrazdan Thermal Power Plant) and in the South (Vorotan Cascade of hydropower plants), and service for large electricity consumers in the central-eastern part of the country. Replacement of the targeted section of the transmission line is critical, since it is in extreme disrepair and jeopardizes the reliability of the power supply and overall network stability. The line was constructed in 1956–58 and has been in service since then. Conductors, pylons, insulators, and other key pieces of infrastructure are obsolete and need replacement. There are also a number of critical substations that are essential to the reliability of the power supply in the country and require urgent rehabilitation, particularly given that some of the equipment dates back to the 1930s and has not been replaced since then. The Additional Financing will be rehabilitating three of those substations: Haghtanak, Charentsavan-3, and Vanadzor-1.

The **Project Development Objective** is to increase the reliability and capacity of the transmission network.

### Results achieved to date:

- ✓ The transmission line replacement works are in progress;
- ✓ The tender for the procurement of the contractor to rehabilitate the above three substations is expected to be announced in April 2015.

**Key partners:** The Bank team works closely with the (i) High Voltage Electric Networks of Armenia, the power transmission company responsible for the construction, operation, and maintenance of the high-voltage power transmission network of the country; and (ii) Ministry of Energy and Natural Resources, which is responsible for the overall policy setting.



## ARMENIA: GEF ENERGY EFFICIENCY PROJECT

### Key Dates:

**Approved:** March 27, 2012

**Effective:** August 10, 2012

**Closing:** June 30, 2015

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
GEF grant	1.82	1.1	0.68
Government of Armenia	8.84		
<b>Total</b>	<b>10.66</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Armenia has significant potential for energy efficiency and can recoup sizable economic benefits through the utilization of this potential. While Armenia is one of the less energy-intensive economies in the region, largely due to structural changes in the economy, large potential remains for further efficiency improvements. A 2008 World Bank study found that Armenia could save 132 billion Armenian drams (more than US\$360 million) annually, equivalent to 4 percent of its GDP, through energy-efficiency investments. The study estimated that the energy-efficiency investments in public facilities would have the highest returns, with paybacks of 2–10 years. The energy-efficiency potential has not been realized due to several informational, knowledge, financing, and legal obstacles.

Improvements in energy efficiency will contribute to addressing the energy sector challenges. Specifically, higher energy efficiency will contribute to: (a) a reduction of investment needs in new generation due to a realization of the energy-efficiency potential; (b) an improvement in the country's energy security due to a reduced demand for gas used for heating purposes and as a fuel for electricity generation; and (c) the better affordability of energy for the poor, given that improved energy efficiency will require less energy consumption to achieve the needed comfort level of heating, lighting, or other use.

The **Project Development Objective** is to reduce the energy consumption of social and other public facilities. The global environmental objective is to decrease greenhouse gas emissions through the removal of barriers to the implementation of energy-efficiency investments in the public sector.

### Results achieved to date:

- ✓ Implementation of energy-efficiency retrofits has been completed at 44 facilities, which will help reduce their energy consumption by 216 million kWh during the economic life of the investments made;
- ✓ The above facilities experienced average energy savings of 40–50 percent during winter 2013–15;
- ✓ Procurement of retrofits at an additional 25 facilities is under way.

**Key partners:** The Bank team works closely with the (i) Renewable Resources and Energy Efficiency Fund, a nonprofit organization established by the Government with a mandate to promote the development of renewable energy and energy-efficiency markets in Armenia and to facilitate investments in these sectors; and (ii) Ministry of Energy and Natural Resources, which is responsible for the overall policy setting.

## ARMENIA: COMMUNITY AGRICULTURAL RESOURCE MANAGEMENT AND COMPETITIVENESS (CARMAC) PROJECT

### Key Dates:

**Approved:** March 22, 2011

**Effective:** July 26, 2011

**Closing:** September 30, 2016

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	16.00	12.46	3.04
Government of Armenia	5.33		
<b>Total</b>	<b>21.33</b>		

\* World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### **Challenge:**

The livestock sector in Armenia faces serious challenges, such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. This project builds on World Bank experience and successes in agriculture, rural development, pasture and livestock management, and participatory community development to help Armenia address these urgent challenges and provide investment support.

The **Project Development Objective** is to improve the productivity and sustainability of the pasture/livestock livelihood systems in selected communities.

### **Results achieved to date:**

- ✓ Support for services for farmers involved in livestock production are being improved. Between 2010 and 2014, milk productivities for cattle and sheep have increased by 11 and 6 percent, respectively, from 1,428 to 1,585 kg/year for cattle and from 66 to 70 kg/year for sheep. The growth rates of animals for cattle and sheep have increased by 12 and 3 percent, respectively. The efficiency of communal pasture management as measured by increased communal budgetary revenues from the lease of pastures has increased by 55 percent, while sales from livestock have increased by 48 percent.
- ✓ Efficient and sustainable community-managed pasture/fodder-based livestock production systems have been introduced in selected mountainous communities through establishing farmers associations and leasing pastures and grasslands. In addition to the 55 originally planned pasture users associations (PUAs) under the project, 90 more have been established and registered. Preparation of 55 pasture management plans has been completed and the development of 14 others is under way. Community funds for the implementation of these plans are being established.
- ✓ Community animal health services are being improved through the mobilization of veterinarians with the provision of training. 76 veterinarians participated in the trainings, of which two were women. Disease control strategies are being implemented. Veterinary Service Centers (VSC) in the Artashavan community of the Aragatsotn marz (region) and in the Kndzoresk community of the Syunik marz have been completed, and VSCs are equipped and have started functioning, while construction works of VSCs in the Chambarak community of the Gegharkunik marz are under implementation.
- ✓ Activities for the Technology Assessment Program (TAP) are making good progress; 150 out of 262 proposals have been presented, of which 109 projects have been implemented and 40 are under implementation.
- ✓ Within the framework of Competitive Grants Program (CGP), five rounds of competition have been held and 37 grant projects were selected as winners. 18 projects out of the 53 have been completed, while 35 are at different stages of implementation. During the seventh round, 27 applications were submitted, 16 projects of which were recognized as winners.

**Key partners:** The Bank works closely with the Ministry of Agriculture and regional governors, as well as village mayors and farmer groups.

## ARMENIA: SECOND COMMUNITY AGRICULTURAL RESOURCE MANAGEMENT AND COMPETITIVENESS (CARMAC) PROJECT

### **Key Dates:**

**Approved:** June 20, 2014

**Effective:** January 23, 2015

**Closing:** May 31, 2020

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	9.67	0.00	9.67
IBRD Loan	23.00		23.00
Government of Armenia	10.00		
<b>Total</b>	<b>42.67</b>		

\* World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### **Challenge:**

The livestock sector in Armenia faces serious challenges, such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. This project builds on World Bank experience and successes in agriculture, rural development, pasture and livestock management, and participatory community development promoted under the CARMAC project to help Armenia address these urgent challenges and provide investment support.

The **Project Development Objective** is to (i) improve the productivity and sustainability of pasture and livestock systems in targeted communities and (ii) increase the marketed production from selected livestock and high-value agri-food value chains. This would be evidenced by: (i) increased livestock productivity as measured by milk productivity and an increase in daily animal weight gain; (ii) the increased efficiency of communal pasture management, as measured by increased communal budgetary revenues from the lease of pastures; (iii) increased farm sales from livestock; and (iv) increased pasture management effectiveness.

### **Key expected results:**

- ✓ Support for services for farmers involved in livestock production in another 100 communities in addition to the 89 included under CARMAC will be improved. Between 2015 and 2020, milk productivities for cattle will increase by 20 percent. The efficiency of communal pasture management as measured by increased communal budgetary revenues from the lease of pastures in targeted communities will increase by 150 percent, while the number of animals sold will increase by 2 percent for cattle and 20 percent for sheep.
- ✓ Efficient and sustainable community-managed pasture/fodder-based livestock production systems will be introduced in selected mountainous communities through establishing farmers associations and leasing pastures and grasslands. In addition to 89 pasture users associations (PUAs) under the CARMAC project, 100 more are planned under CARMAC2. Pasture management plans will be developed for all of them, and community funds for the implementation of these plans will be established.
- ✓ The ability of agricultural producers and processors to meet domestic demand and access international market opportunities in the food value chains of fodder-based milk and meat and in processed fruit and vegetables, where Armenia has a competitive advantage, will improve.
- ✓ The capacity of public sector institutions to facilitate business development and enable market access in the selected value chains supported under the project will increase.

**Key partners:** The Bank works closely with the Ministry of Agriculture and regional governors, as well as village mayors and farmer groups.

## ARMENIA: E-SOCIETY AND INNOVATION FOR COMPETITIVENESS PROJECT

### Key Dates:

**Approved:** November 30, 2010

**Effective:** May 18, 2011

**Closing:** June 30, 2016

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	24.00	11.45	12.55
Government of Armenia	6.00		
<b>Total</b>	<b>30.00</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### **Challenge:**

The main challenge in the sector remains the lack of coordination in information and communications technology (ICT) development efforts. The main constraints for ICT business development and innovation generation are still the lack of adequate infrastructure for business incubation and the low access to credit and commercial investments, particularly in the regions of Armenia.

The **Project Development Objective** is to address the constraints to a competitive e-society and enterprise innovation in Armenia by strengthening the underlying infrastructure and enabling environment.

### **Results achieved to date:**

- ✓ Citizens and businesses have been equipped with a tool for identifying and authenticating electronic transactions: number of electronic certificates (eIDs) issued reached 175,000 in 2013 from zero in baseline year (2009);
- ✓ Increased access to affordable computers: the share of population using a computer more than tripled during 2009–13, owing to investments by the private sector in the Computer for All program. More than 8,000 computers were financed under the project in all 11 regions of Armenia;
- ✓ First-ever Early Stage Venture Fund was established in 2013;
- ✓ Gyumri Technology Center (GTC) has been established and is contributing to the region's enterprise innovation: GTC opened in February 2014;
- ✓ Enhanced capacity and growth of the ICT/knowledge-intensive sector through the establishment and support of IT labs and innovations centers: three labs were established owing to project support (mLab, Armenia-India ICT center, and Center of Innovative Solutions and Technologies).

**Key partners:** The World Bank team works closely with the Ministry of Economy and the Project Implementation Units: Enterprise Incubator Foundation (EIF), E-Governance Infrastructure Project Implementation Unit (EKENG), and Foreign Financed Projects Management Center (FFPMC), which are responsible for implementation of the project.

**Key development partners** include the recently completed USAID-funded Competitive Armenian Private Sector (CAPS) project, which supported the IT industry as one of the identified competitive clusters with a series of trainings, consultancy, and other capacity-building activities. Other donors currently do not have major specific projects in these areas, but some of their projects have an indirect relation to the aforementioned area, such as cluster development, development of micro, small, and medium-sized enterprises (MSMEs), improvement of the regulatory environment, community building, etc.

## ARMENIA: SECOND PUBLIC SECTOR MODERNIZATION PROJECT

### Key Dates:

**Approved:** March 16, 2010

**Effective:** July 26, 2010

**Closing:** January 31, 2017

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	9.00	6.5	2.5
Government of Armenia	2.54		
<b>Total</b>	<b>11.54</b>		

\* World Bank disbursements as of April 2015.

*Note: Some of the amounts disbursed amounts may be on client's bank account.*



### Challenge:

The basic challenge has been change management in relation to the introduction of new systems and practices. Civil service management became possible only due to strong government ownership, and only after the introduction of work planning and performance and information management systems. Another big challenge is the management of conflicts of interest in the public sector. Even after the increase of civil servant salaries of about 70 percent, the low level of public salaries remains a challenge holding up the efficiency gains from the introduction of performance appraisal and pay systems.

The **Project Development Objective** is to enhance the performance of public sector management for better service delivery by: (i) strengthening institutional capacity in policy formulation; (ii) maximizing the efficiency of human capital; and (iii) developing information systems for internal work flow and external communication.

### Results achieved to date:

- ✓ The Commission on Ethics of High-Ranking Officials was established in January 2012 as part of a policy dialogue on conflict of interest management reform. The Commission is in charge of conflict of interest, income, and asset declarations from about 700 of the highest-level officials.
- ✓ The e-disclosures system launched in 2013 fully automated the online submission and publication of income and asset declarations. Yet the proper verification of collected information requires additional steps for ensuring interoperability with other state databases.
- ✓ An automated Information Retrieval System in the Traffic Police Service was launched in April 2012, reducing, among other indicators, the average time for registering a vehicle from one day initially to the current 30 minutes.
- ✓ An archiving system for the electronic document management system (Mulberry), operational in all ministries, all governors' offices, and other public administration bodies (totaling 50 entities), was launched in 2012.

### Toward a paperless office



**Key partners:** The Bank team is working closely with the (i) Office of the Government of Armenia, which is the main project counterpart and has been leading the policy efforts on public administration reforms; (ii) Civil Service Council (CSC) in charge of civil service reform and administration; (iii) Commission on Ethics of High-Ranking Officials; and (iv) Ministry of Territorial Administration, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Energy and Natural Resources, and selected service delivery units of the police, where the project will support functional reviews and business process reengineering.

**Key development partners** include the EU (including advisory group), United Nations Development Programme (UNDP), and USAID, which support related activities in the areas of electronic government, civil service reform, and regulatory guillotine.

## ARMENIA: TAX ADMINISTRATION MODERNIZATION PROJECT

### Key Dates:

**Approved:** July 03, 2012

**Effective:** December 28, 2012

**Closing:** April 30, 2016

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	12.00	3.8	7.4
Government	3.1		
<b>Total</b>	<b>15.10</b>		



\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*

### Challenge:

Although the Ministry of Finance (which, following mid-2014 Cabinet reorganization, is in charge of both revenue administration and public expenditure functions) has successfully maintained an adequate level of revenue collection through the economic downturn, Armenia's tax-to-GDP ratio remains low for its level of income. This is the result of narrow tax bases with numerous tax exemptions and weak capacity to detect and penalize tax frauds, both of which undermine compliance and contribute to widespread tax evasion and informal sector activities.

The **Project Development Objective** is to modernize Armenia's tax administration to (i) increase voluntary tax compliance, (ii) reduce tax evasion, (iii) reduce compliance costs, and (iv) increase administrative efficiency.

### Results achieved to date:

The achievement of the project's development objectives will be assessed through a number of quantitative outcome indicators. A few project targets are already met as of end-2014 outcomes:

- ✓ US\$12.2 million average adjustment results (as of end-2013) from audits against the project baseline of US\$10.1 million (end-of-project target of US\$12.1 million);
- ✓ 95.5 percent ratio of collected revenue to tax administration's operational cost (as of end-2013) against the project baseline of 74 percent (end-of-project target of 83 percent);
- ✓ 22 tax inspectorates against the baseline number of 39 (end-of-project target of 29);
- ✓ 321 hours to prepare and pay taxes against the baseline 500 (end-of-project target of 400 hours);
- ✓ The percentage of total tax returns filed electronically grew from a baseline of 20 percent to 69.6 percent, exceeding the end-of-project target of 60 percent.

**Key partners:** Through the project's design, the Bank team has ensured that implementation arrangements are designed to ensure cross-departmental coordination within the Ministry of Finance.

**Key development partners** include the representatives from USAID, IFC, and the International Monetary Fund (IMF). The project will work in tandem with the USAID Tax Reform project, where USAID will provide extensive complementary technical assistance.

## ARMENIA: HEALTH SYSTEM MODERNIZATION PROJECT

### Key Dates for APL2 and AF:

**Approved:** March 08, 2007

**Effective:** June 06, 2007

**Closing:** December 31, 2012

**Additional Financing Approved:** January 26, 2011

**Additional Financing Effectiveness:** June 08, 2011

**Additional Financing Closing:** February 29, 2016

### Financing in million US Dollars:

<i>Financier</i>		<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	22.00	22.9	0
IBRD Loan	19.00	15.98	3.02
Government	13.49		
Armenian communities	0.15		
Yerevan State Medical University	0.30		
<b>Total</b>	<b>54.94</b>	<b>38.88</b>	<b>3.02</b>



\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*

### Challenge:

There is a concern that people may postpone seeking medical care because of a lack of resources, high out-of-pocket payments, which constitute about 55 percent of total health spending, and the perceived low quality of care, especially in rural areas. The main challenges in the health system are to ensure better access to health services and to pursue a reallocation of the health budget toward primary health care (PHC).

The **Project Development Objective** of the APL2 and Additional Financing of HSMP is focused on (i) completing the family medicine–based PHC reform (launched in 1996) to ensure that every Armenian citizen will have access to a qualified and well-motivated family doctor and nurse of his/her choice; (ii) consolidating the hospital sector to minimize the waste of scarce resources and improve the quality of care; and (iii) strengthening the Government’s competencies for effective stewardship in policy making, regulation, oversight, and public accountability.

### Results achieved to date:

- ✓ 1,676 physicians have been retrained as family physicians and 1,804 nurses retrained as family nurses. About 90 percent of the population is covered by retrained family medicine providers.
- ✓ Infrastructure of 94 PHC facilities has been improved (45 new constructions and 49 renovations) in rural areas. Construction of one new facility is currently ongoing.
- ✓ 200 PHC facilities were provided with a standard set of medical equipment, supplies, furniture, and IT equipment.
- ✓ Space vacated as a result of the modernization of Yerevan hospitals was 15,577 square meters, and in the regions, 74,888 square meters.
- ✓ 726 managers of hospital facilities participated in management training courses; as a result, 48 regional hospitals have trained key management personnel.
- ✓ Ten regional medical centers (MCs)—in the regions of Kotayk (population of 105,300), Tavush (49,200), Armavir (121,500), Ararat (95,300), Syunik (44,700), Aragatsotn (22,300), Gegharkunik (57,800), Alaverdi (14,000), and Abovyan MC (111,5) as well as the new Gyumri Medical Center of the Shirak region (146,000)—were renovated and/or constructed and provided with modern medical equipment and furniture. Four regional medical centers are currently being renovated/constructed.

**Key partners:** The Bank team works closely with the (i) Ministry of Health, responsible for the overall policy setting and implementation of Bank-financed projects; (ii) Ministry of Territorial Administration, responsible for the programs on regional developments; (iii) local authorities; and (iv) Ministry of Finance, responsible for the Sustainable Development Program as well as for mid-term expenditures, projections, and programmatic budgeting.

**Key development partners** include a USAID-funded project in the area of performance-based contracting. With the World Health Organization (WHO), the team collaborates in the development of Health Care Performance Assessment reports and a copayment strategy. The United Nations Children’s Fund (UNICEF) is a traditional partner in supporting the mother and child health (MCH) programs.

## ARMENIA: DISEASE PREVENTION AND CONTROL PROJECT

### **Key Dates:**

**Approved:** March 27, 2013

**Effective:** July 22, 2013

**Closing:** December 15, 2019

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	35.00	5.57	27.06
Government	8.20		
Health Results-based Financing Trust Fund	1.80	0.18	1.62
<b>Total</b>	<b>45.00</b>	<b>5.75</b>	<b>28.68</b>



**\*World Bank disbursements as of April 2015.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*

### **Challenge:**

Armenia today faces the dual challenge of the unfinished Millennium Development Goals (MDG) agenda and a record increase in noncommunicable diseases (NCDs). The greatest burden of disease in Armenia, as in most European countries, comes from NCDs, a group of conditions that includes cardiovascular disease, cancer, mental health problems, diabetes mellitus, chronic respiratory disease, and musculoskeletal conditions.

The **Project Development Objective** is to improve (i) maternal and child health (MCH) services and the prevention, early detection, and management of selected NCDs at the primary health care (PHC) level; and (ii) the efficiency and quality of selected hospitals in Armenia.

### **Results achieved to date:**

- ✓ Training of about 2,700 PHC providers was completed in 2014 during the preparation stage of population screening programs for cardiovascular disease, diabetes, and cervical cancer;
- ✓ 85 percent of antenatal care (ANC) attendees screened for glycosuria, hypertension, and proteinuria in at least three antenatal visits;
- ✓ 60 percent of population aged 40–74 screened for hypertension at least once in the past year (by gender);
- ✓ From 57 to 60 percent of population aged 40–74 screened for diabetes mellitus at the PHC level at least once during the past three years (by gender);
- ✓ 50 percent of women aged 30–60 screened for cervical cancer at least once during the past three years and received the results;
- ✓ 80 percent bed occupancy rate at the new Medical Center in Vanadzor;
- ✓ For 63 percent of MCH services and 66 percent of NCDs, the quality of care was provided by doctors measured by clinical vignettes.

**Key partners:** The Bank team works closely with the (i) Ministry of Health, responsible for the overall policy setting and implementation of Bank-financed projects; (ii) Ministry of Territorial Administration, responsible for the programs on regional developments; (iii) Armenian Medical Association; and (iv) Ministry of Finance, responsible for the Sustainable Development Program, as well as for mid-term expenditures, projections, and programmatic budgeting.

**Key development partners** include several international organizations, in particular, WHO, UNICEF, World Vision, and Save the Children, which are involved in different components of health care reform undertaken by the Government of Armenia.



## ARMENIA: SECOND EDUCATION QUALITY AND RELEVANCE PROJECT

### Key Dates:

**Approved:** May 12, 2009

**Effective:** October 2, 2009

**Closing:** November 30, 2015

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed*</i>
IDA Credit	25.00	21.1	4.6
Government of Armenia	6.26		
<b>Total</b>	<b>31.26</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Since 1990, the continued investment in education has been aimed at the reduction of poverty by increasing access to, and improving the quality of, general secondary education. The current project addresses the challenge of sustaining and extending the accomplishments in general secondary education and at the same time, addressing equity and quality concerns in both preschool and tertiary education.

The **Project Development Objective** of the second phase of the Education Quality and Relevance Project (EQRP) continues to focus on reform of the general secondary education system and addresses key policy issues in preschool and secondary and higher education through: (i) enhancing school learning in general education and improving the school readiness of children entering primary education; and (ii) supporting the integration of the Armenian tertiary education system into the European Higher Education Area.

### Results achieved to date:

- ✓ 337 preschool education microprojects benefiting over 8,000 students have been implemented since the beginning of the project (13,500 students since June 2008).
- ✓ The project has supported the training of over 12,500 teachers.
- ✓ Since January 2013, all public schools in Armenia are connected to the Internet with support from the project.
- ✓ Internet speed for the network has been increased from 256 kilobytes to at least 3 megabytes.
- ✓ 1,360 schools have received hardware to support their administrative activities.
- ✓ Resource centers combining library and computer labs have been established in 108 high schools. Training has been provided to 105 librarians, and 2,300 high school teachers have received subject-based training.
- ✓ The National Center for Professional Education Quality Assurance completed pilot institutional accreditation of 10 public and five private universities. From this, two public universities received pilot institutional and pilot program accreditation by an international accreditation agency (NVAO). 21 public and five private universities received grants to implement Internal Quality Assurance units.
- ✓ A tertiary education management information system (MIS) is in operation covering all vocational and higher educational institutions.
- ✓ Implementation of 10 subprojects under the pilot Competitive Innovation Fund (CIF) is ongoing.
- ✓ A long-term twinning arrangement took place between Armenia State Pedagogical University and Oulu University in Finland for technical assistance on reforming preservice teacher education.

**Key partners:** The Bank team works closely with the Ministry of Education and Science, responsible for the overall policy setting as well as for the implementation of Bank-financed projects; and with the Ministry of Finance, responsible for deepening policy dialogue on the financial implications of the proposed project as well as for ensuring the proper flow of funds and financial monitoring of project activities.

**Key development partners** include UNICEF, which financially contributed to the project through preschool teacher training.

## ARMENIA: EDUCATION IMPROVEMENT PROJECT

### Key Dates:

**Approved:** March 13, 2014

**Effective:** November 20, 2014

**Closing:** September 30, 2019

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed*</i>
IDA Credit	15.00	0.5	13.33
IBRD	15.00	0.5	14.5
Government of Armenia	7.50		
<b>Total</b>	<b>37.50</b>		<b>27.83</b>

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Since 1990, continued investment in education has been aimed at the reduction of poverty by increasing access to, and improving the quality of, general secondary education. The current project addresses the challenge of sustaining and extending the accomplishments in general secondary education and at the same time, addressing equity and quality concerns in both preschool and tertiary education.

The **Project Development Objectives** of the Education Improvement Project focus on: (i) improving the school readiness of children entering primary education; (ii) improving physical conditions and the availability of educational resources in upper-secondary schools; and (iii) supporting improved quality and relevance in higher education institutions in Armenia.

### Expected key results:

- ✓ About 120 new grant microprojects will be awarded to poor communities in Armenia to support preschool expansion benefiting about 2,500 children. Children who benefit from preschool are projected to score 9–13 percent higher in the early development indicator.
- ✓ 17 (out of 107) high schools in Armenia will be fully renovated and retrofitted with seismic stability to meet current construction and safety standards. This means about 225 classrooms will be renovated in these 17 high schools.
- ✓ All 107 high schools in Armenia will be equipped with up-to-date education resources provided by the project.
- ✓ An integrated education management information system for general and higher education will be fully operational and expanded nationwide. About 4,000 staff will be trained to use the newly integrated system.
- ✓ At least 10 higher education institutions or consortium of universities will receive grants under the Competitive Innovation Fund to strengthen the relevance, quality, and efficiency of their academic programs.

**Key partners:** The Bank team works closely with the Ministry of Education and Science, responsible for the overall policy setting as well as for the implementation of Bank-financed projects; and with the Ministry of Finance, responsible for deepening policy dialogue on the financial implications of the proposed project as well as for ensuring the proper flow of funds and financial monitoring of project activities.

**Key development partners** include UNICEF and the Step-by-Step Foundation for the provision of preschool teacher training.

## ARMENIA: SOCIAL PROTECTION ADMINISTRATION PROJECT II

### Key Dates:

**Approved:** March 24, 2014

**Effective:** October 29, 2014

**Closing:** December 31, 2018

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	21.20	0.00	21.20
Government of Armenia	4.30	0.00	4.30
<b>Total</b>	<b>25.50</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



**Challenge:** The improvements in living conditions witnessed in the country before the 2009 global financial crisis have since reversed, with increased inequality and more instances of people falling below the poverty line. In post-crisis Armenia, improvements in living conditions have remained slow, renewing the Government's focus on the efficiency of the social service delivery system and effectiveness of the Family Benefit Program. These efforts need further enhancement to cope with protracted and high unemployment, poverty, and vulnerability, which disproportionately affect women.

The **Project Development Objectives** are to (i) improve social protection service delivery and (ii) strengthen the analytical and monitoring and evaluation functions of the agencies delivering social protection benefits and services.

### **Key expected results:**

- ✓ The project will support the model of the functional integration of four existing agencies responsible for pensions, social assistance, employment, and disability certification.
- ✓ This model will be rolled out to another 37 Integrated Social Protection Centers. The activities, from civil works to furniture and IT equipment with software provision, as well as trainings and on-the-job mentoring along with a proactive communication with the public, will ensure the fully operational nature of the centers, delivering high-quality services tailored to the needs of the beneficiaries.
- ✓ Among the beneficiaries, this project will also target the registered unemployed and employers by promoting employment intermediation and employer-employee matching, thereby increasing labor market efficiency and job opportunities.
- ✓ Implementation of the Government's New Employment Strategy will come in a number of ways, such as by providing capacity building of the state employment agency via trainings and modernized IT infrastructure and expanding career orientation through skills-tailored distance learning programs. It is expected that about 1,400 men and women will benefit equally from this orientation program, along with 700 who are enrolled in the Youth without Education and Skills Program.
- ✓ The project will finance an integrated system of monitoring and evaluation of social protection benefits and services, targeting over 70 different programs. This would enable the Ministry of Labor and Social Issues to directly manage the beneficiary feedback, specifically collecting information on the quality of delivered services.
- ✓ The project will support the State Social Security Service in improving and upgrading its core business processes. A risk-based fraud-and-error supervision software and system, along with improved human resource management capacity, such as central payment services for the integrated social delivery system, will be developed and made fully operational. In addition, it is expected that by the end of the project, the average time required for processing a pension case would decrease by three times.

**Key partners:** The Bank works closely with the Ministry of Labor and Social Issues, as well as with its detached unit, the State Employment Service Agency.

**Key development partners** involved in different components of the social protection reform are UNICEF and USAID.

## ARMENIA: SOCIAL INVESTMENT FUND III

### Key Dates:

**Approved:** October 26, 2006

**Closed:** March 31, 2012

**First Additional Financing Closed:** June 30, 2011

**Second Additional Financing Closed:** October 31, 2012

**Third Additional Financing Closing:** March 31, 2015

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	25.00	26.10	0.00
IDA Credit	8.00	8.00	0.00
IBRD Loan	7.00	7.00	0.00
IDA Credit	11.00	10.82	0.00
Government of Armenia	12.4		
Communities	3.8		
Sponsors	0.4		
<b>Total</b>	<b>67.6</b>	<b>51.92</b>	

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Notwithstanding infrastructure investments in recent years, major local social infrastructure gaps have remained, largely reflecting years of neglect in maintenance. Social infrastructure gaps have been most acute in the rural areas. Another main challenge was improving the living standards of the poor as, despite the strong economic growth before the crisis, Armenia was facing critical vulnerabilities, stemming from the global economic and financial crisis. Three Additional Financings were provided to support small-scale infrastructure investments that also helped generate employment and mitigate the impact of the crisis by supporting activities that can be quickly and effectively scaled up and implemented under the existing project.

The **Project Development Objective** is to support the Government's policy to raise the living standards of poor and vulnerable groups through: (i) improving the quality, access, and coverage of community services and infrastructure in poor communities; (ii) promoting complementary institutional capacity building at the community and municipal level so as to improve the quality and sustainability of community investments and service delivery, increase accountability, and enhance greater stakeholder empowerment at the local level; and (iii) creating employment associated with the provision of community infrastructure and services.

### Key results achieved:

- ✓ 320 community infrastructure microprojects were completed with 637,098 job-days of employment created and US\$10.7 million in wage income. The total number of beneficiaries of completed microprojects is estimated at about 1.7 million, almost half of Armenia's population.
- ✓ The largest share of the completed microprojects belongs to schools (41 percent), followed by community and cultural centers (28 percent), kindergartens (14 percent), health care facilities (7 percent), and potable water supply systems (5 percent).
- ✓ The beneficiary communities were selected based on their poverty ranking. The poverty mapping and ranking methodology was developed under the project for 915 communities (866 rural and 49 urban) and was last updated in December 2011.
- ✓ Over 5,200 local community members (355 communities) received training on investment planning and management, and 716 municipal officials from 145 communities received training on financial management.
- ✓ The Government, with World Bank support, developed an Armenian Social Investment Fund (ASIF) evolution strategy and approved it in March 2014. As of April 1, 2015, ASIF was transformed into the Armenian Territorial Development Fund.

**Key partners:** The Bank team worked closely with the (i) Ministry of Territorial Administration and Emergency Situations responsible for the overall policy setting and implementation support; (ii) Ministry of Finance; and (iii) Ministry of Labor and Social Affairs, involved in policy dialogue and providing implementation support.

**Key development partners** included the United Nations High Commissioner for Refugees (UNHCR), Swiss Agency for Development and Cooperation (SDC), All Armenia Fund, Armenian General Benevolent Union (AGBU), Aznavour pour l'Armenie (APA), IFAD, and Knights of Vartan (KoF).

## ARMENIA: TRADE PROMOTION AND QUALITY INFRASTRUCTURE PROJECT

### Key Dates:

**Approved:** July 2, 2014

**Effective:** January 14, 2015

**Expected Closing:** June 30, 2020

### Financing in million US Dollars:

Financier	Financing	Disbursed*	Undisbursed*
IBRD	50.0	0.12	49.88
Government of Armenia	9.5		
<b>Total</b>	<b>59.5</b>		

\*World Bank disbursements as of April 2015.

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



### Challenge:

Armenia has had a relatively low export base and seen a declining sophistication in export products over the years, while its export basket is primarily concentrated in commodities that have low value added and are vulnerable to volatility in global markets. Another challenge is to attract efficiency-seeking foreign direct investment (FDI) to maximize benefits to the local economy. Furthermore, while the requirements to meet global quality standards are more crucial to promote products and services, Armenia's national quality infrastructure suffers from weaknesses that hinder technology upgrading and undermine the competitiveness of its exports.

The **Project Development Objective** is to strengthen the Government's capacity to provide export promotion, investment attraction, and quality management services to firms.

### Key expected results:

- ✓ At least 40 contracts with new customers for exporters will be generated through newly established foreign representatives of the Armenian Development Foundation (ADF);
- ✓ Seven facilities in the form of public private partnerships (PPPs) will be created to strengthen industry clusters (cluster development PPPs) and to facilitate efficiency-seeking FDI to strengthen their level of engagement in Armenia and facilitate skills development by funding joint projects between multinationals and academia (research and skills development PPPs);
- ✓ Four new FDIs will be generated through the services provided by ADF;
- ✓ Two Industrial Laboratories of the National Institute of Metrology will be internationally recognized;
- ✓ A National Accreditation Body will obtain international recognition;
- ✓ The project will support the training of technical staff of the national quality infrastructure.

**Key partners:** The Bank works closely with the Ministry of Economy (MoE), which is responsible for the overall implementation of the project, the Project Management Unit (PMU) within the MoE, which is charged with coordination and management of implementation activities on a day-to-day basis, and the Foreign Financed Projects Management Center (FFPMC), which is responsible for the fiduciary aspects of project activities.

## ARMENIA: HELPING AMERIABANK FINANCE RENEWABLE ENERGY PROJECTS

### Key Dates:

**Approved:** December 18, 2009

**Signed:** December 22, 2009

### IFC financing (in US dollars):

<i>Financing Type</i>	<i>Amount</i>	<i>Fiscal Year (starts in July)</i>
Loan	15 million	2010



### Challenge:

Armenia has no fossil fuel resources and relies heavily on energy imports. Underinvestment in renewable energy projects, particularly in small hydropower plants, is one of the major barriers to greater energy self-sufficiency. At the same time, long-term funding is scarce in Armenia.

### Project Objective:

Ameriabank, one of Armenia's strongest and most innovative banks, is seeking to pioneer local renewable energy financing. IFC has lent the bank US\$15 million for a series of smaller, green subloans. Related advisory services from the IFC Armenia Sustainable Energy Finance Project helped the bank's staff learn to develop sound sustainable energy finance products.

The project has enabled the bank to provide long-term financing for small hydropower plants, which has helped increase Armenia's domestic electricity production, diversify its electricity supply, and decrease its reliance on fuel imports. This has boosted the supply of renewable energy and cut greenhouse gas emissions.

### Key results:

IFC's US\$15 million loan, together with advisory support from the IFC Armenia Sustainable Energy Finance Project, has helped Ameriabank finance the construction of 12 small hydropower plants. They have a total installed capacity of 40.1 megawatts and generate 124.91 gigawatt hours per year. They prevent the release of nearly 50,000 tons of carbon dioxide, or its equivalent, per year.

## IFC ADVISORY SERVICES PROJECTS

### WORLD BANK GROUP TRADE AND COMPETITIVENESS

#### ARMENIA: INVESTMENT CLIMATE REFORM PROJECT II (2014–17)

**Donor Partners:** Hungarian Partnership Funding/Hungary EXIM Bank and the Ministry of Finance of Austria

**Challenge:**

The World Bank Group has identified the promotion of sustainable growth and productivity as a pillar for economic and social development in Armenia and outlined the steps necessary to create a more competitive investment climate. The Armenia Investment Climate Reform Project is part of this effort. A previous Investment Climate Reform Project implemented in 2011–14 helped the Government of Armenia design and adopt framework reforms in inspections, trade logistics, food safety, and tax. However, some areas need further improvements. Enhanced transparency, a stronger investment policy, and a reformed inspection process will boost private sector growth and job creation by increasing investment and decreasing the costs for doing business, particularly in the agribusiness sector.

**The Project Approach:**

The Armenia Investment Climate Reform Project II will provide specialized advisory services to the Government in the areas of investment policy and inspections reform. The aim is to promote confidence and transparency, strengthen effectiveness and compliance, and accelerate private sector growth by creating simple, efficient, and business-friendly regulations while ensuring that public interests are protected.

**Project Objective:**

The Armenia Investment Climate Reform Project II has two main objectives: (a) improve investment policy by enhancing the current framework in terms of investment entry, protection, and the transparency and governance of investment incentives; and (b) reform business inspections by improving the system and enhancing regulatory certainty and efficiency.

**Expected Results:**

- ✓ Generate new investment, especially in the agricultural sector;
- ✓ Increase the accessibility and quality of the implementation of investment policy;
- ✓ Improve the inspections system with a focus on regulatory certainty and optimization;
- ✓ Achieve compliance cost savings for the private sector through an improved inspections system;
- ✓ Increase the confidence and trust of businesses in the inspections system.

#### CORPORATE GOVERNANCE PROGRAM IN EUROPE AND CENTRAL ASIA (2012–15)

**Donor partners:** the Swiss State Secretariat for Economic Affairs (SECO) and the Development Bank of Austria (OeEB).

**Challenge:**

Good corporate governance assists companies and financial institutions in enhancing their sustainability, access to capital, and performance. Yet many companies and financial institutions in Europe and Central Asia lack the knowledge and experience necessary to strengthen their governance practices so as to realize the real benefits such practices can bring. Local consultants and institutions also lack the skills needed to help businesses improve their corporate governance. In addition, the corporate governance framework in many countries is in need of further enhancement.

**The IFC Approach:**

The program provides in-depth advice to companies and financial institutions on implementing good corporate governance practices, strengthens the capacity of local partner institutions to deliver director-focused training and corporate governance services, and contributes advice on the corporate governance aspects of laws, codes,

regulations, and other tools.

**Expected Results:**

- ✓ The program aims to support its partners in Europe and Central Asia to raise US\$180,000 in sales revenue through corporate governance work, to improve the performance of 32 companies through corporate governance improvements, and to help 24 companies access financing totaling US\$100 million.

**RESOURCE EFFICIENCY PROGRAM IN EUROPE AND CENTRAL ASIA (2010–15)**

**Donor partner:** the Ministry of Finance of Austria

**Challenge:**

The efficient use of energy, raw materials, and water along a company's value chain not only helps conserve resources and reduce waste, pollution, and greenhouse gas emissions, but also reduces operating costs. Yet many firms in Europe and Central Asia remain unaware of the potential cost savings and environmental benefits. As a result, firms are reluctant to invest the upfront costs needed to identify and take advantage of resource-efficiency opportunities.

**The IFC Approach:**

The program works at the firm and sector levels to stimulate investment in resource-efficient technologies and best practices, improve management and operational practices across industries, raise awareness among policy makers and financial institutions, and drive market transformation through sector studies, such as benchmarking and assessment tools.

**Expected Results:**

- ✓ The program aims to facilitate the investment of US\$90 million and reduce carbon dioxide emissions by 120,000 tons of CO<sub>2</sub> equivalent annually in Europe and Central Asia.

**AGRIBUSINESS STANDARDS ADVISORY PROGRAM IN EASTERN EUROPE AND CENTRAL ASIA (2013–16)**

**Donor partner:** The Ministry of Finance of Austria

**The Challenge:**

The agribusiness industry is a vital contributor to the economies of Europe and Central Asia. However, inadequate food safety standards keep the region's agribusiness industry from advancing, while food companies are shut out of the modern food value chains, potentially aggravating global food security.

**The IFC Approach:**

The IFC program assists local companies in applying food safety standards throughout the agribusiness value chain while also strengthening the capacity of local consultants. Improved standards will help agribusiness firms meet regional and export market requirements while building a foundation to mobilize investments and help the agribusiness industry realize its full potential.

**Expected Results:**

The IFC Program is expected to:

- ✓ increase the number of companies with food safety management systems in place, boosting their competitiveness, investment attractiveness, and export opportunities;
- ✓ facilitate an increase in domestic and export sales by client companies;
- ✓ facilitate investments as a result of improved food safety management;
- ✓ build capacity among local consultants and firms;
- ✓ create a demonstration effect for how to do business more sustainably, across the region and globally.



## ARMENIA: BANK ADVISORY PROGRAM IN EUROPE AND CENTRAL ASIA (2009–15)

**Donor partners:** the Development Bank of Austria and the Swiss State Secretariat for Economic Affairs

### **The Challenge:**

The Europe and Central Asia region was among the hardest hit by the global financial crisis, and many financial institutions remain vulnerable to further instability and lack the confidence to restart lending to the micro, small, and medium-sized enterprise (MSME) sector in particular. This is a byproduct of insufficient knowledge of best practice MSME lending skills and a limited understanding of how to manage risk and high rates of nonperforming loans (NPLs).

### **The IFC Approach:**

The program provides in-depth advice to help financial institutions reduce NPLs, improve risk management, and increase lending to MSMEs. It also supports the development of a market for distressed assets, increases awareness of best international practices in risk and NPL management, and supports the development of MSME banking with a focus on gender finance.

### **Results achieved to date:**

- ✓ The project has helped clients in Europe and Central Asia release more than US\$51 million for new lending and facilitated a further US\$17 million in new financing to clients.

## ARMENIA: SUSTAINABLE ENERGY FINANCE PROJECT (2009–15)

**Donor partner:** the Ministry of Finance of Austria

### **The Challenge:**

Despite good land and water resources, Armenia imports around two-thirds of its energy. Obsolete power generation equipment and minimal investment in renewable energy, particularly in small hydropower plants, are the major barriers to greater energy efficiency. The Armenian industrial sector could save up to 14.5 percent of its energy costs by improving energy efficiency. Several international financial institutions are providing energy-efficiency financing opportunities directly and through local financing institutions, yet significant potential remains untapped. This is mainly due to the affordability of existing financing and low awareness among Armenian companies of the potential for operational cost savings through energy-efficiency investments.

### **The IFC Approach:**

The IFC Armenia Sustainable Energy Finance Project aims to establish a sustainable market for investments in energy efficiency and renewable energy. The project works with local and international financial institutions to develop Armenia's energy self-sufficiency.

### **Results achieved to date:**

- ✓ IFC invested US\$55 million in energy efficiency and renewable energy financing through local banks;
- ✓ Over 40 megawatts of new renewable power generation capacity installed through client investments;
- ✓ Over 125 gigawatt hours-per-year increase in renewable energy generation through client investments;
- ✓ More than 35 gigawatt hours of energy saved each year.



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