



1. Project Data

Project ID
P148836

Project Name
Social Investment and Local Development

Country
Armenia

Practice Area(Lead)
Social Protection & Jobs

L/C/TF Number(s)
IBRD-84830,IBRD-90600

Closing Date (Original)
30-Jun-2020

Total Project Cost (USD)
48,316,178.84

Bank Approval Date
13-Mar-2015

Closing Date (Actual)
31-May-2025

| | IBRD/IDA (USD) | Grants (USD) |
|---------------------|-----------------------|---------------------|
| Original Commitment | 50,000,000.00 | 0.00 |
| Revised Commitment | 49,802,759.87 | 0.00 |
| Actual | 48,316,221.27 | 0.00 |

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2. Project Objectives and Components

a. Objectives

The project development objective (PDO), as stated in the Loan Agreement (p. 5), was to “improve quality and use of, and access to, community and inter-community infrastructure.” This statement was substantively identical to that in the Project Appraisal Document (PAD, p. 15).

b. Were the project objectives/key associated outcome targets revised during implementation?



No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1. Support to Socioeconomic Development and Capacity Building at the Local Level (total appraisal cost: US\$24.3 million, of which US\$17.6 million International Bank for Reconstruction and Development [IBRD] and the remainder co-financing from the state budget and local communities; total Additional Financing [AF] US\$4.13 million; actual total cost: US\$30.78 million).

This component was to finance approximately 120 community microprojects targeting vulnerable communities, following the model of prior Armenian Social Investment Fund (ASIF) projects. Microprojects were to cover renovation and rehabilitation of publicly owned social infrastructure (kindergartens, primary and secondary schools, primary health care clinics, multipurpose community centers, water supply systems, sanitation, minor irrigation, rural electrification), plus associated goods (furniture, equipment) and technical assistance for design and supervision. A two-stage poverty targeting methodology was to direct at least 40 percent of loan funds to the most vulnerable communities. Capacity building for community councils, school boards, and project implementation committees (PICs) in financial management and asset management was also included. At the 2020 AF, financing was provided for 20 additional microprojects, and the maximum share of loan funds available to each microproject was increased, allowing for larger microprojects with stronger impact. End targets were scaled up accordingly.

Component 2. Support to Intercommunity Social and Economic Development Initiatives (total appraisal cost: US\$13.5 million, of which US\$10.1 million IBRD; total AF US\$11.48 million; actual total cost: US\$29.5 million). This component aimed to finance approximately 25-30 intercommunity subprojects—larger-scale, publicly owned infrastructure and services benefiting multiple or consolidated communities—with both social and economic impact. Eligible subprojects included irrigation systems, waste management, communal and agricultural machinery, solar energy installations, and transport infrastructure. Implementation was to follow a phased approach: year 1 for finalizing design; year 2 for piloting; year 3 onward for scale-up. Yerevan was geographically excluded. The component prioritized lagging and vulnerable regions. At the AF, financing was provided for 35 additional subprojects. End targets were scaled up accordingly.

Component 3. ASIF Institutional Strengthening and Project Management (total appraisal cost: US\$5.0 million, of which US\$2.2 million IBRD; total AF US\$0.8 million; actual total cost: US\$7.4 million). This component was to finance project management and operating costs and support the institutional transition of the ASIF into the Armenian Territorial Development Fund (ATDF), including staff capacity building, new operational tools and methodologies, and outreach for funding diversification. (In 2014, Armenia restructured the ASIF, originally established in 1996 to fund small social infrastructure microprojects in poor communities, into the ATDF, in line with the Armenia Development Strategy 2014-2025, to broaden its mandate from discrete community microprojects to larger inter-community territorial development projects.) At the AF, financing was provided to sustain management and operating costs.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates
Project cost and financing



At appraisal, total project costs were US\$42.85 million, of which an IBRD loan accounted for US\$30 million. The balance of US\$12.85 million was to be financed through the state budget and local communities. An Additional Financing (AF) in 2020 added US\$20 million equivalent in Bank financing and US\$8.4 million in counterpart contributions to scale up all three components, with most of the funds allocated to the second component. The AF brought total planned project costs to US\$71.25 million (US\$50 million IBRD, US\$21.25 million counterpart funds). Actual total costs were US\$70.45 million equivalent, with US\$48.32 million from IBRD and US\$22.13 million in counterpart funds. US\$0.2 million in IBRD financing was cancelled. Discrepancies are due to exchange rate fluctuations.

Borrower contribution

The borrower made the fully planned US\$21.3 million equivalent total contribution, comprised of US\$18.6 million from the state budget and US\$3.5 million from local communities (with the slight discrepancy due to exchange rate fluctuations).

Key Dates

The project was approved on March 13, 2015, became effective on September 22, 2015, and closed on May 31, 2025. A mid-term review was completed on November 20, 2017. The original loan carried a closing date of June 30, 2020, which was extended twice over the project's life to December 31, 2022, at which point the original loan closed. The project received one AF and underwent two subsequent additional restructurings. The AF loan, approved in March 2020, carried its own closing date of June 30, 2023, which was later extended by 23 months to May 31, 2025.

Restructurings:

- AF and first restructuring (March 20, 2020). The Board approved an AF of EUR 17.9 million (US\$20 million equivalent) on March 20, 2020. The restructuring scaled up all three project components to expand coverage of community infrastructure and territorial development activities under the Territorial and Administrative Reform of Armenia (TARA). (The TARA, launched in 2015 and led by the Ministry of Territorial Administration and Infrastructure, consolidated the country's fragmented local governance landscape from 915 municipalities down to 71 [64 multi-settlement consolidated units and 7 single entities] to strengthen service delivery, fiscal administration, and decentralization.) The restructuring simultaneously extended the closing date of the original loan by 18 months—from June 30, 2020, to December 31, 2021—to allow ongoing activities to reach completion and to align with the AF's trajectory. The results framework and component structure were revised to reflect the expanded scope.
- Second restructuring (November 11, 2021). The project was restructured on November 11, 2021, to extend the closing date of the original loan by an additional 12 months, from December 31, 2021, to December 31, 2022, resulting in a cumulative extension of 30 months from the original closing date. This extension was necessitated by implementation delays stemming from the COVID-19 pandemic, the regional armed conflict in the South Caucasus in the fourth quarter of 2020, and political disruptions in Armenia following snap parliamentary elections in June 2021. At the time of restructuring, five microprojects under Component 1 and seven subprojects under Component 2 remained in the pipeline and required additional time to reach completion.
- Third restructuring (June 5, 2023). The project was restructured on June 5, 2023, to extend the closing date of the AF loan by 23 months, from June 30, 2023, to May 31, 2025. The restructuring also included revisions to the results framework, disbursement estimates, and implementation



schedule. Delays were attributable to several compounding factors: the slow formation of consolidated communities under TARA; limited institutional capacity in the newly established communities; chronic understaffing of procurement specialists in the implementing agency, the ATDF; appreciation of the Armenian dram that eroded the purchasing power of the Euro-denominated AF loan; and construction price escalation driven by market instability.

3. Relevance of Objectives

Rationale

The PDO was clear and measurable, and it remained tightly aligned with Armenia's core development priorities to address territorial disparities and service gaps outside Yerevan. At appraisal (early 2015), Armenia had experienced slow recovery from the 2008-09 global economic crisis. The national poverty rate stood at 32.4 percent in 2012, almost 5 percentage points above the pre-crisis 2008 level. Significant territorial disparities persisted: poverty rates ranged from 21 percent in Vayots Dzor to 46 percent in Shirak, and only 48.3 percent of rural households had 24-hour access to potable water versus 64.2 percent in urban areas.

The project was consistent with the Country Partnership Strategy (CPS) for Armenia (FY2014-2017) under its second strategic cluster, "Improving Efficiency and Targeting of Social Services." This cluster aimed to improve the quality, coverage, and targeting of social services for poor and vulnerable populations. Support for the Social Investment Fund II (US\$20 million, 2000-2006, P057952), the predecessor to this project, was listed under this CPS cluster's lending program. The community-driven development approach central to this project aligned with the CPS emphasis on improving social service delivery in underserved communities. The project remained aligned during the AF phase with the Country Partnership Framework (CPF) for Armenia (FY2019-2023), specifically under Focus Area 2, "Human Capital Development and Equity," and Objective 7: "Improved access to social protection services and economic opportunities for poor and vulnerable populations." The project remained aligned with the CPF at closing (FY2025-2029), which has a High-Level Outcome on "More Resilient Human Capital," and objectives on enhanced access to quality health services and improving social protection.

The IPF instrument was appropriate for financing micro/subprojects and institutional support, leveraging the Bank's long-standing engagement with ASIF and supporting its transition to the ATDF.

It was a minor shortcoming that the PDO statement—"improve quality and use of, and access to, community and intercommunity infrastructure"—did not specify that the intended beneficiaries were vulnerable or poor communities. The PAD was explicit on this point, stating that Component 1 was designed to "target vulnerable communities," and Component 2 aimed at "reducing regional socioeconomic disparities." This poverty-reduction logic, which was central to the project's development rationale, would ideally have been reflected in the PDO statement. The absence of targeting in the PDO slightly weakened the precision with which the stated objective captured the project's intended outcomes.

Rating



Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improve the quality of community and inter-community infrastructure

Rationale

The theory of change governing this objective held that rehabilitating and constructing physical infrastructure in vulnerable communities, coupled with participatory selection processes, technical oversight, and independent quality verification, would translate into improved infrastructure quality as perceived by beneficiaries and confirmed through independent assessments. The causal pathway ran from project financing of community microprojects (Component 1) and intercommunity subprojects (Component 2), to physical outputs (completed and rehabilitated facilities), to intermediate outcomes (well-maintained works and high beneficiary satisfaction), to the PDO outcome dimension of improved infrastructure quality.

Outputs and intermediate results

Under Component 1, 113 community microprojects were completed in vulnerable and most vulnerable communities (target: 117; four projects were transferred to state budget financing due to rising construction costs).

Under Component 2, 90 inter-community subprojects were completed, exceeding the target of 85. Projects spanned education facilities (schools and kindergartens), primary health care clinics, water supply and sanitation systems, community centers, road maintenance equipment, agricultural machinery, and waste management infrastructure.

Geographic targeting of vulnerable communities was strong. 94 percent of Component 1 microprojects were located in vulnerable or most vulnerable communities, as identified through the ATDF econometric vulnerability scoring system, exceeding the 91 percent target (baseline: 81.8 percent).

Civil works quality was independently verified by an assessment conducted by the Urban Foundation for Sustainable Development (UFSD), which evaluated 25 projects—20 microprojects under Component 1 (schools, kindergartens, water systems) and 5 subprojects under Component 2 (machinery provision)—using a four-point scoring scale (1 = Bad; 4 = Excellent). Seventy percent of assessed projects received "Good" or "Excellent" scores (35 percent rated Excellent, 35 percent rated Good), and no project was rated "Bad." Deficiencies identified in 25 percent of projects, which were rated "Fair," included low-quality materials, design calculation errors, poor surface inclination leading to water accumulation, and inadequate technical supervision. These deficiencies were addressed through strengthened supervision, extension of guarantee periods, and updated technical specifications. Based on this assessment, 75 percent of micro- and inter-community projects were assessed as well-maintained (baseline: 60 percent; target: 75 percent), meeting the target.



Outcomes

The percentage of beneficiaries under Component 1 areas satisfied with the quality of infrastructure increased from the 2015 baseline of 85 percent to 92 percent (female 93 percent), meeting the upwardly revised target of 92 percent.

The percentage of beneficiaries under Component 2 areas satisfied with the quality of infrastructure and services increased from the 2017 baseline of 43 percent to 91 percent (female 91 percent), meeting the upwardly revised target of 90 percent.

The project met the revised satisfaction targets for both components, corroborated by the independent UFSD civil works quality assessment. The main measurement caveat is that the PDO-level outcome indicators relied on beneficiary satisfaction surveys, a perception-based measure that is only a rough proxy for technical quality. The independent UFSD civil works assessment provided complementary objective evidence at the intermediate outcome level (construction quality, maintenance standards) that strengthens the overall case.

Rating

Substantial

OBJECTIVE 2

Objective

Improve the use of and access to community and inter-community infrastructure

Rationale

The theory of change governing this objective held that increasing the number, coverage, and geographic reach of community and inter-community infrastructure, through demand-driven, participatory processes that matched investments to genuine community needs, would raise both the physical availability of services (access) and their actual utilization (use) by beneficiaries. The causal pathway ran from project financing to physical infrastructure expansion and rehabilitation, to higher beneficiary access (proximity, service hours, service capacity) and use (attendance, enrollment, consumption), to the PDO outcome dimension of improved access and use.

Combining "use" and "access" under the same objective reflected the difficulty of cleanly separating the two dimensions in small-scale community infrastructure, where improved physical access typically leads directly and simultaneously to increased use. While this composite approach limited the detection of divergent trends between access and utilization, beneficiary assessments and monitoring data consistently showed improvements across both dimensions, supporting the conclusion that the objective and indicators reflected genuine outcome achievement.

Outputs and intermediate results

There was an average increase in enrollment at project-rehabilitated kindergartens of 73 percent, compared to pre-rehabilitation enrollment at the same sites (baseline: 33 percent, which reflected the average percentage increase already observed at kindergartens rehabilitated under the predecessor project and



served as the performance floor for this project; target: 70 percent; calculated as average percentage change in enrollment before and one year after project implementation). The target was exceeded.

There was an average decrease in absences at project-rehabilitated schools of 41 percent, compared to pre-rehabilitation levels at the same sites (baseline: 12 percent; target: 40 percent; calculated as average percentage of days absent per student per year before and one year after project implementation). The target was met.

There was an increase of 95 percent in events held at project-rehabilitated community centers, compared to pre-rehabilitation activity levels at the same sites (baseline: 38 percent, reflecting the percentage increase in events already observed in centers rehabilitated under the predecessor project and serving as the performance floor; target: 95 percent; the indicator measures the percentage change in cultural events—concerts, performances, and classes—before and after project-financed rehabilitation). The target was met.

There was an increase of 75 percent in supplied water quantity in communities with project-financed water interventions (baseline: 70 percent, reflecting the increase already achieved in water projects financed by the predecessor project; target: 74 percent; calculated as average change in supplied water quantity in liters per second). The target was met.

75 percent of project-financed micro- and inter-community projects were assessed as well-maintained (baseline: 60 percent; target: 75 percent). The target was met.

100 percent of grievances related to delivery of project benefits were addressed (baseline: 0 percent; target: 100 percent; the project received a relatively small number of grievances, most of which were requests for information). The target was met.

71 percent of beneficiaries were satisfied with engagement processes (baseline: 45 percent; target: 75 percent; only 5 percent of beneficiaries declared themselves dissatisfied with engagement processes in the final beneficiary assessment). The target was substantially met.

30 percent of members of PICs were women with specific assigned roles (baseline: 20 percent; target: 31 percent; indicator introduced at the AF stage). The target was essentially met.

Outcomes

There were 1,789,239 project beneficiaries at closing, surpassing the revised target of 1,500,000 by 19 percent. Female beneficiaries were 52 percent of the total, meeting the gender target. This indicator counted as direct beneficiaries residents of communities where project-financed infrastructure was constructed or rehabilitated, aggregating beneficiaries of Component 1 microprojects and Component 2 sub-projects and discounting for double-counting and the effects of a community consolidation reform. The ICR noted that this was the most conservative possible estimate. The counting methodology attributed benefits at the community level (i.e., the full resident population of communities receiving project investments was counted), which provided broad coverage data but did not directly measure individual-level utilization rates.

There was a 70 percent average increase in access to and use of project-financed infrastructure, meeting the revised target of 70 percent (baseline: 0 percent). This indicator was a weighted average of the percentage increases across project subtypes, including enrollment increases at rehabilitated kindergartens, changes in



school attendance, water quantities supplied, events at community centers, and visitor numbers at health facilities, with weights determined by each subtype's share in the total project portfolio.

Rating
Substantial

OVERALL EFFICACY

Rationale

The project met or exceeded the revised outcome targets on both the “access and use” and “quality” dimensions across Components 1 and 2, with strong reach into vulnerable communities, high beneficiary satisfaction, and robust delivery against the expanded scope under AF. With substantial achievement of both objectives, overall efficacy is rated Substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Analysis. The ICR provided an ex-post economic analysis (internal rate of return/net present value), as well as qualitative and quantitative evidence on cost-effectiveness. At appraisal, no economic rate of return or net present value was quantified; the analysis focused on cost-effectiveness principles grounded in the demonstrated delivery model of the predecessor operation, which had established the ATDF approach as a cost-effective mechanism for delivering social infrastructure and targeting vulnerable communities.

The ICR re-estimated project returns at closing using actual disbursements as costs, a 10 percent discount rate, and a 10-year post-completion benefit horizon. Benefits included both direct effects—measured as incremental wage income and productivity gains from monitoring and evaluation (M&E) data—and indirect effects estimated using sector-specific annual benefit benchmarks per beneficiary drawn from international and World Bank literature, given data limitations for direct measurement of all benefit streams. The calculated internal rate of return (IRR) was 137 percent and the net present value (NPV) US\$77.3 million at the 10 percent discount rate over 10 years. Sensitivity analysis confirmed the robustness of these results. Even if annual benefits per beneficiary were reduced by 50 percent, the IRR was 42 percent and the NPV US\$22 million, indicating strong resilience to conservative downside assumptions.

The project's cost-effectiveness was supported by specific comparative evidence. The independent quality and cost assessment conducted by UFSD compared ATDF's unit construction costs against those of comparator institutions. Water system pipeline unit costs under ATDF were approximately 12.86 percent lower than those managed by regional governors' offices for comparable irrigation systems, and reservoir construction costs by regional offices were 38.6 percent higher than ATDF-constructed equivalents. ATDF's overhead rate was 8



percent, compared to 13.3 percent under national public works norms, a structural cost advantage embedded in ATDF's institutional model. Importantly, the UFSD assessment found no correlation between these cost reductions and construction quality, as 70 percent of evaluated works were rated "Good" or "Excellent," confirming that lower costs did not come at the expense of output quality. In addition, in 60 percent of assessed projects, communities spent less on maintenance than originally planned, further reinforcing the value-for-money profile of the ATDF delivery model.

Subproject selection under Component 2 incorporated ex-ante efficiency screens. All approved subprojects were subject to benefit-cost analysis before approval, assessing expected operation costs, income-generation potential, and economic efficiency for households. Discounted benefit-cost ratios were calculated for a sample of inter-community subprojects and confirmed least-cost viability: Jermuk (1.39), Gorayk (1.25), and Tegh (1.37). The value chain multiplier index (VCMI), which assesses the impact of investments on household incomes by comparing with-program and without-program scenarios, was applied to five subprojects and yielded values above 1 in four of five cases (Zaritap: 3.78; Jermuk: 1.12; Gorayk: 1.93; Tegh: 1.19), with only Meghri recording a value of 0.87 (ICR, Annex 4).

Several investments generated documented recurrent cost savings, enhancing long-term value for money. Photovoltaic installations at municipal buildings, community centers, and water pumping stations produced budget savings through lower energy expenditure, enabling communities to redirect funds to essential needs. In the water sector, project investments delivered more regular water supply, improved fee collection, lowered costs for pumping and distributing water, and reduced water loss, collectively lowering operation and maintenance burdens on communities. Waste collection improvements supported by the project achieved 90 percent beneficiary satisfaction, with some communities reaching 100 percent. Agricultural machinery and equipment provided under Component 2 was offered to communities at rates below private market levels, reducing input costs for local farmers and enhancing the affordability of services.

Implementation efficiency was affected by a combination of structural, political, and exogenous factors that extended the project's duration from a planned five years to ten years. The principal sources of delay were not exclusively attributable to the COVID-19 pandemic and the 2020 regional conflict, which struck only after a substantial share of the original implementation period had already elapsed. Prior to COVID-19, implementation was already encountering delays rooted in structural and political factors. The 2018 Velvet Revolution brought a new government that prioritized fighting corruption and improving governance, resulting in revisions to government priorities and understandable slowdowns in social protection sector activities in 2018–2019. More fundamentally, the complexity of the Territorial and Administrative Reform of Armenia (TARA)—a prerequisite for Component 2 implementation—meant that consolidated communities were not formed until December 2021, significantly later than anticipated at appraisal. This structural prerequisite for the inter-community subproject pipeline was the primary driver of the AF approved in March 2020 and the first extension of the original loan closing date.

The COVID-19 pandemic in 2020 and the Nagorno-Karabakh conflict in late 2020 compounded these pre-existing challenges, causing market instability, supply chain disruptions, significant appreciation of the Armenian dram against the Euro and US dollar, and rising civil works costs. Political instability in the first half of 2021, following snap parliamentary elections in June 2021, further slowed government-side activities. In 2021–2023, chronic understaffing of procurement experts at ATDF led to measurable slowdowns in procurement processing, flagged candidly in Implementation Status and Results Reports (ISRs) and addressed through targeted Bank support. The 2023 restructuring extended the AF closing date by 23 months (from June 2023 to May 2025) to allow completion of outstanding contracts.



The Bank and the government took several concrete measures to manage these challenges and their costs. The Bank reallocated US\$0.6 million to address COVID-related needs; maintained virtual supervision missions throughout lockdowns to avoid disruption; transferred five microprojects to state budget financing when project funds became insufficient due to cost escalation; and in 2023 instituted bimonthly meetings with ATDF to accelerate procurement and address bottlenecks in real time. These actions enabled the project to complete its full portfolio of investments and surpass all PDO-level targets at closing. Administrative costs (proxied by Component 3 expenditures) totaled approximately 10.9 percent of total project costs, in line with international standards for similar projects in the region. Despite the substantial schedule extensions, disbursement remained strong. Over 90 percent of the original loan was disbursed by late 2021, and the original loan closed with 99 percent disbursement at end-2022. Counterpart contributions were made in full, reflecting strong co-financing leverage.

Taking into account a strong ex-post economic case with a high IRR of 137 percent robust to conservative assumptions, documented cost advantages of the ATDF delivery model relative to comparator institutions, recurrent cost savings from selected investment types, administrative costs within accepted norms, and well-managed schedule extensions that enabled full disbursement despite significant exogenous shocks, the project's efficiency is rated Substantial.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

| | Rate Available? | Point value (%) | *Coverage/Scope (%) |
|--------------|-----------------|-----------------|---|
| Appraisal | | 0 | 0 <input type="checkbox"/> Not Applicable |
| ICR Estimate | ✓ | 137.00 | 100.00 <input type="checkbox"/> Not Applicable |

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The PDO remained highly aligned with Armenia's service delivery needs throughout implementation and under the Additional Financing. The 2023 restructuring explicitly revised the beneficiary target upward in response to the formation of larger consolidated communities, underscoring continued strategic relevance and consistency with country priorities. Bank strategy and sectoral priorities also continued to prioritize localized service access and quality improvements. Achievement of the PDO was strong and, by closing, the project either met or exceeded targets for access, use, and beneficiary reach, with high satisfaction levels among users of the rehabilitated and new infrastructure. Efficiency was strong, and while schedule extensions were necessary (COVID-19, conflict effects, global supply and price shocks), these were appropriately mitigated, and the portfolio substantially delivered within the revised timelines.



With Substantial relevance, efficacy, and efficiency, overall outcome is rated Satisfactory, reflecting only minor shortcomings in the project's preparation, implementation, and achievement.

a. Outcome Rating
Satisfactory

7. Risk to Development Outcome

The risk that the project's development outcomes will not be sustained after closure is assessed as Moderate. The principal risks to sustainability relate to three areas: the adequacy of municipal budgets for operation and maintenance (O&M) of rehabilitated and new infrastructure; the institutional capacity of consolidated communities and the ATDF to manage a growing and complex portfolio of community assets; and Armenia's continued exposure to macroeconomic, political, and security shocks that could compress public budgets or interrupt service delivery. These risks are substantially offset by strong beneficiary ownership, a demonstrated government and donor commitment to continued investment in the sector, and ATDF's proven institutional track record.

The most immediate sustainability risk concerns the adequacy of subnational budgets for ongoing O&M. Community and inter-community infrastructure requires predictable recurrent financing for maintenance, repair, and replacement of equipment. Fiscal pressures on consolidated communities, many of which are in rural, low-income areas with limited own-source revenue, may make it difficult to prioritize O&M over more visible expenditures. At the same time, Armenia's fiscal position is under pressure from the humanitarian and social costs of absorbing more than 100,000 displaced persons from Nagorno-Karabakh, which places competing demands on the national and subnational budgets. However, several mechanisms embedded in project design and the ATDF's operational model serve to enforce O&M responsibilities going forward. First, each microproject and sub-project required the formation of a PIC that assumed formal responsibility for the asset upon completion, including oversight of maintenance activities. PICs were required to include O&M plans as part of subproject documentation, establishing community-level accountability for asset upkeep. Second, the Project Operational Manual required communities to budget for O&M costs and included guidance on maintenance scheduling and technical standards by infrastructure type. Third, Component 3 of the project financed capacity building and training for communities and local authorities specifically on asset management, financial planning, and operations, strengthening the institutional knowledge base needed to sustain infrastructure without continued project support. Fourth, the ATDF retains a post-closure oversight function under its national mandate for local development and can provide technical support to communities experiencing maintenance difficulties.

A second category of risk concerns institutional capacity at the community level. The TARA consolidated hundreds of small communities into larger entities, many of which are still developing the administrative systems, technical staff, and financial management capacity needed to sustain a growing infrastructure portfolio. Asset management at scale, spanning diverse infrastructure types including education facilities, water systems, community centers, and intercommunity equipment, poses coordination and capacity challenges that are not yet fully resolved in all consolidated communities. The ATDF's continued engagement will be important to bridge residual institutional capacity gaps, particularly in the most recently formed and least resourced consolidated communities.



Armenia's geopolitical and macroeconomic environment presents an ongoing background risk to sustainability. The country has experienced significant political transitions, regional conflict, and macroeconomic shocks over the project's lifetime, and similar disruptions could recur. Security tensions, refugee inflows, currency fluctuations, and global supply chain disruptions could raise construction and maintenance costs, compress public budgets, or affect service continuity in communities near conflict-affected areas.

Several factors substantially offset these risks. Most importantly, the Government of Armenia has demonstrated a sustained and growing financial commitment to the sector beyond the project's life. The ATDF—the project's implementing agency—has evolved into a national institution for local and regional development, operating at the time of project closure with a total budget of more than US\$1.48 billion from the government and eight different development partners, of which the largest share, US\$762 million, comes from the government itself. Over the course of this project and its predecessors, World Bank financing of US\$126.8 million was complemented by US\$1.35 billion from other sources, confirming that international and government investors regard the ATDF model as effective and worth continued support. If this track record of resource mobilization is sustained, as the institutional trajectory suggests it will be, it provides a strong buffer against the fiscal risks to O&M and asset management identified above.

Beneficiary ownership of project assets is high, providing an additional sustainability buffer. Final beneficiary assessments recorded 92 percent satisfaction with infrastructure quality under Component 1 and 91 percent under Component 2, indicating that communities regard the assets as genuinely useful and worth maintaining. The participatory selection process, in which 88 percent of beneficiaries reported involvement, fostered a sense of ownership and accountability that is expected to translate into local stewardship of assets beyond project closure. A functioning grievance redress mechanism (GRM) remains in place through the ATDF, providing a channel through which communities can raise maintenance concerns and seek redress, further reinforcing accountability for asset upkeep after closure.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was prepared on a solid analytical and operational foundation. The World Bank and the government explicitly incorporated lessons from the predecessor project and its additional financings into this project's design. The main lessons related to three areas: (i) poverty targeting—the importance of a structured community vulnerability ranking and allocation mechanism to direct funds to the neediest communities while reducing political interference in project selection; (ii) quality and effectiveness of civil works—the need for robust technical supervision, appropriate material specifications, and post-completion inspection to ensure durability; and (iii) operation and maintenance—the importance of community ownership agreements and training in financial management and asset management to sustain benefits after project completion. The choice of instrument (IPF) and the use of the ATDF as the implementing agency were appropriate for a geographically dispersed portfolio of community and inter-community investments.

Readiness for implementation was strengthened by early preparation of safeguards instruments, an Environmental and Social Management Framework and a Resettlement Policy Framework, and clear procedures in the Project Operational Manual. The project was correctly classified as Environmental



Category B. The results framework was well structured, with outcome indicators directly capturing all the PDO dimensions (quality, access, and use) and a set of intermediate indicators and beneficiary assessments to track outputs and outcomes. Risks at appraisal were candidly assessed as Substantial, notably around the institutional transition from ASIF to ATDF, overall implementation capacity, and fiduciary exposure. These were mitigated through capacity support, clear fiduciary procedures, and close implementation arrangements. The anticipated ASIF-to-ATDF transition risk did not materialize adversely.

Two contextual complexities were present at entry but were managed during implementation. First, support for inter-community investments, a relatively newer modality compared to standard community microprojects, entailed added coordination and procurement complexity. Second, the broader administrative-territorial reform created moving baselines for beneficiary counts and service catchment areas. The operation's design and subsequent restructurings proved flexible enough to keep the PDO relevant and the results framework well aligned as the context evolved.

Preparation drew on relevant lessons and established sound implementation arrangements. However, there were three moderate shortcomings. First, project documentation did not set out an explicit, upfront definition of "community and intercommunity infrastructure," relying instead on component descriptions and eligible investment examples, which reduced conceptual clarity at entry. Second, as noted earlier, the PDO statement—"improve quality and use of, and access to, community and intercommunity infrastructure"—did not specify that the intended beneficiaries were vulnerable or poor communities. Third, the PDO's "use" and "access" outcome dimensions were operationalized through a single composite indicator, a weighted aggregation of percentage changes across diverse asset types, rather than as disaggregated measures. As noted in the assessment of Objective 2, this approach was pragmatic for a heterogeneous portfolio, and the evidence consistently showed improvements in both dimensions. Nonetheless, as a design matter, fusing two conceptually distinct outcome dimensions into one metric reduces diagnostic utility and limits the ability to detect divergent trends between physical availability of services (access) and their actual utilization (use). A further design shortcoming was the complex or unclear framing of several intermediate indicators: (i) the kindergarten enrollment indicator was expressed as a percentage increase relative to a baseline that itself represented a prior percentage increase, creating a double-incremental framing that is difficult to interpret without context; (ii) the community events indicator used a baseline expressed as the share of communities reporting an increase, an unusual construction that complicates comparison over time; and (iii) the composite access/use indicator (PDI 2) aggregated two conceptually distinct dimensions into a single weighted metric, reducing diagnostic utility. These shortcomings reduced the transparency of the results framework. Disaggregating the PDO outcome dimensions, specifying the focus on disadvantaged communities, and providing a succinct upfront definition of core terms would have further strengthened the results chain and measurement architecture.

Quality-at-Entry Rating Moderately Satisfactory

b. Quality of supervision

The Bank maintained close implementation support through supervision missions (shifting to virtual during COVID-19), frequent technical touchpoints with ATDF, and hands-on fiduciary and procurement guidance. When procurement and staffing bottlenecks slowed implementation in 2023, the team instituted bimonthly



meetings and targeted training, which helped accelerate progress. Reporting through ISRs was candid and detailed, with issues flagged early and corrective actions tracked.

The team adapted effectively to shocks and changing conditions. Through three restructurings and an AF, the Bank team helped the client respond to COVID-19 disruptions, regional instability, supply-chain challenges, and cost escalation, extending timelines where needed and adjusting targets to reflect consolidated communities and scaled-up works, while preserving the PDOs' integrity. Safeguards supervision was steady, with adherence to agreed environmental and social procedures and the application of site-specific measures. Citizen engagement and grievance mechanisms were operationalized, and beneficiary feedback was systematically collected and fed into supervision.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

M&E design was well aligned with the PDO's two dimensions—quality and use/access of community and inter-community infrastructure—and clearly assigned institutional responsibilities to the ATDF for collection, consolidation, and reporting. The results framework combined administrative indicators (e.g., direct beneficiaries and female share) with perception-based outcome measures of beneficiary satisfaction for Component 1 (quality of rehabilitated community infrastructure) and Component 2 (quality of infrastructure and services), to be measured via beneficiary assessments implemented in two phases. The framework anticipated citizen engagement and accountability through an operational GRM with multiple channels.

A moderate design shortcoming, discussed in detail under Section 8a, was that several indicators lacked sharp definitions or used unconventional baseline constructions: the composite access/use measure fused two conceptually distinct outcome dimensions into a single weighted metric, the kindergarten enrollment indicator used a double-incremental framing, and the community events indicator expressed its baseline as a share of communities reporting an increase. These features reduced the transparency and diagnostic utility of the framework.

b. M&E Implementation

M&E implementation generally adhered to plan and was strengthened over time. ATDF reported regularly through ISRs and maintained consistency between administrative data (e.g., beneficiaries, project counts, vulnerability targeting) and survey evidence. The two-phase beneficiary assessments were completed and subsequently informed target revisions. The GRM remained active throughout, channeling inquiries and issues and documenting 100 percent resolution of registered items. Targets were appropriately adjusted with the 2020 AF and the 2023 restructuring to reflect both scale-up and the



administrative-territorial reform that consolidated communities, which affected beneficiary counts and the scope of Component 2 subprojects.

c. M&E Utilization

M&E evidence was systematically used for decision-making, portfolio management, and accountability. Findings from the 2019/20 beneficiary assessment informed the upward revision of satisfaction targets and contributed to the justification for raising the direct beneficiary target and the access/use ambition at the 2023 restructuring. Administrative tracking of proposals, approvals, and completions under Component 2, together with intermediate indicators on targeting (share of microprojects in vulnerable/more vulnerable communities) and use (e.g., events at rehabilitated community centers), supported sequencing and adjustments as the operation navigated COVID-19, the 2020 conflict, and territorial consolidation. A civil works quality/cost/maintenance assessment provided actionable feedback on standards and O&M practices, informing attention to maintenance in the latter part of implementation. GRM operation and citizen engagement indicators helped monitor responsiveness and transparency in local decision-making. Overall, utilization of M&E was evident in the AF and restructuring decisions, target recalibrations, and day-to-day management of the subproject pipeline.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project complied with the Bank's environmental and social safeguard policies throughout implementation. An Environmental and Social Management Framework and a Resettlement Policy Framework were prepared prior to project launch and updated at the Additional Financing stage. The project was correctly classified as Environmental Category B (Partial Assessment), reflecting the potential for localized, reversible impacts typical of rehabilitation and small-scale construction works. Screening and mitigation measures were embedded in the subproject cycle: Environmental Management Plans were developed for Category B microprojects and subprojects, and public consultation meetings were held for each new microproject and subproject. Adherence to these procedures was closely supervised by the ATDF. ISRs consistently reported no complaints related to the delivery of project benefits, and the GRM resolved 100 percent of registered items. No significant safeguard issues or violations were reported in ISRs or the ICR.

b. Fiduciary Compliance

Financial management (FM) arrangements were rated Satisfactory throughout project implementation, with a Moderate FM risk rating. At project closing, FM was rated Satisfactory, with timely submission and clean (unmodified) audit opinions for all reporting periods, including the final audit for January–September 2025.



Semiannual Interim Financial Reports were consistently submitted on time and found acceptable. No pending FM issues were reported at closure.

Procurement performance was generally satisfactory during the early years of implementation, with the project maintaining compliance with procurement procedures and the Systematic Tracking of Exchanges in Procurement (STEP) tool. A measurable slowdown occurred during 2021–2023, driven primarily by chronic understaffing of procurement experts at ATDF, resulting in Moderately Satisfactory ratings. This bottleneck was candidly documented in ISRs and addressed through intensified Bank support, including the introduction of bimonthly implementation meetings in 2023 and hands-on guidance from a local procurement specialist. Procurement performance improved markedly in the final implementation phase, enabling the delivery of the remaining subproject portfolio. No unresolved procurement complaints were reported at closure.

c. Unintended impacts (Positive or Negative)

The ICR (p. 18) reported positive spillovers on social cohesion and local participation beyond the project’s formal objectives. The community-driven selection and implementation processes fostered frequent, structured interaction among residents, reportedly strengthening trust and collective action. Women’s participation in PICs appears to have generated additional, informal benefits in voice and local problem-solving channels. In a fluid context marked by COVID-19, the 2020 conflict, and subsequent administrative-territorial reform, the project’s flexible design also reportedly helped communities respond to evolving needs. It should be noted, however, that the ICR did not provide systematic or independently verified evidence for these positive spillovers.

d. Other

11. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|------------------|--------------|-------------------------|---|
| Outcome | Satisfactory | Satisfactory | |
| Bank Performance | Satisfactory | Moderately Satisfactory | Quality at Entry rated Moderately Satisfactory (two design shortcomings: absence of explicit PDO definition of eligible infrastructure; composite access/use PDO indicator rather than disaggregated dimensions). |
| Quality of M&E | Substantial | Substantial | |
| Quality of ICR | --- | Substantial | |



12. Lessons

The ICR (pp. 18-19) offered insightful lessons, some of them are restated by IEG as the following:

Transitioning a mature project implementation unit into a national development institution can sustain and scale impact when the implementing agency already demonstrates consistent performance and government demand (ICR, p. 18). ASIF's evolution into ATDF was accompanied by steady implementation and expanding responsibilities, positioning ATDF as a durable platform for local development beyond the project's life. This continuity was reflected across ISRs and restructuring updates that maintained ATDF's central role throughout scale-up and extensions.

In contexts of administrative-territorial reform, piloting operations in enlarged municipalities helps de-risk scale-up and align subproject design with new governance arrangements (ICR, p. 18). Component 2's ramp-up followed early piloting and procedural clarification, and later restructurings adjusted beneficiary targets upward in response to larger-than-anticipated consolidated communities, indicating that piloting informed feasible design and measurement in a changing administrative landscape.

Strong participatory processes are associated with high relevance and beneficiary satisfaction, but they need to be complemented by independent technical oversight to ensure construction quality and durability. The project's citizen engagement indicators and satisfaction levels were high, yet civil works assessments identified a minority of subprojects with quality shortcomings, pointing to a causal pattern where participation drives ownership and satisfaction, while quality assurance mechanisms help identify and address technical lapses.

Periodic Beneficiary Assessments, integrated into M&E systems over long implementation cycles, can provide actionable evidence for adaptive management, including target revisions at restructuring. In this project, beneficiary assessment findings were explicitly used to update satisfaction and access/use indicators and to justify upward revisions to beneficiary targets as Component 2 scaled in consolidated communities, demonstrating the value of structured perception and use metrics for course correction.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

Overall, the ICR was clear, candid, and evidence-based, with a good balance between narrative and data drawn from the results framework and supervision records. It documented implementation challenges and corrective actions, explained restructurings and target revisions, and integrated beneficiary assessment findings to substantiate outcome achievement. It provided a coherent account of implementation progress, attributing delays to exogenous shocks and describing the rationale for schedule extensions and rephasing under the AF



and restructurings. Its results discussion was broadly consistent with supervision data on beneficiaries, access/use increases, and satisfaction levels, tracked throughout implementation and confirmed in late-stage ISR updates. It made effective use of beneficiary assessments and routine M&E to support claims on satisfaction and utilization. Safeguards compliance and the functioning GRM were adequately summarized.

There were, however, minor shortcomings. Key intermediate and PDO indicators were not sufficiently explained in the ICR. The composite access/use indicator's weighting methodology, the kindergarten enrollment baseline framing, and the community centers events baseline all required clarification through an interview with the project team. In addition, the ICR's treatment of implementation delays was thin. The project spanned ten years, twice the original five-year design, but the ICR attributed delays primarily to COVID-19 and the 2020 conflict, without providing a granular account of pre-pandemic causes (including political transitions and TARA reform complexity).

Overall ICR Quality is assessed as Substantial.

a. Quality of ICR Rating
Substantial