Report Number: ICRR0024667

1. Project Data

Project ID	Project Name
P150327	LEIDP
Country	**Practice Area(Lead)**
Armenia	Urban, Resilience and Land

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-85720	30-Apr-2021	39,954,494.30
Bank Approval Date	**Closing Date (Actual)**	
22-Dec-2015	31-Dec-2024	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	55,000,000.00	0.00
Revised Commitment	42,800,000.00	0.00
Actual	40,324,269.68	0.00

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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (LA, p. 5) and the Project Appraisal Document (PAD, paragraph 26), the Project Development Objective (PDO) of this Local Economy and Infrastructure Development Project (LEIDP) was "to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected regions of Armenia."

This review will assess project performance against this objective parsed into two:

- To improve infrastructure services for increased tourism contribution to the local economy in selected regions of Armenia
- To improve institutional capacity for increased tourism contribution to the local economy in selected regions of Armenia.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

There were three components:

1. Heritage Hub and Tourism Circuit Development (US$50.41 million at appraisal; the government requested to reduce the allocation twice, first by canceling US$3.2 million leaving a balance of US$47.2 million, and second, by canceling another US$5.7 million leaving a final balance of US$41.5 million; US$41.6 million actual) This component was to finance the creation and building of tourism circuits that connect multiple sites in target regions. These circuits were expected to attract more tourists, encourage increased spending, fuel job creation, and drive local economic development. This component included the following activities:

- **Heritage hub regeneration.** This subcomponent was to finance urban regeneration activities such as restoring public infrastructure, building facades and roofs, public spaces, tourism facilities, museums, access roads, water and sanitation systems, drainage, and street lighting. This was to transform the target urban area into high-quality tourism destination hubs. The target areas were the old towns of Goris and Meghri, and the heritage villages of Areni, Tatev, and Tandzatap. This list was revised during project implementation, with the old towns of Jermuk, Meghri, and Gyumri added and heritage village of Tandzatap dropped and replaced by Tsaghkunk, Garni and Areni villages.
- **Tourism circuits.** This subcomponent was to finance the preservation of cultural heritage sites and finance an integrated site management for attractive cultural and natural heritage sites along the main tourism circuits. Also included were the construction of visitor facilities (information centers, public toilets, and safe parking areas), preserving cultural heritage monuments and museums, and improving connectivity with access roads and public infrastructure.
- **Public-Private Investment (PPI).** This subcomponent was to finance public infrastructure that would complement private sector investments in tourism in the target areas, and investment proposals from private sector entities screened by the Evaluation Committee in the Ministry of Economy (MOE).
- **Project management.** This subcomponent was to finance the project management costs of the Project Implementing Entity (PIE). These costs were to include operating costs; outreach; feasibility

studies and designs; construction supervision; and monitoring of the implementation (M&E). Costs of activities to ensure compliance with environmental and social safeguards would also be financed.

2. Institutional Development (US$4.4 million at appraisal; the government requested to cancel US$1.2 million to reduce this allocation to US$3.2 million; US$1.2 million, actual) This component was to finance training and technical assistance to enhance the institutional capacity of key stakeholders. These include the Development Foundation Armenia (DFA), later restructured and merged to be the Armenia Tourism Development Fund (ATDF) in the Ministry of Economy (MOE), which followed another merger into Tourism Committee under the MOE; the Service for the Protection of Historical Environment and Cultural Museum-Reservations (SPHECMR); and other local and regional entities. This component was to finance activities such as establishing destination management organizations (DMOs), marketing and promotion initiatives, preparation of sustainable site management plans (SMPs) for targeted cultural heritage sites, cultural heritage advisory services, business start-up and expansion advisory services to small and medium tourism enterprises, and performance monitoring and evaluation (M&E) activities.

3. Contingent Emergency Response CERC (US$0.0 million at appraisal, US$0.0 million actual). This component was to provide the government rapid access for disaster response after declaring a State of Disaster and Emergency triggered by an eligible natural or man-made disaster. This component would then allow the government to reallocate uncommitted undisbursed resources to finance eligible emergency recovery efforts in the country.

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

Project Cost: The original total project cost was US$55.0 million including front-end fees of US$0.14 million. Restructuring reduced the total project cost to US$42.8 million. By closing, the project had disbursed U$40.3 million. The balance ofUS$2.5 million or 5.8 percent of the loan was cancelled.

Financing: The International Bank for Reconstruction and Development financed this project.

Borrower Contribution: The government originally committed to contribute US$13.7 million. Restructuring reduced this to US$9.9 million. By the time the project closed, the government had disbursed US$10.7 million.

Dates: On December 22, 2015, the Board approved the project, which was made effective on December 29, 2016. A Mid Term Review (MTR) was conducted in March 2019. The project was originally to close on April 30, 2021. The following level 2 restructurings extended the project period by 44 months. The project closed on December 31, 2024.

- April 21, 2018, to include the reconstruction of six streets and two squares in the Kumayri Historical Center in Gyumri in Shirak region. No changes were made in the results framework.
- July 25, 2020, to add three more regions (Aragatsotn, Gegharkunik and Tavush) in the geographical scope of the project, extend the loan closing date for the first time by 23 months from April 30, 2021, to March 31, 2023, adjust the project institutional arrangements to speed up investment approval under Component 1; and clarify aspects of the Contingent Emergency Response Component (CERC). In addition, changes were made to the results framework by modifying four of the five outcome level indicators; dropping or consolidating 7 of the 19 original intermediate results

indicators; and revising end targets based on the new pipeline of approved investments (see Section4 Efficacy below).
- September 7, 2020, to cancel US$3.2 million as requested by the government to use the funds to cover a funding gap in the World Bank-financed Disease Prevention and Control Project (P128442). The project was to finance medical supplies and equipment to address COVID-19 pandemic in Armenia, for the Martuni and Vayots Dzor Medical Centers. No changes were made to the results framework.
- January 18, 2022, to cancel US$9 million as requested by the government for additional fiscal space and replenish the necessary financial resources for further reforms and sectoral program investments. No changes were made to the results framework.
- December 7, 2022, to extend the loan closing date by 21 months, from March 31, 2023, to December 31, 2024. In addition, target values for two intermediate results indicators were reduced.

Split Rating: Even though there were some reductions in performance targets and revision in indicators, a split evaluation will not be conducted since this was designed as a framework project with the investments to be finalized during implementation, and some of the indicators were revised to better measure the PDO.

3. Relevance of Objectives

Rationale

Context: Armenia is a small, landlocked lower-middle income country with a population of about 3 million. Armenia is often referred to as an open-air museum because the country has over 25,000 historical monuments, from pre-historic to Hellenistic and early Christian eras – three historic and cultural monument groups are United Nations Organization for Education, Science and Culture (UNESCO) World Heritage Sites. Armenia also has 35 national parks and multiple eco/nature protected areas. In the Armenia Development Strategy (ADS) 2014–2025, inbound tourism is considered the second largest export line in Armenia after mining and metallurgy, accounting for more than half of the country's services export. Poor infrastructure hampered tourism and created challenges for small and medium-sized enterprises in host communities. At the same time, Armenia acknowledged regional development disparities. Outmigration in rural areas led to population decline even as poverty level remained elevated. Recently, tourism growth in urban areas contrasts with the uneven impact on rural regions that could potentially benefit from economic opportunities of community-level tourism development. The government adopted a reform agenda to stimulate economic growth and employment in the destination cities and its regions, with spillover effects on neighboring communities by improving infrastructure in these rural communities hosting tourism sites.

Country Plans: The PDO was relevant to the government's strategic development objectives embodied in the 2021–2026 Program of the Government, which identified tourism as a key driver for economic growth, regional development, and urban development outside Yerevan. The PDO was relevant to the ADS 2014–2025 and fully supported the government plans to increase tourism spending, create jobs, and improve institutional capacity of its agencies. The PDO remained relevant to country plans when restructuring expanded the project to cover four of the five new tourism zones identified in the 2020–2030 Armenia Tourism Strategy: the Northern Access Corridor, the Central Exploration Zone, the Western Tourism Belt, the Southers Tourism Belt, and Yerevan.

World Bank Country Partnership Framework: The PDO was aligned with the Country Partnership Framework (CPF) for the Republic of Armenia (RA) for FY25 – FY29 (Report No. 186451-AM). In particular, the PDO contributed to the CPF's High-Level Outcome 1: 'More and Better Jobs', under Objective 1 on 'Ensuring Better Conditions for Private-Sector-Led Growth'. Achieving the PDO would help create an enabling environment that would foster job growth, facilitate private sector investments, and achieve local and regional development through the tourism sector.

World Bank Experience in the Country and in the Sector: The World Bank has had an extensive sustainable historic city and cultural heritage portfolio, part of which is of relevance to this project in Armenia (e.g., similar projects have been implemented in nearby Georgia). The World Bank assisted the Government of Armenia in 2014 to assess the regional development disparities, analyze the profile of each region, identify key policy and investment needs in the sectors that drive private sector-led growth and job creation, such as tourism, agri-tourism, and agri-business opportunities, and prepare the South Corridor Tourism Destination Strategy. The Bank's experience in the sector and extensive assistance in promoting local economic development through tourism justified the Bank financing of this investment. The World Bank approved a follow-on investment in April 2025 – Armenia Tourism and Regional Infrastructure Project (TRIP, P504282) to benefit from lessons learned, technical knowledge built, capacities enhanced, and coordination mechanisms and institutional arrangements established under this project.

Overall, the relevance of the PDO is rated **High**.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To improve infrastructure services for increased tourism contribution to the local economy in selected regions of Armenia.

Rationale
Theory of Change (TOC): No TOC was required at appraisal. One was prepared at closing. The project was to accompany capital investments in the tourism sector with technical assistance to build institutional capacity to create employment and foster local economic growth and address regional disparity. Investments were to be spread across 38 subprojects in 17 target sites with at least each site receiving an investment. These activities were to upgrade roads; preserve historic monuments; and construct essential visitor facilities such as information centers, toilets, and parking lots to improve access to cultural and heritage sites. Activities were also to include upgrading infrastructure (e.g., local roads, water supply and sewage, public lighting, and public spaces) in towns and cities that serve as tourism hubs. The expected outcome would be an increase in tourist flow from the improved quality and quantity of tourist offerings. These investments would enhance tourist experience – increase their spending and create jobs – improve the quality of life for residents because

of improved access to basic services, optimize connectivity between regions, and catalyze local economic activities by encouraging private sector investments.

Inputs: were to be the financing of investments in roads, household water connections, restoration of historic properties, upgrading of parks, and constructing tourist facilities.

Outputs: were to be the roads built or rehabilitated, households connected to piped water services, historic properties restored, museums/art galleries refurbished, parks upgraded, and tourist facilities improved. Outputs were also to include improvements in street lighting, grievances resolved, beneficiaries and their expressed satisfaction with citizen engagement. The June 2020 restructuring dropped or consolidated 7 of the 19 original intermediate results indicators and end targets to reflect a new pipeline of investments approved at implementation following the framework design of the project.

Outcomes: were to be improved access to selected tourism sites, the increase in tourism spending, and jobs created from the project investments. The June 2020 restructuring made changes to three of the five outcome level indicators under this objective: (i) "jobs created" was redefined from the original count across the tourism sector to only those jobs created from the project investments for attribution purposes; (ii) the "increase in the number of people in urban areas provided with access to all season roads within a 500-meter range" was revised to "improved access roads to selected tourism attraction sites (in Kilometers);" (iii) "increase in the average number of hours per day of piped water services in the target areas" was dropped because the pipeline did not include water system rehabilitation.

The following **Critical Assumptions,** if realized, were to increase the likelihood of achieving the PDO: (i) the implementing agency is committed to the outcomes and able to carry out the coordination required across a range of stakeholders; (ii) capacity of local authorities to operate and maintain completed assets is consistently adequate; and (iii) sufficient contractor capacity exists to implement and deliver quality civil works.

Overall, the TOC offered a logical causal link between the inputs and outputs and expected outcomes.

OUTPUTS: The following output targets were **exceeded**:

- 1,076 jobs were created, including 53 permanent new jobs to manage and operate renovated tourist facilities, cater to increased tourist flows (examples include security guards, technicians and mechanics, sanitation, landscaping and maintenance workers and municipal staff. The number of permanent jobs is expected to increase, for additional O&M staff at project sites, which have not materialized yet due to budgetary constraints and limitations faced by local governments in expanding the number of public servants. 1,023 temporary jobs were created during construction. 350 follow-on jobs were also created through the private investments supported by subprojects with private sector participation (target of 350 jobs exceeded).
- Constructed or rehabilitated 67.5 km of improved access roads to selected tourism hubs (target of 40 km exceeded). Tourists' experience was enhanced because of ease of access (travel time, although no data reported), and they were inclined to stay longer or engage more in local offerings (but no data reported on how much longer and data source). There was also no specific reference to the local beneficiary residents who used the improved access roads.
- 167 households were provided with piped household water connections (target of 150 exceeded)
- Restored 36 old houses (target of 30 exceeded)

- 1,453 street lighting posts and 3,297 bulbs were installed or replaced (target of 900 exceeded)
- 4 urban parks were upgraded (target of 2 exceeded): 2 parks in Gyumri, and 1 each in Goris and Tsaghkunk.
- 29 tourist facilities including five toilets and seven parking lots, viewing points, information kiosks, bicycle paths, and rest stops were constructed or renovated (target of 10 exceeded) at 11 sites contributing to an increase in tourist foot traffic.

One target was **not achieved**:

- No museum/art galleries were refurbished (target of 1, the Sero Khanzadyan museum, not achieved). The preparation of the design package to refurbish the museum was delayed (see Section 10 Other Issues, Procurement below), and there was no time to complete the refurbishment during the project period after the design package was completed.

OUTCOMES:

- 1,245,380 people benefited from the project (target of 1 million exceeded); 572,059 were female beneficiaries (target of 500,000 exceeded)
- The Gyumri Friendship Park was renovated for the first time since the 1988 Spitak earthquake. It serves as a gathering place for residents of Gyumri, a space for hosting big events and festivals that attract tourists. In 2024, Gyumri hosted (i) the 2nd International Theater Festival of Gyumri, (ii) the Grape Fest 2024, (iii) the Vardavar Festival, (iv) the Panrkhashi Festival, (v) the 3rd International Contemporary Art Festival Gyumri Art Week 2024, (vi) the Festivalar Festival, and (viii) the annual Gyumri Day celebration.
- The Yenokavan subproject that rehabilitated the access road to the 'Apaga Resort' with private sector participation created 350 new jobs in the resort complex. The increase in the number of gender-disaggregated jobs created was reported as an output, but outcome measured as the rate of increase in jobs was not reported.
- There was an overall increase in the number of same-day visitors and overnight stays on the improved sites because of facilitated access to the sites and improved safety. 1,086 international tourists and 1,080 domestic tourists expressed 'high' satisfaction levels in surveys conducted across 11 sites. In 6 sites tourists decreased due to the 2020 conflict and the security challenges that persisted. In some cases, improvements in the sites were completed in 2023 and 2024 and increase in tourist visits were not recorded.
- The ICR reports that there was an increase of US$18.8 million in tourism receipts but does not assess whether this is fully attributable to the project. The increased tourism spending, was expected to have positive impacts but not supported by data – such as increase in income of residents working in the tourism and hospitality sectors, on the local economy in industries such as entertainment and food and beverage, increase in local government revenue from taxes and fees
- The indicator reflecting an increase in average number of hours per day that piped water was made available to the 167 beneficiary households noted under the outputs above was dropped at restructuring because the investments did not include water system rehabilitation with components that would achieve this outcome. This indicator proved infeasible to monitor or attributable to the activities.

Overall, these outcomes were achieved using an integrated approach called a "hub-and-spoke model." Capital investments were completed in 17 sites across nine regions (Marz) with a central 'hub' or main attraction or gateway destination, and 'secondary locations' as 'spoke' destinations. Infrastructure investments led to an increase in tourists, increased receipts from their spending, and created jobs in the sector.

The efficacy of the project to achieve this objective is rated Substantial. While the project exceeded most targets, it is not evident that the increase in tourists could be fully attributed to the project.

Rating

Substantial

OBJECTIVE 2

Objective

To improve institutional capacity for increased tourism contribution to the local economy in selected regions of Armenia.

Rationale

Theory of Change: Investments in training and capacity building of the institutions involved in the tourism sector in the target areas and the participating local governments was to enhance their abilities to use the tourism sector for job creation and foster local economic growth. The technical assistance was to establish Destination Management Offices (DMOs) based on sound institutional organization and coordination within involved tourism related entities. These DMOs were to foster an increase in tourism spending and create jobs. The capacity-building activities were designed to support increased tourism contribution to the local economy by (a) improving the operation and management of cultural heritage sites to ensure sustainability and quality of offerings to tourists through the creation and use of SMPs, (b) improving the range and diversity of tourist experiences and increasing average tourist receipts facilitated by established and functioning DMOs, (c) attracting greater volume of tourists via marketing and public awareness campaigns, and (d) improving targeting and prioritization of public sector investments in the tourism sector and refining tourism offerings based on tourist characteristics and preferences as gauged by periodic exit surveys.

Inputs: were to be the financing of training and capacity building efforts of stakeholders. These would include the Destination Management Offices (DMOs), Tourism Committee in the Ministry of Economy. No mention was made of local governments as a stakeholder or recipient of the capacity building efforts. Managing tourism assets and using tourism to foster growth involves a variety of stakeholders, government agencies at various levels, and beneficiaries. DMOs were to facilitate the coordination of all these stakeholders; integrate the promotion and management of tourist sites; and leverage the usefulness of the sector in fostering local economic growth of the host community or region.

Outputs: were to be the Public Awareness and Marketing Campaigns, the Site Management Plans for target tourist sites, a study on establishing DMOs, the number of DMOs created, and the improved capacity of the Tourism Committee in the Ministry of Economy to report on the impact of tourism data. The June 2020 restructuring changed one target of an outcome level indicator under this objective. The end target for DMOs decreased from 3 to 2. One DMO office was established by 2020 using other donor funding.

Outcomes: were to be the adoption of a sound regulatory and institutional framework for establishing and operationalizing DMOs.

Critical Assumptions: under the first PDO above appeared applied except for construction contractor capacity since this objective did not require any capital investments.

Overall, the TOC was logical. The causal link between output and expected outcome.

OUTPUTS:

- 12 public awareness and marketing campaigns were implemented (target of 10 exceeded). A Market Research Study analyzed customer and visitor data, product demand and preferences, and competition leading to online and offline solutions for an effective marketing strategy with recommended timelines. The campaigns included (i) creation of online videos and advertisements disseminated through large format platforms to enhance awareness and attract and engage travelers to explore Armenia's rich cultural heritage and natural landscapes, (ii) dissemination of personalized content and socially relevant media through social media platforms, and (iii) creation and dissemination of select and time-specific events such the New Year to a target audience. The campaigns also engaged in retargeting and conversion efforts.
- 4 site management plans (SMPs) for key destinations were completed – Areni, Marmashen, Garni-Symphony of Stones, and Meghri Pokr Tagh (target of 4 achieved). This project was the first large tourism operation in Armenia. Six different tourism products were identified – cultural heritage, events, agricultural tourism, winter tourism, adventure and nature, and gastronomy and wine. The best practices in operating these tourist products were outlined to guide future similar endeavors. The SMPs specified responsibilities of the agencies managing the sites, key roles and responsibilities, safety, and security, carrying capacities and flow management techniques, O&M and operational arrangements. In addition, SMPs outlined economic activities, mechanisms to generate revenues, use of adjacent natural environment, requisite human resource needs, and mechanisms for collecting visitor flow statistics.
- Completed a study on 'Development of the Best Destination Management Organization (DMO) modality for Armenia,' achieving the target.
- Prepared 3 notes and achieved the target. These were on cluster vision for Yeghegis, Goris, and Dilijan to inform the Tourism Law and the follow-on TRIP project.
- The following surveys were completed achieving the targets:
  - International Visitor Survey (IVS) to inform data-driven strategic and operational decisions for the Armenian tourism sector. The government conducted its last IVS in 2013. United Nations Tourism suggest that IVSs are conducted once every two years. COVID-19 postponed the planned April 2020 IVS launch. TC, the Statistical Committee, and the Central Bank of Armenia launched the IVS in 2023.
  - 1,086 surveys administered to international tourists across 11 sites.
  - 1,080 surveys administered to domestic tourists across 11 sites.
- The Ministry of Economy, through its Tourism Committee (TC), regularly report and analyze tourism data indicating improved capacity. The TC developed tourism data collection methodology, and launched a visitor exit survey beginning in January 2023. The original target was not achieved because updated tourism statistics were not collected or regularly published.

OUTCOMES:

- The study on 'Development of the Best Destination Management Organization (DMO) Modality for Armenia,' led to the adoption of the supplementary sub-legal Act on DMOs as part of the new Tourism Law, which was made effective in September 2024.
- 100 percent of grievances were registered, responded to and resolved within a month filing (target of 100 percent achieved).
- 92 percent of survey respondents agreed that citizen engagement processes were effective (target of 100 percent almost achieved).
- The first restructuring reduced the original target from three to two DMOs to be established and made operational. The Goris DMO could not be established by closing although expected to be operational shortly thereafter. A second DMO in Dilijan was to be established under the follow-on TRIP operation. This target was not achieved**.** Following the June 2020 restructuring, the Project aimed to establish two DMOs (compared to the original target of three)—one each in Goris and Dilijan. The delayed start in implementing capacity building activities meant insufficient time to put this legislation into practice and establish DMOs by closing. However, a supplementary sub-legal Act on DMOs was drafted, adopted, and made effective in September 2024 as part of the new Tourism Law. The United States Agency for International Development (USAID) financed furniture, equipment, and necessary capacity development of the DMO staff in Goris. The establishment of a DMO in Dilijan will be taken by the TRIP that is expected to establish DMOs in other Armenian regions.
- The marketing study led to a targeted launch of the 2023 International Visitors Survey (IVS) and implementation of campaigns to raise awareness and promoted Armenia as a tourist destination in four countries (Germany, France, the Russian Federation, and the United Arab Emirates). The IVS results enhanced national tourism statistics, analyzed key target markets, consumer preferences, spending behaviors, existing and potential tourism products, and provided detailed data for developing comprehensive profiles of international tourists. It also analyzed the economic components of tourism and its impact on Armenia's economy. TC expected to use IVS data to refine the National Tourism Strategy, its Action Plan, improve marketing and promotion policies, improve the capacity of key national and local stakeholders to better leverage the tourism sector; develop more targeted and quality tourism products. Most marketing campaigns were concluded as the project was closing in December 2024, hence, no report of its contribution to increased tourist flows and increased tourism expenditures.

The ICR reported other qualitative outcomes. However, no indicators or incremental targets (against baselines) were associated with these outcomes and these were not monitored. Thus, attribution of these results to the project's interventions is unclear.

- The project investments catalyzed private sector participation, with an estimated leverage ratio of 1:1.
- The cost benefit analysis at closing estimated that for each dollar a tourist spent, an additional US$0.25 in indirect sales was generated, indicating an increase in profitability of local enterprises and household incomes.
- New economic enterprises were created. This and with increased profitability in existing businesses would have contributed to growth in tax collections.
- Increased demand for real estate meant property value appreciated across the target regions. Municipalities were expected to collect additional tax revenues from rising property values, new construction, and housing restorations initiated under the project and through leveraged private investments.

- Fiscal benefits were to come from tax revenues: 20 percent personal income tax (PIT) rate on income from jobs created, 18 percent corporate income tax (CIT) rate or dividend taxes on businesses created, 12 percent turnover tax, 20 percent for value added tax (VAT) from tourist spending; revenues from increase in number and profitability of economic enterprises (secondary sales); tax payments on imported food and liquor (10 percent).

Overall, the efficacy of the project to achieve this objective, measured by enhanced capacity of key local and regional entities – the Ministry of Economy's Tourism Committee and the regional DMOs – is rated Modest. No DMOs were established. The TC did not periodically update publish tourism data as planned. Nonetheless, the project introduced improvements to the regulatory and policy framework to establish and operationalize DMOs.

The efficacy of the project to achieve this objective is rated Substantial with moderate shortcomings.

Rating
Substantial

OVERALL EFFICACY

Rationale
Overall, the efficacy of the project to achieve the objectives is rated Substantial with moderate shortcomings.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency: The PAD included a Benefit-Cost Analysis (BCA) for the entire project, rather than for each component. The Net Present Value (NPV), Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR) were calculated for the next 15 years from 2016 up to 2030 with a 5-year implementation period. The NPV using a 5 percent discount rate was US$14.5 million. The FIRR was 12.1 percent. The EIRR was 23.43 percent.

At closing, a benefit-cost analysis (BCA) was conducted. Some key parameters were amended to better reflect macro- and regional-level changes. First, the 15-year period used at appraisal was revised to 17 years because implementation took 7 years, plus 10-year asset life. Second, the government mandated in its Decree on Public Investment Management to use a 9 percent discount rate rather than the 5 used at appraisal. Third, conversion factors and multipliers were updated using more recent statistical data, where available, e.g., legislated changes in tax rates introduced during the implementation period. The NPV was US$65.98 million, EIRR was 51.2 percent and FIRR was 13.7 percent. The appraisal and ICR economic analyses are not directly comparable due to significant differences in the underlying assumptions, notably the discount rate, hence actual value for money compared to a baseline cannot be assessed. For the ex-post economic analysis, only two sites recorded an increase in tourist visits, whereas the other sites did not. Moreover, assumptions were made about the profitability of tourism enterprises and the growth in job creation, since data monitoring was weak, as reflected in the Modest rating for M&E.

Administrative and Operational Efficiency: The Project was extended by 44 months (or almost 4 years) to complete the planned investments. The expanded geographical scope, and accumulated delays caused by the COVID-19 pandemic, the 44-day Velvet revolution in 2020, and implementation inefficiencies led to this extended project period. Coordination mechanisms were yet to be established at start up. Technical capacities were nascent. The complex implementation arrangements slowed down the initial process of selecting and approving subprojects. The project targeted the five regions but only a few project sites and subprojects were confirmed to be a part of the framework. The framework approach meant that the loan amount was not fully allocated at appraisal. Designs and engineering documentation (DEDs) were completed only for those subprojects that have been identified. By closing, US$2.5 million of the loan was undisbursed or 5.8 percent of the loan. Shortcomings in the quality of design led to civil works implementation inefficiencies. One subproject that was partially completed, and two others yet to start were handed over for completion by the follow-on TRIP project. Four factors caused administrative delays: (i) fiscal rule constraints in 2016 and 2017 because of difficulties in securing co-financing; (ii) disruptions caused by the Velvet Revolution in 2018 followed by a new cabinet formed in February 2019; (iii) changes in the line ministries and implementing entities, and staff turnover at the Tourism Committee (TC). The government dissolved and replaced the Tourism Department in 2017 with the Armenian Tourism Development Foundation (ATDF) in the Ministry of Economy (MOE), and then dissolved this again in 2018, and transferred most of ATDF functions to the TC. Weak capacity in conceptualizing, developing, and coordinating subprojects for two-tier approval delayed selection and approval of investments and capacity building activities.

While recognizing the positive (albeit not comparable) economic and financial rates of return at appraisal and closing, the project's implementation record shows major inefficiencies due to shortcomings in design quality, non-completion of subprojects, fiscal constraints, major institutional disruptions, and persistent capacity weaknesses that led to a delay of almost four years in the project's closing date, with some activities still incomplete. Overall, the project's efficiency rating is rated Modest.

Efficiency Rating

Modest

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 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

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

6. Outcome

The relevance of objective is rated High. The efficacy of the project to achieve the objectives is rated Substantial with moderate shortcomings. Efficiency is rated Modest because of significant institutional and operational shortcomings that led to almost four years of implementation delays. The overall outcome is rated **Moderately Satisfactory.**

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The following pose risks to development outcome:

- **Technical Risk:** There is a low risk that the innovative technology and systems introduced by the project in managing the tourist sites may not be sustained over time. The DMOs have not yet been operationalized at closing although two were formed and were expected to be operational under the follow-on TRIP project. At the same time, the foundational legal and regulatory framework for its operation had been passed in September 2024 under the Tourism Law informed by studies completed under this project.
- **Financial Risk**. There is a risk that financial resources would not be made available to meet the need for adequate operations and maintenance (O&M) of the completed assets. This is a moderate risk. To mitigate this risk, the ATDF is expected to reach agreements with tourist site operators to commit resources for O&M support. However, these agreements were noted to be legally unenforceable. There is no guarantee that after handing over the completed subprojects legally responsible entities have adequate resources.
- **Risk of reduced local government commitment**: There is a risk where local governments own the completed assets that they may not have the fiscal space to sustain the operational costs over the long term. Some subprojects already demonstrate this. Some local governments have met with budgetary constraints and policy limitations in expanding the number of public servants and were unable to hire additional O&M staff for the new facilities.
- **Risk of withdrawal of institutional support and other stakeholder ownership.** Although the institutional and regulatory framework supporting the creation of DMOs under the Tourism Law of September 2024 is in place, the project closed shortly thereafter. Continuing institutional support in the sector and those of the private sector and civil society and their roles in promoting local economic development are untested. In some instances, O&M needs of completed assets require a joint effort from several entities. These stakeholders have obligations over various aspects of the tourist sites. There would be costs assigned, and separation/overlap of roles and responsibilities would be defined. If tourism at the sites increases foot traffic over time, asset depreciation will have to be adequately distributed to various stakeholders.

8. Assessment of Bank Performance

a. Quality-at-Entry

The Bank team designed this first large-scale tourism project recognizing Armenia's strategy to use tourism to generate jobs and become an engine for local economic development. The team conducted technical, financial, and economic assessments of the project and its subcomponents. They adopted a framework design indicating some activities were to be determined during implementation after agreeing to the target region and initial activities. The team identified the Armenia Territorial Development Fund (ATDF) to implement the project with the Ministry of Economy as overall coordinator. The ATDF was to be supported by a consultative inter-agency Working Group (WG) and a high-level Project Steering Committee (PSC), replicating the implementation arrangement used by Georgia for its Regional Development Project (RDP) series. The implementation arrangement proved complex. The implementation and coordination arrangements were untested and inadequately assessed. There was also insufficient in-country sectoral technical expertise; contractors and service providers were inexperienced in World Bank procurement policies; and a regulatory and institutional framework to achieve planned outcomes were weak (see Section 5 Efficiency above). In addition, the team designed a Monitoring and Evaluation (M&E) system with some shortcomings in attribution (see Section 9 M&E below). A grant from the Europe and Central Asia Capacity Development (ECAPDEV) financed project preparation. The Bank team acknowledged shortcomings of Bank performance at entry. These included a lack of a strong subproject pipeline; complex institutional arrangements; and vague targets or indicators since the framework design meant that not all project activities were known or resources adequately allocated prior to project startup. At the same time, the government faced co-financing difficulties as 2016 and 2017 fiscal rule constraints called for the national budget to address the deficit and external debt. This challenge slowed down implementation of all investment projects across Armenia portfolio.

Overall, the Bank performance at entry is rated Moderately Satisfactory.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank team conducted 20 supervision missions over the almost 10-year project period. The Bank team were in -country to track progress, engage with the government, development partners, and various stakeholders. The team provided timely corrective measures to achieve the PDO such as changes to the subprojects' pipeline, revising indicators to improve attribution and adjusting targets to what could be more realistically achieved. Two of the restructurings expanded the geographical scope of the project and took advantage of sites where experienced contractors and service providers were readily available to overcome initial delays. The team ensured the transition to the follow-on TRIP arrangements by passing on the DMOs for completion. Lessons from the operation were utilized to improve the design of the TRIP project. The COVID 19 pandemic, the Velvet revolution, staff turnover in the implementing agency and the institutional changes the government adopted delayed implementation (see Section 5 Efficiency above).

The government requested two partial cancellations (US$3.2 million and US$9.0 million) to resolve implementation challenges.

The quality of supervision is rated Satisfactory.

The overall performance is rated Moderately Satisfactory.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The PDO was clear and specific. Tracking progress toward achieving the PDO had some shortcomings. Progress of some indicators could be tracked but not how they contributed to the expected outcome. Some indicators were not relevant given it was a framework project and there was no clear pipeline of subprojects at the design stage.

b. M&E Implementation
ATDF as project implementing agency implemented the M&E system. The shortcomings in indicators and targets were addressed during implementation as investments and activities were identified and approved, following the framework design. The March 2019 midterm review was followed by a 2020 restructuring where deficient indicators in the results framework and accompanying targets were amended, revised, and clarified as the pipeline of investments was approved. Seven of the 19 original intermediate results indicators (IRIs) were dropped or consolidated. Outcome indicators were reformulated. Targets were revised. ATDF began to implement the M&E system in 2021 assisted by an M&E consultant. These changes improved monitoring and attribution. Baselines of indicators at target sites were collected beginning in 2021. Data collection used methods such as visitor and stakeholder surveys, interviews, and secondary sources such as ticketing booths. Data was collected every trimester to ensure data was obtained from all sites at least once each year.

c. M&E Utilization
Management, various government stakeholders, and the World Bank team used M&E data to track implementation progress, report on results, justify the course correction measures contained in the restructurings such as revising targets of indicators and extending the project period. M&E data was also used to provide lessons to help design the follow-on TRIP project and its results framework. But not all

M&E findings were communicated to the various stakeholders since TC did not collect or regularly publish updated tourism statistics.

Overall, the M&E design had shortcomings. The results framework and its indicators were limited. Implementation introduced revisions but missed adding more relevant outcome indicators. Baselines were initially estimated although established later. Overall, the M&E quality is rated Modest.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental Safeguards: The project included infrastructure investments and triggered OP/BP 4.01 Environmental Assessment. However, none of the activities were expected to have significant, long-term, or irreversible impacts on the natural environment. The project was classified as environmental Category “B.” The project triggered the following environmental safeguards: (i) OP/BP 4.01 Environmental Assessment, (ii) OP/BP 4.04 Natural Habitats, (iii) OP/BP 4.11 Physical Cultural Resources, and (iv) OP/BP 7.50 Projects on International Waterways. The project did not expect to rehabilitate any existing schemes or alter water intake and/or discharge and exclude new construction of water-related infrastructure. The World Bank Vice President approved an exemption from the requirement of communicating to riparian states on November 5, 2015. The ATDF developed and disclosed the Environmental Safeguards Management Framework in 2015. Site-specific Environmental and Social Management Plans (ESMPs) were also developed, disclosed, and consulted for identified subprojects. The Garni Tourism Circuit subproject required an Environmental and Social Review (ESR) because it was located within the protective zone of the Symphony of Stones natural monument. The Project complied with all triggered safeguards policies (ICR, paragraph 69).

Social Safeguards: The project triggered OP/BP 4.12 Involuntary Resettlement and developed a Resettlement Policy Framework (RPF) to address, minimize, and mitigate potential resettlement impacts and resolve resettlement issues. The RPF was disclosed and discussed with relevant stakeholders in October 2015. Three Abbreviated Resettlement Action Plans (RAPs) were prepared. A grievance redress mechanism (GRM) was established and operational with information and contacts discussed at public consultations, announced through public outreach, leaflets and posted announcements in publicly visible places. The project registered 26 grievances and resolved these within a month of filing. The construction activities in subprojects other than in Gyumri municipality were conducted on public lands and reduced resettlement needs. In Gyumri, the municipality removed old non-functional stalls and operational small kiosks along Haghtanak avenue. The ATDF developed a Corrective Action Plan (CAP) to assess the impacts on kiosk holders and propose mitigation measures. The plan could not be finalized because of lack of data and ongoing mayoral elections at that time. This was unresolved at closing. The Bank team recommended implementing corrective actions after closing.

b. Fiduciary Compliance

Financial Management: Financial management for the project was rated Satisfactory throughout implementation and complied with World Bank financial management policies (ICR, paragraph 74). The implementing agency had a functional information system that tracked subproject disbursements. All reporting was done on time. All audits were concluded satisfactorily.

Procurement: Procurement performance was rated Satisfactory. 117 contracts were concluded, despite contract management challenges. Procurement delays were encountered because of coordination needs in issuing approvals, high turnover of procurement staff, and lack of technical expertise in administering and supervising contracts. The government acknowledged initial procurement challenges because local consultants, suppliers, and contractors were not familiar with World Bank procurement policies. This unfamiliarity limited participation and affected competitiveness despite wide use of various platforms to invite tenders. Tenders were cancelled or re-issued. (ICR, Annex 5). Three contracts were extended beyond closing and will be completed under the follow-on TRIP project.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The operation offered the following lessons with slight paraphrasing by IEG for brevity:

- **Adopting a framework approach for infrastructure investments may require considerable lead implementation time.** A framework approach for infrastructure projects means that initial years are focused on developing a preliminary pipeline at appraisal. Selection and approval of subprojects, completion of feasibility studies and detailed engineering designs (DEDs), and establishing an effective institutional arrangement acknowledging relevant stakeholders require time. At the same time, capacities of the implementing entities and other involved agencies may require supplemental technical assistance, especially if a project is the first of its kind in the country, in scale and complexity. Investment operations with a framework design have been found to begin civil works by year three and may require a minimum of six years to be implemented.

- **Integrating O&M in planning and implementation and committing budgets from design to turn over of subprojects may ensure sustainability of completed assets.** The consideration of O&M aspects and the preparation of SMPs at the preparation stage ensures that finalized project designs are aligned with the capacities for O&M delivery (these can include, for example, agreements on the materials to be used for construction). Where the designs and project scope necessitate more intense and dedicated O&M measures, there is clarity in terms of additional needs warranted from the managing agency, and budgetary commitments can be made early on, including exploring avenues for private sector involvement. The inclusion of O&M and preparation of SMPs in the design phase also provides a platform for the PIE to coordinate with the manager(s) of assets under the project-financed investments, ensuring that their inputs are adequately reflected in the design and construction works, thereby boosting the sense of ownership in the investment.
- **The causal link between outputs and the local economic development outcomes of tourism-centered investment projects is complex and requires careful formulation of the PDO and a carefully designed results framework**. Tourist inflows and behaviors are influenced by a variety of factors, all of which do not fall under the project scope and are constantly changing. Thus, the choice of indicators to measure progress toward the project PDO should be carefully made such that they can be feasibly monitored, appropriately quantified, and can attest to plausible project attribution. In addition, the frequency and timing of progress monitoring need to be determined based on factors such as seasonality. Finally, without appropriate baselines established before the start of civil works, for each subproject, the degree of project impact is hard to ascertain. Overall, it is vital that M&E systems, methodologies, and tools are prepared in advance and are well established and functional before project implementation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided a clear overview of the project's implementation performance and results over the ten-year period, including the challenges and corrective measures the team adopted. The report followed the guidelines, integrated the various parts, and reinforced project performance with evidence to support the ratings guided by the TOC prepared at closing. The annexes fortified the evidence underlying the assessment of the project's efficacy in achieving its objectives, particularly Annex 4 on Efficiency, Annex 5 presenting the government's perspective of the implementation challenges, Annex 6 specifying the changes made to the various indicators and targets during implementation to mitigate the shortcomings of the weak formulation of the original results framework, and Annex 7 with detailed descriptions of the outputs and outcomes under the first component. The report was candid and acknowledged the shortcomings in outcome indicators that could have reinforced the evaluation of the project's impact. The project produced relevant and practicable lessons, such as avoiding unnecessary complexity in subproject approval process, recognizing a realistic timeline for a framework design, and how integrating infrastructure investments to draw tourists could address regional disparity. The quality of the report is rated Substantial.

a. Quality of ICR Rating

Substantial