



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 02-Dec-2024 | Report No: PIDDC01132



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies) Armenia	Operation ID P508310	Operation Name Housing response and Mortgage market Enhancement (HOME) Project	
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 27-Mar-2025	Estimated Approval Date 29-May-2025	Practice Area (Lead) Urban, Resilience and Land
Financing Instrument Investment Project Financing (IPF)	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Labor and Social Affairs	

Proposed Development Objective(s)

To improve access of local and refugee families to adequate long-term housing solutions and improve sustainability of the housing and mortgage market.

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Operation Cost	250.00
Total Financing	250.00
of which IBRD/IDA	250.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	250.00
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Environmental and Social Risk Classification

Moderate

Concept Review Decision

B. Introduction and Context

Country Context

1. Armenia's economy grew strongly in 2022-2023 (10.5 percent annually) due to inflows from Russia in 2022 but began slowing in 2024. Real GDP growth declined to 6.5 percent in early 2024, and inflation dropped to zero. Long-standing challenges continue, including low private investment and labor issues. Poverty fell from 51.7 percent in 2021 to 49.6 percent in 2023, though it's expected to stay at 49 percent in 2024. Armenia's regional security issues led to an influx of refugees, prompting government policies for their integration and support. As a result, and partly due to incoming refugees, unemployment rose to 13.8 percent in Q2 2024, as well rising fiscal pressures pushed the debt-to-GDP ratio to 48.1 percent, with a growing deficit.

Sectoral and Institutional Context

2. While the GoA has indicated its commitment to creating attractive conditions for the refugees to stay in Armenia as fully integrated and productively employed citizens, one of the immediate challenges faced since the refugee influx has been the replacement of the main capital assets refugees left behind – particularly housing - which for most families was their major life asset. At the same time, Armenia's aging housing stock, mostly built pre-1988, is largely privately owned, with low vacancy (3-4 percent), especially outside Yerevan, and the refugee influx has added to Armenia's housing needs backlog.

3. Approximately 20,000 households lack long-term housing, including families impacted by the 1988 Spitak earthquake and various refugee waves, while many others live in overcrowded or inadequate conditions. Existing housing programs focus on ownership for specific groups, using subsidies with strict eligibility tied to factors like profession or family status. Most programs center on Yerevan, leaving many vulnerable groups under-supported. High subsidy costs and unpredictable funding also limit program scalability.

4. Moving toward a cohesive housing strategy would better serve Armenia's diverse needs. A targeted, equitable approach with differentiated support for vulnerable groups and a sustainable funding model is essential for long-term adequacy. Developing a comprehensive housing strategy and regulatory framework is crucial.

5. On the institutional side, there is no single agency overseeing housing policy in Armenia. The Ministry of Labor and Social Affairs (MoLSA) manages programs for vulnerable groups, while the Committee of Urban Development (CoUD) handles building codes and standards, with enforcement by an inspection body.

Relationship to CPF

6. The proposed operation is fully aligned with the Country Partnership Framework (CPF) for FY25-FY29 that is expected to be finalized by project approval and will contribute to the proposed outcomes and objectives of the new draft CPF under Objective 4 of High-Level Objective 2 (More resilient human capital) through the improvements to the social support system and the inclusion of refugees into the labor market and the Armenian society more broadly.



C. Proposed Development Objective(s)

To improve access of local and refugee families to adequate long-term housing solutions and improve sustainability of the housing and mortgage market.

Key Results (From PCN)

7. The proposed project will measure the progress toward the PDO through the following proposed indicators:
 - People benefitting from improved living conditions (number, of which female)
 - Number of households benefitting from access to long-term housing solutions
 - Improved sustainability of the mortgage market¹

D. Concept Description

8. The Government of Armenia has requested both the Asian Development Bank (ADB) and the World Bank (WB) to support with the Government's Housing Support Program (HSP) to refugees. Both ADB and WB projects will support the HSP and will primarily focus on the following main aspects: (i) covering the up-front payments and installments to commercial banks for the first five years of the HSP program, leaving no credit risks to the banks; and (ii) liquidity support to the NMC to enable the commercial banks to originate the mortgages. Further, the WB will also assist the GoA in covering the overall costs for: (iii) implementing the cash support program and (iv) providing critical institutional support for establishing the GoA's capacities to design, implement, and manage long-term housing programs as well as develop and strengthen the overall housing sector. Another longer-term goal is to bolster the sustainability of the housing finance market by strengthening the role of the mortgage refinance company (the NMC) to provide long-term financing to commercial banks, and be able to raise funding in capital markets, with pension funds playing a key role as the primary buyers of NMC bond issuances.²

9. Proposed project components are as follows:

10. **Component 1: Support for refugee housing subsidies (US\$120 million)** will finance the main refugee housing support programs, including cash support for refugees to cover rent, utilities and other living costs, and housing acquisition through the HSP.

- **Subcomponent 1.1: Cash support for eligible beneficiaries (US\$80 million)** will provide cash assistance in support of the GoA's cash support program under which beneficiary households receive up to AMD50,000 (US\$125) per person per month (excluding those who already own a home or are in government shelter) to cover rent, utilities, and consumption. It will also finance technical assistance (TA) to enhance the cash support program for better targeting and harmonization, as well as related public awareness and community engagement activities.
- **Subcomponent 1.2: Provision of long-term housing solutions to eligible households through the HSP (US\$ 40 million)** will finance: (i) the upfront payments of up to 30 percent³ of the housing purchase certificates (HPC) value to help significantly reduce the initial cost of acquiring a housing solution, and (ii) the subsequent installment payments for the first five years. Under the HSP, eligible beneficiaries will receive between AMD2 - AMD5 million (US\$ 5,000 – 13,000) for acquiring adequate housing, depending on a number of variables defined in the GoA State Housing Support Program established through Decree N 710-L of May 2024.

¹ The NMC is fully market-oriented institution.

² As of June 2024, pension funds' assets total US\$ 2.4 billion, having grown steadily at an average rate of 37 percent per annum over the past five years. They are well-positioned to absorb a potential demand of US\$150 million, the estimated amount needed to support NMC in funding the HSP.

³ Still under discussion with the Government and to be fully confirmed as preparation advances.



11. **Component 2- Housing Finance Market Development (US\$25 million)** aims to expand a sustainable housing finance system by providing longer-term local currency funding, essential for affordable mortgage markets. TA will be provided to NMC to address constraints limiting its ability to secure liquidity from both external sources and domestic investors (budgeted for in component 3). Once NMC has issued local bonds, the component will also help improve NMC’s financial position by providing subordinated debt to strengthen its Tier 2 capital.

12. **Component 3 Institutional Development (US\$6 million)** will finance technical assistance, analytical work, and capacity building activities for designing, implementing, and managing housing programs and enhancing the overall housing and mortgage sector. The component will finance assessments to identify sectoral gaps and lay the foundation for the requisite institutional and regulatory reforms; provide capacity building to the MoLSA, CoUD, and NMC for effective implementation of the HSP, and TA for establishing the appropriate mechanisms for sound implementation of future national housing programs.

13. **Component 4 Project Management (US\$2 million)** will finance overall project management costs related to operational activities, consulting services, non-consulting services, vehicles, goods, and communications, outreach, trainings, and the costs of the core implementing team to carry out project management functions, including monitoring and evaluation, supervision, and reporting, as well as expenditures linked to ensuring the project meets the WB requirements related to environmental, social, fiduciary, audits, and technical standards.

14. **Component 5 Contingent Financing (US\$97 million)** will allow the GoA to defer an est. US\$97 million using a Deferred Drawdown Option (DDO)⁴ and these funds would be made available when a trigger is met of demand exceeding a predefined threshold of HPC approvals by the MoLSA. Upon drawdown, the contingent financing would be made available to support additional financing needs under Components 1 and 2.

Legal Operational Policies

Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

15. The overall E&S risk is classified as moderate. ESS1, ESS2, ESS3, ESS4, ESS8, ESS9 and ESS10 have been screened as relevant.

16. The environmental risk is assessed as moderate, considering the risks and impacts related to SC 1.2. Key risks include (i) low seismic resistance associated with existing buildings constructed under Soviet-era building codes, which may not meet current seismic safety standards; (ii) potential exposure to hazardous materials (ACM, lead-based paints);

⁴ The DDO would be available for 5 years and would give the government the flexibility to access financing depending on program progress and demand.



(iii) generation of non-hazardous and hazardous waste from renovations, and new constructions; (iv) dust emissions, noise, vibration assessed to be low and localized due to small-scale construction activities.

17. The social risk is assessed as moderate and is associated with (i) potential shortcomings in outreach and engagement, hindering eligible beneficiaries from fully accessing long-term housing; (ii) gradual phase-out of CA that can have livelihood implications; and (iii) potential over-borrowing beyond the grant amount, leading to debt trap and financial strain for beneficiaries. The risks linked to gradual phase out of the CA and risk of overborrowing will be assessed prior to Appraisal and appropriate safeguards will be identified to protect beneficiaries from financial strain. Mitigation measures will aim to create a safe, inclusive environment for beneficiaries with effective outreach. The risk of tension or conflict is low, given widespread solidarity with refugees' situation and the Project's goal to harmonize support programs to refugees with those available to other vulnerable groups. The project's physical footprint is not expected to cause involuntary resettlement or have adverse impacts on assets or livelihoods, as activities that could lead to such impacts will be screened and eliminated. SEA/SH risk is assessed as low. The MLSA will prepare SEP prior to Appraisal to address any gaps identified in Project outreach, communication and engagement, and LMP as part of the POM prior to Effectiveness.

18. The ESMS will be established and strengthened within MLSA and participating banks, with clear roles and responsibilities to be determined by project Appraisal. The ESMS will be tailored to the level of risks and impacts, and incorporate relevant E&S procedures, including the exclusion criteria. Mechanisms for monitoring and reporting will be set up as part of the ESMS to ensure compliance with the ESSs.

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APPROVAL

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