



1. Operation Information

Operation ID P169624	Operation Name Armenia Development Policy Operation
Country Armenia	Practice Area (Lead) Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IBRD-90210	Closing Date (Original) 31-Dec-2020	Total Financing (USD) 51,055,550.00
Bank Approval Date 21-Nov-2019	Closing Date (Actual) 31-Dec-2020	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	51,055,550.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Project Development Objective (PDO) as set out on page 14 of the Program Document (there was no PDO in the Loan Agreement) was *to support the Government's actions to strengthen economic, fiscal, and public sector governance by: (i) improving pro-competition, pro-trade and streamlined quality regulations and processes, (ii) enhancing the efficiency of revenue mobilization and public investment,*



and (iii) strengthening anti-corruption initiatives and the performance of the justice sector and the civil service.

For purposes of this ICRR, the three objectives of the operation are:

1. Improving pro-competition, pro-trade and streamlined quality regulations and processes;
2. Enhancing efficiency of revenue mobilization and public investment;
3. Strengthening anti-corruption initiatives, including the performance of the justice sector and civil service.

b. Pillars/Policy Areas

The operation addresses three pillars/policy areas that describe the areas of reform to achieve each of the three policy objectives. Eight PAs support the policy objectives' achievement, and eight results indicators (RIs) measure progress towards meeting the objectives.

The pillars/policy areas provide a results chain linking PAs to each pillar/policy area and, consequently, to each objective. PAs and RIs are listed in Tables 1 and 2, respectively. The pillars/policy areas are:

Pillar 1: Economic governance. This pillar/policy area was to improve government effectiveness by rationalizing the impact of government regulations through increased regulatory quality (PA1), greater customs efficiency to boost trade (PA2), and increased competition (PA3).

Pillar 2: Fiscal governance. This pillar/policy area focused on fiscal sustainability by improving the credibility of the tax administration to raise the efficiency of revenue collection (PA4), and on public investment management to increase quality and efficiency in public capital spending (PA5).

Pillar 3: Public sector governance. This pillar/policy action was to support public sector efficiency, transparency, accountability, and performance by strengthening anti-corruption services (PA6), the rule of law (PA7) and the rationalization of civil service management (PA8).

c. Comments on Program Cost, Financing and Dates

The World Bank financed the DPO by a loan of US\$50 million equivalent, approved on November 21, 2019. It became effective on December 18, 2019, and closed on December 31, 2019, after disbursing US\$51.06 million (the difference reflects exchange rate variations between the US dollar and the Euro).

3. Relevance of Design

a. Relevance of Objectives

The operation's objectives are aligned with government objectives and World Bank strategy for Armenia. If achieved, they would help tackle specific development constraints in the country, notably weak governance and widespread economic inefficiencies due to entrenched patronage and widespread corruption. These



factors had led to the overthrow of the previous government and the election of a new, reform-minded one. Strategies for change focused on three broad areas: liberalize an oligopolistic market structure, create fiscal space and more efficient public investment, and increase transparency and accountability in the public sector.

The DPL supported the Government's 2019-23 reform program and reflected the major economic development constraints identified in the Bank Group's Systematic Country Diagnosis (SCD) – corruption and conflicts of interest, an uncertain business environment, and weak management of public resources. It was aligned with priorities identified in the Country Partnership Framework (CPF) for FY19-23 for Armenia, focusing on areas where the Bank considered sustainable reforms to be feasible and sought to prepare the ground for longer-term change. Key areas included boosting competition, strengthening trade, streamlining bureaucratic processes, enhancing revenue mobilization and the efficiency of public investment, and strengthening the performance of public institutions. All were areas that were likely to benefit from improved efficiency: that is, better selection, regulation, and management.

The Bank justified the use of a stand-alone operation because of limited headroom for IBRD lending (see Section 8a). However, this is not a convincing justification as even limited headroom can be divided over more than one operation. Given that many of the reforms were complex and, according to Bank staff, warranted a measured approach to reform, a two-operation series might have allowed scope for more focused policy dialogue and more deliberate movement along the result chain linking prior actions and the achievement of objectives.

b. Relevance of Prior Actions

Rationale

Table 1. Prior Actions (PAs) by Objective

Objective 1: Improving pro-competition, pro-trade and streamlined quality regulations and processes
Prior action 1: The Government established a Regulatory Impact Assessment (RIA) department under the Prime Minister's office and elucidated principles (including methodology, scope, and the institutional mandate) for its operation consistent with international best practice.
Prior Action 2: The Government (a) amended a decree to allow for risk based management of truck scanning at border crossings; (b) through the State Revenue Committee (SRC) order, required advanced declaration submissions and (c) mandated the extension of the National Single Window System to facilitate cross border movement
Prior action 3: The Government approves a bill to be submitted to Parliament that amends the Law on Protection of Economic Competition to make state aid accountable and less distortionary by (a) defining what constitutes state aid; (b) setting reporting requirements for government bodies with respect to state aid schemes and aid that has been granted.
Objective 2: Enhancing efficiency of revenue mobilization and public investment
Prior action 4: The SRC started to implement the full functionality of the Tax Audit Case Management System, which replaced the existed SRC audit system
Prior action 5: A Public Investment Management (PIM) and Public-Private Partnership (PPP) Department has been established (staffed and budgeted) within the Ministry of Economy to improve the public investment management framework through effective evaluations of the large public investment projects



Objective 3: Strengthening anti-corruption initiatives including the performance of the justice sector and civil service

Prior action 6: The Cabinet has approved an anti-corruption strategy and action plan that establishes the structure and mechanisms for strengthening the fight against corruption. PA6(b): An electronic platform is established that allows anonymous “whistleblowing” by the public and government employees to report corrupt acts.

Prior action 7 (a): The Cabinet has approved a judicial sector strategy and action plan to establish a new architecture and mechanisms for judicial reform

Prior action 7(b): A fast-track procedure for processing small claims through the court has been established

Prior action 8: The Cabinet approved draft amendments for submission to the National Assembly, merging different civil service regimes and extending the performance management system to a larger part of the civil service.

There were altogether 8 PAs, with three PAs supporting Objective 1 (improving government effectiveness), two supporting Objective 2 (revenue and capital spending), and three supporting Objective 3 (efficiency and transparency in public sector governance).

Objective 1. Improving pro-competition, pro-trade and streamlined quality regulations and processes (PAs 1-3)

Objective 1 was to be achieved by improving regulatory quality and efficiency (**PA1**), raising customs efficiency to boost trade (**PA2**), and raising market contestability and competition (**PA3**).

PA1. The complexity, length, and low quality of regulatory processes adversely affected the business climate, and the lack of an open and consultative approach weakened trust in the Government. To address these issues, PA1 supported the implementation of a 2018 law establishing an RIA framework for assessing the consequences of government actions (laws and regulations) to ensure better policy options. It focused RIAs on regulations judged to have the most significant impact on competitiveness, public spending, small businesses, and climate change. While setting up the department and adopting the decree were described by Bank staff as critical steps toward improving regulatory quality, these are essentially inputs into a process that when applied will contribute to increased efficiency and productivity. Therefore, the steps were followed by further measures supporting implementation of the RIA, including the introduction of operating procedures and capacity building within the RIA department and in line ministries to allow a decentralized approach to RIA.

Relevance of PA1 = MS

PA2 was to streamline costly and time-consuming border crossing processes. The World Bank’s Logistics Performance Index ranked Armenia 111th in border-crossing movement, influenced by several issues: the absence of a national single-window system for cross-border trade resulting in all trucks entering Armenia being systematically x-rayed and inspected at the border. An electronic declaration system is in place, but not yet fully implemented. The Bank considered these key obstacles to cross-border movement of goods and services, critical for a land-locked, small, open economy. To address these issues, PA2(a) introduced risk-based scanning of trucks at border crossings, (b) advance submission of customs declarations, and (c) a national single-window system; all promoting the faster and more efficient movement of goods through customs. However, there was no clear explanation of how the PA would make headway against the pervasive corruption that contributed to costly and time-consuming border crossing



Relevance of PA2(a), PA2(b), PA2(c) = MU

PA3. The lack of market contestability and competition was a key factor underlying slow private sector development in Armenia, where business risk relating to weak competition policies was rated the second highest in the Europe and Central Asia Region according to the Economist: the lack of neutral competition and firm rules of the award of State aid were significant distortionary factors in resource allocation. PA3 sought to define the rules and set the reporting requirements of State aid, including publication of the database, as a step toward leveling the playing field, enhancing market contestability and promoting competitive neutrality to hinder vested interests from gaining untoward competitive advantage. However, it was not clear how these actions would make progress given more fundamental governance challenges.

Relevance of PA3 = MU

All three PAs represent tentative technical solutions to more fundamental governance challenges and do not seem to derive from a nuanced appreciation of the underlying political economy.

The relevance of PAs to achieving Objective 1 is rated Moderately Unsatisfactory

Objective 2. PAs supporting enhancing efficiency of revenue mobilization and public investment (PAs 4 and 5)

PA4 and **PA5**, respectively, focused on improving tax administration and strengthening public investment management.

The tax administration lacked a modern risk-based tax audit system. Instead, state capture and collusion between business and tax authorities had led to pervasive tax non-compliance and shortfalls in public revenue. **PA4** started the process of operationalizing a risk-based audit management system to reduce discretion and emphasize accountability and results. It was hoped that starting to implement the full functionality of the Tax Audit Case Management System would lead to more efficient and transparent targeting of audit efforts, including by reducing the number of tax audits, strengthening self-assessments, and by better targeting of high-risk transactions. While starting implementation is a positive step, it does not confront the underlying issues of state capture and collusion and is not a convincing movement along the necessary results chain.

Armenia underperforms in terms of efficiency in public investment management (PIM) in the face of strong vested interests and in absence of rigorous analysis of public investment projects. The portfolio has shown weaknesses in selection, regulation, and management, as well as in low levels of public investment, which contributed to weak PIM and pose a particular challenge for a country with limited fiscal space. **PA5** focused on developing a results-based PIM system, including establishing a PIM and public-private partnership department in the Ministry of Economy with projects screened for efficiency and impact according to pre-defined criteria, which would result in projects with higher rates of returns going forward. The Bank team notes that this is a clear departure from previous practice, and helps move the agenda forward on two significant issues - efficiency in resource use and a better control over corruption.

Relevance of PA4 = MS; PA5 = MS

The relevance of PAs to achieving Objective 2 is judged to be Moderately Satisfactory



Objective 3. PAs supporting strengthening anti-corruption initiatives including the performance of the justice sector and civil service (PAs 6 to 8)

The first two reform areas, addressed by **PAs 6** and **7**, are closely linked, focusing on transparency, while the third one (**PA8**) concerned institutional capacity and public sector performance. All three were cross-cutting areas influencing performance across the operation.

PA6 and **PA7** were to address corruption, considered a key obstacle to Armenia's development, and consequently both PAs are considered by Bank staff to be core elements of the Government's reform program. Previously, anti-corruption policies had been fragmented, weakening any prevention, detection, or enforcement measures that might have been introduced. With the new government that came into power on a platform of improving governance specifically focused on the rule of law and anti-corruption, an anti-corruption strategy and a related judiciary reform strategy were introduced.

PA6 supported (a) the comprehensive anti-corruption strategy and related action plan to provide an institutional and legal framework for identifying and prosecuting corrupt actions, and (b) a whistleblower platform. **PA7** targeted the judiciary, considered one of the most captured sectors, and where corruption is a major obstacle to the rule of law and fair trials, fueling widespread distrust in the justice system. PA7(a) supported the introduction of a justice sector strategy that sought to achieve equal access to and fair delivery of judicial services, through a stronger case management system; and (b) a fast-track procedure for processing small claims. Given the long history of corruption in Armenia's justice sector, PA7(a), the articulation of a strategy is not itself a meaningful movement along the results chain. However, PA7(b) is more concrete and has the potential to eliminate some opportunities for corruption. It introduced streamlined procedures for small-claims management for quick and inexpensive resolution of small value legal disputes. Because it functions at grassroots level, it has the potential to be a quick win in raising credibility in the system among the citizenry. While justice reform is notoriously challenging, this prior action more directly targets the source of the underlying problem.

Relevance of PA6(a) = MU; PA6(b) = MS;

Relevance of PA7(a) = MS; PA7(b) = S

PA8 was to support an ongoing restructuring of the Armenian public sector from an inward-looking, bureaucratic, and process-oriented organization susceptible to interference by vested interests, toward a more transparent, accountable, and efficient model of public sector governance. Together with pervasive corruption, the Armenian bureaucracy offered difficult access to and poor quality of services for citizens. A process of restructuring the civil service had started before the current operation, which sought to take forward that ongoing reform. It supported greater consolidation of civil service regimes aiming at reducing fragmentation and inefficiencies, and facilitating and expanding on performance management of civil servants. The expected results were to be a merit-based, results-driven and more efficient civil service with greater capacity for strategic management. The focus was ambitious, and the expected results were long-term rather than immediate, albeit highly relevant ones.

Relevance of PA8 = S

The relevance of PAs to achieving Objective 3 is judged to be Moderately Satisfactory



Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Table 2. Results Indicators (RIs), Associated PAs, Baselines, Targets, Status

RIs	Assoc. PAs	RI relevance	Baseline	Target	Actual	Actual vs. targeted change	RI achievement ratio
Objective 1: Improving pro-competition, pro-trade and streamlined quality regulations and processes							
RI1: # of high-impact new laws and regulations subject to RIAs and public consultation	PA1	MU	0	20	5	25%	Modest
RI2(a): % of trucks scanned at border, based on risk assessment	PA2	MS	100%	75%	Risk-based inspections tested	n.a.	Negligible
RI2(b): Increase in # of agencies in single window	PA2	MS	3	12(all agencies)	3	0%	
RI3: State Aid database functional, published and used to monitor grant aid	PA3	MU	No published info	Database functions but not public	Partly met	50%	Modest
Objective 2: Enhancing efficiency of revenue mobilization and public investment							
RI4: average amount owed per taxpayer audited	PA4	S	AMD 60.1 million	10% increase	21% increase	Over 100%	High
RI5: new large publ. inv. projects	PA5	MS	0	50%	100%	100% screened	Modest



screened, appraised, prioritized in compliance with gvt PIM guidelines							
Objective 3: Strengthening anti-corruption initiatives including the performance of the justice sector and civil service							
RI6(a): Anti-corruption strategy and action plan 2010-2022 implemented	PA6(a)	S	Strategy and plan approved by cabinet	All action items implemented	100%	Met change target	High
RI6(b): Whistle-blower reports are submitted using electronic platform	PA6(b)	S	0	30% used to investigate corruption	39%	Over 100% of target	High
RI7(a): actions under justice strategy started and on track	PA7(a)	MU	0	100%(60% complete, 40% partly)	100%(33% complete, 64% partly, 3% postponed)	55%	Substantial
RI7(b): share of small claims cases eligible for small claims procedures	PA7(b)	MU	n.a.	10pp increase	15 pp decrease	n.a.	Negligible
RI8: nr of institutions included in civil service perform. mgmt	PA8	MS	40	60	68	Over 100%	High

Objective 1: Improving pro-competition, pro-trade and streamlined quality regulations and processes

RI1 measured the number of new laws and regulations with “potentially significant economic impact” that had been subject to RIA and timely public consultation because of PA1. It did not, however, measure the potential (or actual) gains that arose from RIA in terms of increased efficiency and effectiveness of legislation – the ultimate purpose of PA1. It also did not define “significant economic impact.”

Relevance = MU

RI2 measured the impact of customs reform introduced under **PA2** on border traffic in terms of (i) the reduction in the share of trucks being scanned at the border, and (ii) the number of agencies included in



the single-window system. While these are relevant measures of improved border traffic, the main concern underlying PA2 was the time taken to cross the border. While it is reasonable to assume that the PA contributed to reduced crossing times, the ultimate purpose – speedy crossings – is not captured in either of the RIs.

Relevance of RI2(a) and RI2(b) = MS

RI3 determined to what extent key steps for establishing a state aid control framework as set out in PA3 were in place – a functional, published database to allow monitoring how and on what basis state aid is distributed. The indicator did not effectively monitor the underlying intention of the PA – an improved competitive environment; instead, it remained at the level of a collection of information on state aid in the form of a database.

Relevance = MU

Objective 2. Enhancing efficiency of revenue mobilization and public investment

RI4 sought to capture the effects of introducing a risk-based audit management system by measuring efficiency, that is, the average liabilities identified per audit, which was related to improving tax administration: more efficient auditing was expected to generate higher revenues by reducing non-compliance.

Relevance = S

RI5 was related to PA5 and government efforts to increase returns to public investment: an increase in projects screened, appraised, and prioritized for implementation as a function of appraisal results would ensure that projects with higher rates of return would go forward, improving the efficiency of public spending. However, the RI has several weaknesses, including the lack of a clear definition of “large,” and uncertainty about the share of public investment this would cover. It would also have been stronger if it referred to the share (in value terms) of new public investment screened.

Relevance = MS

Objective 3. Strengthening anti-corruption initiatives including the performance of the justice sector and civil service

RI6 targeted implementation of anti-corruption elements that the operation was addressing, all initiated under PA6 (which formally launched the country’s anti-corruption strategy). RI6(a) monitored the implementation of action items in anti-corruption strategy; and RI6(b) monitored submission and pick-up of whistleblower reports of corrupt acts by the public and government employees to an electronic platform.

Relevance of RI6(a) = S; RI6(b) = S

RI7 measured (a) progress on implementing the judicial sector strategy by the rate with which planned actions under the strategy were being implemented, and (b) the increase in cases managed as small claims. The former was a relevant indicator of improved processes and as such an indicator of a more active judicial system. It did not, however, indicate its impact on corruption, which was a major aim of



both judicial reforms: that will only become apparent over time. The latter reform – the increase in small claims – would prove not to be easily measurable in the absence of a baseline .

Relevance of RI7(a) = MU; RI7(b) = MU

RI8 measured the number of institutions covered by the new performance management system for consolidating civil service regimes. While RI8 was a relevant indicator of how the reform was progressing, it did not provide information about the immediate or the longer-term impact of such consolidation on changes in either the management structure, operational efficiency, or service delivery. The current focus on number of institutions involved, serves as an initial output indicator measuring one aspect of management changes.

Relevance of RI8 = MS

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improving pro-competition, pro-trade and streamlined quality regulations and processes

Rationale

Supported by PAs 1-3; progress measured by RIs 1-3.

The objective was to be achieved by improving government effectiveness through (i) increased regulatory quality and efficiency; (ii) reform of the customs process to facilitate cross-border commerce; and (iii) by making state aid more transparent and less biased, thus opening up competition in the marketplace.

The RI target set for PA1 – 20 laws and regulations with potentially significant economic impact subject to RIA and timely public consultation, up from a baseline of 8 - was not achieved as roll-out of the scheme turned out not to be possible within the project period. Moreover, even if it had been achieved, the RI did not capture the impact of applying RIAs to determine the efficiency and effectiveness of reviewed laws and regulations, which was the main purpose of the RI. It also did not provide indication of the eventual influence of the RIA process on corruption. Achievement is rated **modest**.

The RI2 targets set for PA2 measured the impact of PA2 on facilitating cross-border traffic. The target for RI2a on scanning of trucks at the border was only partly achieved due to inadequate infrastructure, with the activity limited to scanning being piloted at one post. Implementation of the single-window - RI2b - also was not achieved, being implemented in 3 agencies against a target of 12 agencies. As was the case for the previous RI, one of the RIs, RI2a, did not capture the main sought-after objective, border crossing times, nor did it address eventual impact on corruption. Achievement of RI2 is rated **negligible**.



The RI3 target set for PA3 was partly achieved. The state aid database is functional but not yet public (due to technical issues, according to the World Bank team). Achievement is rated **modest**.

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Enhancing efficiency of revenue mobilization and public investment

Rationale

Supported by PAs 4-5; progress measured by RIs 4-5

The objective was to be achieved by (i) improving tax administration, and (ii) strengthening public investment management. The former was to result in a more efficient and transparent targeting of auditing efforts, which, in turn, was expected to generate higher revenues and reduce tax non-compliance. The latter was measured by the increase in average amounts owed per taxpayer audited (that is, by the increased efficiency of the tax audit).

The RI4 target set for PA4 was achieved. Measuring the increase in average amounts owed per taxpayer audited (that is, the increased efficiency of the tax audit), resulted in a 21 percent increase in the average amount of tax received per audit (2020/2021) against a baseline of AMD 60.01 million (2018/2019), and a targeted increase of 10 percent. Achievement is rated **high**.

The RI5 target set for PA5 was in the process of being achieved. The RI focuses on screening large-scale projects (at or above US\$10.5 million) of which 50 percent would be subject to rigorous economic analysis, including estimating their internal rates of return. At the time of Program closing, 15 projects were in the pipeline and ten at the pre-appraisal stage. Where the RI fell short and rendered results on coverage less useful was the absence of information on the share of investments being monitored and hence providing only partial understanding of the efficiency of public investments. Based on that, achievement is rated **modest**.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

Strengthening anti-corruption initiatives including the performance of the justice sector and civil service

Rationale

Supported by PAs 6-8; progress measured by RIs 6-8



The objective was to be achieved by strengthening (i) anti-corruption mechanisms; (ii) justice services; and (iii) civil service reform.

The RI6 targets set for PA6 - strengthening anti-corruption mechanisms - were being met. The RI6a target for PA6a -implementing the Government's anti-corruption strategy and action plan, and its whistleblower strategy (RI6b) – were met with all actionable items in the anti-corruption strategy under implementation at project closing. The RI6b target for PA6b was met with 39 percent of whistleblower complaints being pursued against a target of at least 30 percent. The achievement of those two RIs is rated **high**.

The RI7 targets set for PA7 to strengthen justice service were substantially met. The RI7a target for PA7a concerning justice sector reform and processing of civil cases, was substantially achieved with 100 percent of action items underway, equal to the target. Of these, 33 percent had been completed by project closing, against a target of 60 percent. Achievement of RI7a is rated **substantial**.

The RI7b target for PA7b concerning the share of small claims eligible for streamlined treatment in small claims court saw a 15 percentage point decline rather than a targeted 10 percentage point increase. The result was influenced by external circumstances, including COVID-19 and the introduction of measures to mitigate the effects of the COVID-related lockdown on small businesses. Achievement of RI7b is rated **negligible**.

Achievement for RI7 overall is rated **modest**.

The RI8 target for PA8 concerning institutions included in the civil service performance management reform reached all 68 public agencies covered by the law compared to a baseline of 40 agencies and a target of 60 agencies. Achievement of this item is rated **high**.

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The overall achievement of objectives for this operation is rated **moderately satisfactory** based on the efficacy ratings for each objective. Objective 1, on economic governance, was rated moderately unsatisfactory based on the status of targets at Program closing: while it fell short on all three, efforts to introduce competition into the provision of state aid were partly successful, efforts at improving the quality and impact of laws and regulations, as well as introducing more efficient customs processes, remained at the pilot stage. Objective 2, on fiscal governance, was rated moderately satisfactory, achieving its target for revenue mobilization, but only in the process of achieving its target for public investment management. Objective 3 on strengthening public sector governance was rated satisfactory. It achieved two of its targets – anti-corruption and civil service reform - and partly its target for justice services, while falling short on streamlining the small claims process.



Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

Relevance of PAs was rated moderately satisfactory with two S ratings, five MS ratings, and five MU ratings. The calculation takes into account split ratings. Overall efficacy was rated Moderately Satisfactory, reflecting strong performance in revenue generation and public investment management, albeit tempered by shortfalls in meeting targets for economic governance, where the immediate effects of policy changes were recorded (institution in place) but not key intentions (speedier transit). The latter reflected immediate institution-building results, but not longer term impact, which could have led to a better (or worse) rating.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Political risk. While Bank staff consider the current government's resolve to proceed with reforms to be strong according to the ICR (page 28), political uncertainties following the regime change and the war in Afghanistan may change policy priorities, especially if there is a change in the government. In turn, that could occur if the reform process is slow and public support is eroded. This is particularly likely given the tentative nature of a number of the prior actions.

Governance. The operation is based on the assumption that the new government will remain committed to good governance and anti-corruption. If that does not happen, or there are significant changes in government or the civil service, achievements in governance aimed at with this project may well not be achieved. In the meantime, the Bank team indicates that it will work with the client to maintain governance issues high on the agenda.

Institutional risk. Both political and governance risks which influence full achievement of all three areas of governance, also influence the still early stages of implementation of the PAs, some of which lay the legal and institutional foundations for better governance, but still need to evolve over time to ensure longer-term continuity of reforms.

COVID-19. Covid-19 had a significant impact on the speed of reform during the implementation of the operation, and it could still have adverse effects on the implementation of PDO reforms depending on the pace of decline of its prevalence.



If the above risks materialize, they will weaken the Government's efforts to strengthen all three areas of governance: efforts at improving competition, trade, and regulatory processes; efficiency of revenue mobilization and public investment; and anti-corruption efforts and streamlining of the civil service.

However, these risks may well diminish over time. Already, results indicators and field-level surveys confirm a decline in corruption, pointing to the likelihood that the Government will maintain its commitments. However, technical assistance must be provided in a timely manner. For example, the Bank, USAID, and an EU-Bank trust fund provide ongoing technical assistance to support the RIA framework, yet a critical component provided by the Bank was delayed, with a knock-on effect on the achievement of the targeted result. Future assistance needs to be carefully sequenced with policy advances to reduce the risk of further delays.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

At a high level, the operation was strategically relevant and aligned with Government and World Bank priorities. It was introduced following a change in government and a change in priorities, with the new government emphasizing good governance and anti-corruption. Previous Bank interventions had also focused on governance (a programmatic DPL series, and tax administration and a public administration project), and provided some background for the current operation, albeit now applied to a more favorable environment. Past experience may have guided program design and influenced the choice of relatively modest, albeit pragmatic, prior actions and results indicators where actions often did not sufficiently address underlying governance issues, for instance as reflected in several RIs. A more ambitious approach may also have been limited by the single tranche approach (driven by constraints on foreign borrowing). That said, the Bank did seek to draw benefit from a government committed to change in critical areas - the Bank team notes that PAs were set more ambitiously under this, limited operation, than might have been the case in a programmatic operation.

The operation was prepared taking into account the new orientations of a new government - to strengthen governance and address corruption. In doing so, it built on previous experience (studies and analytical work, interactions with civil society and donors, and other Bank projects and programs).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale



The operation was supported by technical assistance and advisory services throughout the short period of implementation. Supervision was supported by World Bank staff located in the field plus several initiatives that had further backing in other ongoing (investment) projects.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

The operation was prepared taking into account the new orientations of a new government - to strengthen governance and address corruption. In doing so, it built on previous experience (studies and analytical work, interactions with civil society and donors, and other Bank projects and programs). While the Bank team noted that the interventions were appropriate for the new political environment and in fact benefited from it, interventions nevertheless appear cautious in some instances.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

None identified.

b. Environmental

None identified.

c. Gender

None identified.

d. Other



None identified.

10. Quality of ICR

Rationale

The ICR is mostly thorough and candid in its assessment of the operation. It provides a coherent narrative that allows challenges to be understood and allow the logical sequence of events from prior actions to indicators to outcomes to be understood and be evaluated. Still, the analysis could have gained if, for example, indicators such as technical assistance and advisory services could have been provided with some content. Beyond that, all the sections were thorough and provided sufficient material for the evaluator to make their own judgements about the processes and conclusions.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Moderately Satisfactory	Outcome reflects both relevance of PAs and efficacy being rated MU.
Bank Performance	Satisfactory	Moderately Satisfactory	The rating was influenced by discordance between actions taken (PAs) and actions required for good governance
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

The following lessons are drawn from the ICR:

Political economy, and prior work and investment lending, should be carefully assessed for successful results. The operation was largely based on a change in the political economy that was believed to open the door for substantive governance reform and stronger anti-corruption policies. Still, several policy changes in the



DPO fell short of generating significant reforms, indicating insufficient political economy analysis and a policy environment that was not as ripe for substantial change as expected.

IEG added additional lessons:

A stand-alone policy-supporting operation can gain from a more discerning review of past experience. When much of the focus of an operation is on strategies, action plans and institution-building, a more nuanced review of past experience may be called for, especially when, as noted above, there appears to be political change.

Technical assistance can complement the policy actions supported by a DPO, but the timing is critical. In his case, a delay for external reasons of 18 months in providing the Bank's technical assistance support to the RIA department led to missing an expected targeted result.

Tax audits can be effective in bringing discipline into tax administration. Critical to tax compliance and tax collection efficiency is a rigorous tax audit system that relies on objective rules-based criteria. In Armenia, collusion between the tax office and the private sector vested interests generated significant tax evasion, weakening competitiveness and public finances. Introducing a case management audit system into the tax authority ensured that the audit process followed a digitalized process with random assignment of inspectors and thereby limiting discretion.

13. Project Performance Assessment Report (PPAR) Recommended?

No