



**The World Bank**

Armenia Development Policy Operation (P169624)

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# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 06-Jun-2019 | Report No: PIDC25924

**BASIC INFORMATION****A. Basic Project Data**

Country Armenia	Project ID P169624	Project Name Armenia Development Policy Operation: Fiscal, Economic and Public Sector Governance (P169624)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Oct 29, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Economy, Ministry of Finance, Ministry of Justice		

**Proposed Development Objective(s)**

To support the government to strengthen economic, fiscal and public sector governance by improving: (i) the investment climate through streamlined, pro-competition and pro-business regulations and processes (Economic Governance - DPO Pillar 1), (ii) fiscal quality through increased tax compliance and spending efficiency (Fiscal Governance - DPO Pillar 2), and (iii) public sector efficiency and accountability through strengthened anti-corruption and performance management in selected areas (Public Sector Governance - DPO Pillar 3).

**Financing (in US\$, Millions)****SUMMARY**

<b>Total Financing</b>	50.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	50.00
World Bank Lending	50.00

**Decision**

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

The proposed Armenia Development Policy Operation (DPO) supports the government to strengthen economic, fiscal and public sector governance by improving: (i) the investment climate through streamlined, pro-competition and pro-business regulations and processes (Economic Governance - DPO Pillar 1), (ii) fiscal quality through increased tax compliance and spending efficiency (Fiscal Governance - DPO Pillar 2), and (iii) public sector efficiency and accountability through strengthened anti-corruption and performance management in selected areas (Public Sector Governance - DPO Pillar 3). This operation is anchored in the 2019-23 Government Program approved by the Parliament in February 2019, and in the Country Partnership Framework (CPF) for FY19–23 endorsed by the World Bank Board in March 2019. This would be a stand-alone IBRD operation in the amount of US\$50 million.

The current political context in Armenia is historic. Following the 2018 velvet revolution, the newly elected government has brought a renewed commitment to good governance, including anticorruption efforts, transparency, and accountability. In addition, shortly after announcing the “governance” revolution, an “economic” revolution was proclaimed, aimed at focusing reforms also on competitiveness and economic growth. That said, translating the political revolution into measurable governance improvements will be challenging and take time.

Armenia is a small landlocked country with a GDP per capita of US\$3,813 and a population of 3 million. While some progress in poverty reduction was achieved during the post-crisis recovery, poverty reduction has slowed considerably, showing meaningful reductions only in 2012 and 2017. Income distribution, meanwhile, has become less equal in the same period. One of the key challenges identified in the SCD is the country’s low export base and limited global connectivity caused by high trade and transport facilitation costs. Another key challenge is that firms appear constrained in their ability to lift productivity against the background of unfinished investment climate reforms and limited competition. Lastly, the SCD acknowledges the need to improve public sector governance as a key cross-cutting enabler of shared prosperity. The DPO supports measures to address these challenges.

Risks to the proposed operation are substantial. While macroeconomic risks are moderate, a protracted ongoing government restructuring has heightened the political, governance and institutional capacity risks to substantial, as well as risk to the technical design and impact of the program to high. To mitigate these risks, measures are being put in place, including technical and capacity-building assistance, and mitigations measures built-in the proposed operation itself. In addition, a just approved precautionary 36-month Stand-By Arrangement with the IMF helps anchor the government reform program implementation.

### Relationship to CPF

The DPO series is fully aligned with the newly approved Country Partnership Framework for FY19-FY23. The CPF focuses on (i) Export enablers and firm competitiveness, (ii) human capital management and equity, and (iii) sustainable management of environment and natural resources. The current DPO series supports pillars (i) and (ii) of the CPF. It should be noted that that governance being a cross-cutting theme, the operation will support the CPF implementation across all its pillars. The CPF is fully consistent with the 2019 government’s program.

The DPO supports the Bank’s twin goals of reducing poverty and boosting shared prosperity and more specifically the findings and recommendation of the Armenia Systematic Country Diagnostic (SCD). Against the background of external vulnerabilities and limited public resources, the SCD recommends strengthening fiscal sustainability and increasing the fiscal available space, as supported under the first pillar of this operation. It recommends rebalancing of Armenia’s economic growth drivers towards exports and improve the investment and competition climate to healthy firms’ entry, exit and productivity, which is supported by the second DPO pillar. It promotes governance as a cross-cutting priority and focuses on improving the quality of policy-making and fighting corruption, as supported by the third, and to some extent, first pillar of the proposed operation.



### C. Proposed Development Objective(s)

To support the government to strengthen economic, fiscal and public sector governance by improving: (i) the investment climate through streamlined, pro-competition and pro-business regulations and processes (Economic Governance - DPO Pillar 1), (ii) fiscal quality through increased tax compliance and spending efficiency (Fiscal Governance - DPO Pillar 2), and (iii) public sector efficiency and accountability through strengthened anti-corruption and performance management in selected areas (Public Sector Governance - DPO Pillar 3).

#### Key Results

Key results supported by the operation include: in economic governance, improved regulatory quality and predictability through better practices for evidence-based, transparent and consultative rulemaking; faster and more efficient movement of goods across borders and more efficient customs clearance process; improved regulatory quality of the investment climate and improved investor confidence; and a framework to minimize the distortive effects of state aid on market competition, thereby strengthening a more level playing field and boosting competition. In fiscal governance, a more efficient and transparent targeting of auditing efforts and improved tax compliance; improved quality of public investment, leading to higher productivity of public investment; with strategic procurement and realistic cost estimation, an improved competition with more bidder's participation. In public sector governance, strengthened transparency and anti-corruption mechanisms through disclosure of income and assets declarations and conflict of interest avoidance; strengthened transparency and accountability of the justice sector; strengthened strategic role of the public service, its efficiency and effectiveness and its performance; streamlined and rationalized functions and resources for environmental and climate change management.

### D. Concept Description

The first pillar on Economic Governance intends to support better economic governance, through an improved scrutiny over the quality and quantity of new regulations (prior action 1.1: Regulatory Impact Assessment (RIA)), better custom management (prior action 1.2), an improved investment climate (prior action 1.3) and the initiation of a State Aid Control framework (prior action 1.4). The second pillar on Fiscal Governance intends to support better fiscal governance, through improved tax administration (prior action 2.1), and strengthened public spending efficiency and productivity with a more robust public investment management (prior action 2.2), and more strategic approach to public procurement (prior action 2.3). The third pillar on Public Sector Governance intends to support public sector efficiency, transparency and accountability, the main principles that emerged during the Velvet revolution and are highlighted in the second pillar of pillar of the government program. These objectives are cross-cutting themes and are also reflected in the other two DPO pillars, such as on tax management, public investment management and procurement

### E. Poverty and Social Impacts and Environmental Aspects

#### Poverty and Social Impacts

The overall program is expected to yield positive poverty and social impact in the medium term. It addresses issues such as business environment, fiscal sustainability and quality of fiscal policy and public administration, critical for sustainable poverty reduction and shared prosperity in the medium term.

#### Environmental Impacts

Proposed prior actions are likely to have positive to neutral impact on environment, forests and natural resources. The economic governance pillar aims at improving the investment climate, and as such, might have positive impact on environment through an enhanced regulatory environment. Similarly, the fiscal governance pillar which aims at improving fiscal outcomes (sustainability and quality of fiscal policy), is expected to have a positive to neutral environmental impact by improving the quality of spending policies. The public sector governance pillar will yield neutral or positive impact on environment, through increased strategic resources available for environmental and climate change purposes.

**CONTACT POINT****World Bank**

Genevieve F. Boyreau  
Program Leader

**Borrower/Client/Recipient**

Ministry of Finance  
Armen hayrapetyan  
Deputy Minister  
aavanesyan@mineconomy.amarmen.hayrapetyan@minfin.am

**Implementing Agencies**

Ministry of Economy  
Avag Avanesyan  
Deputy Minister  
aavanesyan@mineconomy.am

Ministry of Finance  
Armen Hayrapetyan  
Deputy Minister  
armen.hayrapetyan@minfin.am

Ministry of Justice  
Artak Asatryan  
First Deputy Minister  
artak.asatryan@justice.am

**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):	Genevieve F. Boyreau
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**Approved By**

Country Director:

Mercy Miyang Tembon

14-Jun-2019