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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF ARMENIA

FOR THE PERIOD FY19–FY23

February 28, 2019

**South Caucasus Country Management Unit
Europe and Central Asia Region**

**The International Finance Corporation
Europe and Central Asia Department**

Multilateral Investment Guarantee Agency

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**Last Country Partnership Strategy FY14-FY17 discussed on November 7, 2013 and updated through a
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CURRENCY EQUIVALENTS

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Currency Unit Armenian Dram

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IDA	International Development Association
AFD	<i>Agence Française de Développement</i> (France)	IFC	International Finance Corporation
APA	Alternative Procurement Arrangements	IMF	International Monetary Fund
APSAS	Armenian Public Sector Accounting Standards	IPF	Investment Project Financing
ARMEPS	Armenian Electronic Procurement System	JICA	Japan International Cooperation Agency
ASA	Advisory Services and Analytics	JSDF	Japan Social Development Fund
CARMAC	Community Agriculture Resource Management and Competitiveness	LEIDP	Local Economy and Infrastructure Development Project
CBA	Central Bank of Armenia	MIGA	Multilateral Investment Guarantee Agency
CEPA	Comprehensive and Enhanced Partnership Agreement	MSME	Micro, Small & Medium Enterprises
CGAP	Country Gender Action Plan	NCD	Non-communicable Diseases
CLR	Completion and Learning Review	NGO	Non-Governmental Organization
CMU	Country Management Unit	NSS	National Statistical Service
CPF	Country Partnership Framework	PBG	Policy Based Guarantee
CPS	Country Partnership Strategy	PEFA	Public Expenditure and Financial Accountability
DPCP	Disease Prevention and Control Project	PFM	Public Financial Management
DRM	Disaster Risk Management	PHC	Primary Health Care
EAEU	Eurasian Economic Union	PIU	Project Implementation Unit
EBRD	European Bank for Reconstruction and Development	PLR	Performance and Learning Review
ECA	Europe and Central Asia	PPP	Public-Private Partnership
EDB	Eurasian Development Bank	PSMP	Public Sector Modernization Project
EIP	Education Improvement Project	PSRC	Public Services Regulatory Commission
EITI	Extractive Industries Transparency Initiative	PV	Photovoltaic
ENA	Electric Networks of Armenia	SABER	Systems Approach for Better Education Results
ESMAP	Energy Sector Management Assistance Program	SCD	Systematic Country Diagnostic
EU	European Union	SDC	Swiss Agency for Development and Cooperation
FBP	Family Benefit Program	SILD	Social Investment and Local Development
FDI	Foreign Direct Investment	SPAP	Social Protection Administration Project
FFPMC	Foreign Financing Projects Management Center	SREP	Scaling-up Renewable Energy Program
FSAP	Financial Sector Assessment Program	STEM	Science, technology, engineering, and mathematics
GDP	Gross Domestic Product	TA	Technical Assistance
GFMIS	Government Financial Management Information System	TEN-T	Trans-European Transport Network
GIZ	German International Cooperation, <i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>	UNDP	United Nations Development Programme
GSP	Generalized Scheme of Preferences	UNICEF	United Nations Children's Fund
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICT	Information and Communications Technology	WBG	World Bank Group

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**FY19–FY23 COUNTRY PARTNERSHIP FRAMEWORK FOR
THE REPUBLIC OF ARMENIA**

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FY19–FY23 COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF ARMENIA

I. INTRODUCTION

1. **The Country Partnership Framework (CPF) for FY19–FY23 outlines a program of support to the Government of Armenia’s vision for a just, inclusive, and citizen-centric Armenia.** The five-year Government Program, adopted by the parliament in February 2019, builds on the vision outlined in the wake of Armenia’s “velvet revolution” in the spring of 2018 and embodies fresh political will to overcome Armenia’s development constraints and deepen reforms through a strong commitment to fighting corruption, strengthening the rule of law, and enhancing human capital. It aims to accelerate economic growth and reduce poverty by building a competitive, inclusive, and modern export-led economy through sustained improvements in economic and social sector performance, public administration, and environmental management.

2. **The proposed World Bank Group (WBG) strategy will capitalize on the new momentum for deeper reforms and commitment to good governance brought about by recent political changes in Armenia to support a rebalancing of the economy toward a new growth model.** The CPF proposes to focus on: (i) boosting export enablers and firm competitiveness; (ii) enhancing human capital and equity; and (iii) sustainably managing environmental and natural resources. In supporting Armenia’s efforts to build a new, more inclusive growth model, the CPF will seek opportunities under each focus area to incorporate key elements of good governance and inclusion: public accountability and transparency, citizen engagement, gender equity, spatial equity, and digital connectivity. The CPF focus areas were informed by extensive stakeholder consultations with the government, development partners, the private sector, and civil society; by the development challenges and opportunities highlighted in the Government Program and the WBG’s Systematic Country Diagnostic (SCD) for Armenia; and by lessons learned in implementing the previous Country Partnership Strategy (CPS) for FY14–FY17 (Report #81647) discussed by the Executive Directors on November 7, 2013.

3. **The CPF will be implemented adaptively given the current constrained fiscal environment.** Within the confines of Armenia’s fiscal rule and debt sustainability considerations, the CPF program will be highly selective to maximize its impact on the WBG’s twin goals of eliminating extreme poverty and boosting shared prosperity. The WBG will underpin this approach through a flexible implementation strategy based on three engagement principles to maximize development impact. First, the WBG will seek to *catalyze* development and private sector partners around high-priority investments. Second, the WBG will draw on its international knowledge and implementation experience to help the government *explore* areas in which Armenia can best benefit from the new, frontier experience of other countries and customize these approaches to the specific needs of the country. Third, the WBG will seek to *optimize* the existing portfolio to maximize its relevance and contribution to Armenia’s new development goals. A Performance and Learning Review (PLR) will be prepared midterm to evaluate progress and make any adjustments needed to respond flexibly to evolving government and country priorities.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and Political Context

4. **In the spring of 2018, large nationwide and peaceful street protests—referred to as the velvet revolution—forced Armenia’s long-standing leader from power.** The country had just completed its move

from a semi-presidential system to a parliamentary republic as per constitutional amendments passed in 2015. Under the new political system, the prime minister's office became the center of power while the president was elected through the parliament. The outgoing president's subsequent appointment as prime minister, despite public statements that he would not seek the post, sparked vibrant street protests that led to his resignation.

5. Nikol Pashinyan, a member of the parliamentary opposition who had led the protest movement, was appointed prime minister. In June 2018, the parliament passed a Government Program that committed to new and fair parliamentary elections within a year and prioritized better governance and rule of law, including the fight against corruption, open market competition, human capital development, and better links to the Armenian diaspora to spur economic growth, job creation, and poverty reduction. Parliamentary elections in December 2018 yielded a solid majority for Prime Minister Pashinyan's centrist My Step alliance. The two-party alliance received 70.4 percent of the vote and now holds 88 of 132 seats in parliament. A new government was formed and put forward a new five-year Government Program, which was endorsed by parliament in February 2019 and is broadly in line with the vision laid out in the immediate aftermath of the velvet revolution.

6. While the scale of street protests and rapid toppling of the government took everyone by surprise, Armenians' discontent with their government had been building for several years.¹ Although the country has undertaken some reforms in recent years, Armenia performs poorly with respect to regional comparators on corruption-specific indicators. The country ranks 105th of 180 countries in Transparency International's Corruption Perceptions Index 2018,² and in the bottom third of countries in the 2017 Worldwide Governance Indicators on control of corruption, voice and accountability, and political stability.³ The World Economic Forum's 2018 Global Competitiveness Index highlighted issues in Armenia related to ineffective government internal control frameworks, a lack of judicial independence, and the absence of merit considerations in promoting civil servants.⁴ Governance concerns have been raised in other areas of public and economic life, as well. In education, the politicization of schools and universities has diverted focus from the primary aim of improving learning outcomes. Weak management of the health care system has led to poor health outcomes and exorbitantly high out-of-pocket spending by households. Poor implementation of environmental laws and regulations has generated significant environmental liabilities or "legacy pollution" in industries such as mining.

7. The new government has brought a new commitment to anticorruption efforts, good governance, transparency, and accountability in Armenia. These efforts have so far resulted in measures to reclaim unpaid taxes among politically linked businesses and a call for businesses to operate transparently. Both analysts and citizens report reduced corruption and *The Economist* named Armenia its Country of the Year in 2018, citing the prospects for democracy and renewal following the velvet revolution.⁵

8. Armenia's geopolitical constraints call for deeper improvements across the economy than might be needed to achieve similar development outcomes in less constrained environments. Armenia is

¹ In the 2017 Caucasus Barometer—a biannual public opinion survey by Armenia's Caucasus Research Resource Center—45 percent of respondents felt that Armenia's politics were going in the wrong direction, and 59 percent that they had no trust in the executive government (much in line with the results of the previous survey in 2015).

² Transparency International. 2018. Corruption Perceptions Index 2018. Available at: <https://www.transparency.org/cpi2018>.

³ D. Kaufmann, A. Kraay, and M. Mastruzzi. 2010. "The Worldwide Governance Indicators: Methodology and Analytical Issues." Interactive dataset available at: www.govindicators.org.

⁴ Klaus Schwab, ed. *Global Competitiveness Report 2018*. Geneva: World Economic Forum. Available at: <http://reports.weforum.org/global-competitiveness-report-2018/>.

⁵ Economist. 2018. "What Happens Next in Armenia?" December 12.

landlocked, and two of its four borders are closed. Georgia and Iran are the only currently available trade routes, and transit is subject to delays and unpredictability. These constraints make it harder for Armenia to improve its external performance and deliver the export-led growth it needs. This calls for deeper improvements in overall regulatory and institutional frameworks, along with effective human capital development programs to unleash the entrepreneurial and innovation potential of the Armenian people.

9. Significant demographic changes in Armenia pose challenges to its reform ambitions. The country's population is aging and shrinking. The total population has declined from around 3.5 million people in 1990 to just under 3 million in 2018. The elderly make up a rising share of the population, posing a growing need for social services that cater to this population group. At the same time, if sustained, positive public perceptions of a reform-minded government, coupled with emerging economic opportunities, could help mitigate the previous trend toward outmigration.

10. Gender gaps and imbalances constrain Armenia's achievement of its full economic potential. Armenia ranked 98th among 149 countries on the World Economic Forum's Global Gender Gap Index 2018,⁶ up from 105th in 2015. The WBG's 2016 Armenia Country Gender Assessment found that, while gender equality outcomes in Armenia are broadly comparable with regional and income comparator groups, gender inequalities persist in some areas. While improving, the sex ratio at birth is skewed, signaling a preference for sons over daughters—partly for economic reasons. In terms of health, although life expectancy in Armenia has increased overall in the past decade, these improvements have especially benefitted women, who now have a six-year longer life expectancy than men. In terms of education, although there are 1.5 women for every man enrolled in tertiary education, only 60 percent of women participate in the labor force, with the widest gap among those aged 25 to 34 years. There is a clear “gender streaming” dynamic in the subjects that people choose to study, with women tending to focus on social sciences, education, and health rather than science, technology, engineering, and math (STEM) fields. This imbalance lays the foundation for gender-based sector, occupational, and wage differences. Women face an average earnings gap of 33 percent.⁷ Women's childcare responsibilities are a key constraint to their labor force participation, and women are more likely than men to engage in own-account farm activities and unpaid work. In the public sphere, as in the private sector, women's share in leadership roles remains limited. Overall, women's lagging participation in employment and entrepreneurship is a misallocation of Armenia's human resources potential, and these gaps cause lower economic output equivalent to 14 percent of gross domestic product (GDP).⁸

2.2 Recent Economic Developments and Outlook

11. Strong economic growth since early 2017 in Armenia has moderated recently. Pulled along by a recovery in external demand for goods and services—primarily tourism—and a strong rebound in domestic demand in response to increases in disposable income, remittances, and investment, the economy grew by 7.5 percent in 2017 and by 8.5 percent in the first six months of 2018. Growth slowed to around 3 percent in the second half of 2018, however, bringing the annual growth rate to a still healthy 5.2 percent. This deceleration reflects less favorable external conditions, slow execution of public capital expenditures,

⁶ World Economic Forum. 2018. *The Global Gender Gap Report 2018*. Geneva: WEF. Available at: http://www3.weforum.org/docs/WEF_GGGR_2018.pdf.

⁷ National Statistical Service of the Republic of Armenia. 2016. *Women and Men in Armenia 2016: Labor Market*. Available at: http://www.armstat.am/file/article/gender_2016_6.pdf.

⁸ World Bank. 2016. *Armenia Country Gender Assessment*. World Bank. Washington DC: World Bank. Available at: <http://documents.worldbank.org/curated/en/250481491242159715/pdf/113990-WP-P157626-PUBLIC-Armenia-Gender-Assessment-2016.pdf>.

disruptions at two of the larger mines, and a weak agriculture harvest. While larger disturbances were avoided during the political transition, the climate of uncertainty may have weighed on economic sentiments.

12. Macroeconomic management has been broadly prudent, but vulnerabilities remain. While the government's response to a series of shocks over the last decade depleted fiscal buffers, a robust fiscal rule and an increasingly coherent medium-term fiscal framework provide a credible anchor. Inflation was 2.5 percent in 2018 (within the tolerance band of the central bank's 4% target). Armenia traditionally runs a sizeable deficit in trade in goods, offset by large remittances, making it vulnerable to fluctuations in commodity prices and economic developments in the Russian Federation. The current account deficit, which averaged 2.4 percent of GDP between 2015 and 2017, is expected to have widened to around 8 percent of GDP in 2018 as domestic demand strengthened and transfers from Russia stabilized following a weakening in the ruble in mid-2018. Modest inflows of foreign direct investment (FDI) and increased borrowing in recent years have financed the deficit and allowed the central bank to keep reserves at a generally adequate level. While there is no evidence of misalignment of the real effective exchange rate, it has been appreciating gradually since mid-2017. The Armenian financial sector is stable, highly liquid, and well-capitalized, with a systemwide capital adequacy ratio of 17.4 percent and nonperforming loans at 6.9 percent in November 2018. The regulatory framework is increasingly in compliance with good international practice, and the central bank's supervisory capacity is sound and improving. However, external vulnerabilities and high dollarization expose both banks and borrowers to a currency mismatch risk.

13. After rising until 2016, Armenia's public debt is now contained and remains sustainable, with continued consolidation efforts.⁹ Two major external shocks of the last decade led to fiscal expansion and a rise in public debt above 50 percent of GDP, triggering the country fiscal rule and fiscal consolidation.¹⁰ In 2018, the budget overperformed as a result of both improved revenue administration and underperformance on capital expenditures, leading to a slight decline in Armenia's government debt, at US\$ 6.4 billion or 51.4 percent of GDP at the end of the year. While Armenia is gradually transitioning toward market-based financing, official creditors still account for 60 percent of debt outstanding, keeping the debt servicing burden manageable. With 80 percent of debt denominated in foreign currency, however, debt is vulnerable to growth, exchange rate shocks, and market sentiments. Repayment of Eurobonds in 2020 and 2025 will sharply increase the government's financing needs, which—combined with tighter international capital markets—will put a premium on prudent economic management.

14. Progress on the reform agenda will expand Armenia's economic potential in the medium term, while GDP growth is expected to slow down in the short term as the impact of some factors driving the recent economic rebound dissipates. In the baseline scenario, economic growth in Armenia is projected to slow to 4.3 percent in 2019. A slightly higher fiscal deficit, strong credit growth from a healthy financial sector, and improved business and consumer confidence are expected to support economic growth domestically. Externally, lower growth in Russia will moderate remittances, tourism, and goods exports. With output growth slightly below potential (around 4.5 percent in the medium term), inflationary pressures are likely to remain within the Central Bank of Armenia (CBA) target range. The current account deficit is likely to

⁹ IMF 2017 Debt Sustainability Assessment.

¹⁰ The fiscal rule, originally adopted in 2008, stated that if public debt exceeded 50 percent of GDP, the fiscal deficit for the next year would be reduced to below 3 percent of the average nominal GDP of the previous three years. It was amended in December 2017 to make it more flexible and remove the procyclical feature of the old rule. To control growth in current expenditures, the amendments introduced specific disciplinary expenditure rules that become effective when public debt (excluding CBA debt) levels reach certain thresholds (such as 40, 50, and 60 percent of GDP), while leaving some room for increases in capital expenditure. The revisions also added escape clauses to the fiscal rule in case of a significant internal or external shock.

decline only gradually as domestic demand remains robust but is expected to be financed increasingly by higher FDI. Over the medium term, structural reforms supported by the government would help guide a rebalancing from demand-driven growth to productivity-driven growth, signaling a positive change in the country's economic and poverty prospects.

Table 1. Baseline Scenario: Selected Macro-Fiscal Indicators

	2015	2016	2017	2018e	2019f	2020f	2021f	2022f
National Income and Prices								
Nominal GDP (AMD billions)	5044	5067	5569	6003	6365	6904	7497	8234
Nominal GDP per capita (US\$)	3512	3524	3872	4186	4283	4552	4893	5267
Real GDP growth (percent)	3.2	0.2	7.5	5.2	4.2	4.9	5.2	5.6
Gross investment (percent of GDP)	20.7	18.0	19.0	22.4	19.6	19.6	19.8	20.3
Consumer price inflation, period average (percent)	3.7	-1.4	1.0	2.5	4.0	4.0	4.0	4.0
Real exchange rate change (percent)	6.6	-0.8	-4.6	0.6	...	...	...	...
Average exchange rate (US\$/AMD)	477.9	480.5	482.7	483.0	...	...	...	...
External Accounts (current US\$ millions, unless otherwise indicated)								
Exports of goods and services	3136.3	3500.4	4306.8	4698.0	5007.4	5566.0	6265.0	6880.8
as percent of GDP	29.7	33.2	37.3	37.8	39.3	41.1	43.0	43.9
Imports of goods and services	4418.2	4516.2	5710.1	6515.0	6840.0	7558.1	8460.8	9187.7
as percent of GDP	41.9	42.8	49.5	52.4	53.7	55.8	58.1	58.6
Primary and secondary Incomes (net)	1009.4	777.7	1123.6	794.0	871.0	1068.0	1294.0	1449.3
as percent of GDP	9.6	7.4	9.7	6.4	6.8	7.9	8.9	9.2
Current account balance	-272.4	-238.1	-279.7	-1023.0	-961.6	-924.1	-901.8	-857.6
as percent of GDP	-2.6	-2.3	-2.4	-8.2	-7.6	-6.8	-6.2	-5.5
Foreign direct investment, net	161.5	271.9	227.5	286.8	328.0	391.4	478.5	548.6
as percent of GDP	1.5	2.6	2.0	2.3	2.6	2.9	3.3	3.5
Public external debt, total	4316.2	4805.6	5494.9	5532.8	5641.3	5757.0	5986.3	6190.4
as percent of GDP	40.9	45.6	47.6	44.5	44.3	42.5	41.1	39.5
Consolidated Fiscal Accounts (percent of GDP)								
Revenues	23.8	23.8	22.9	23.0	24.0	24.1	24.3	24.5
Expenditures	28.6	29.3	27.7	24.8	26.3	26.1	26.3	26.5
Capital expenditures	3.5	3.4	4.4	2.5	...	...	...	...
Overall fiscal balance	-4.8	-5.5	-4.8	-1.8	-2.3	-2.0	-2.0	-2.0
Government debt	44.1	51.9	53.7	51.4	51.6	50.9	49.9	48.5
Social Indicators								
Poverty rate (national, percent)	29.8	29.4	25.7	...	...	...	...	...
Unemployment rate (percent)	18.5	18.0	17.8	...	...	...	...	...

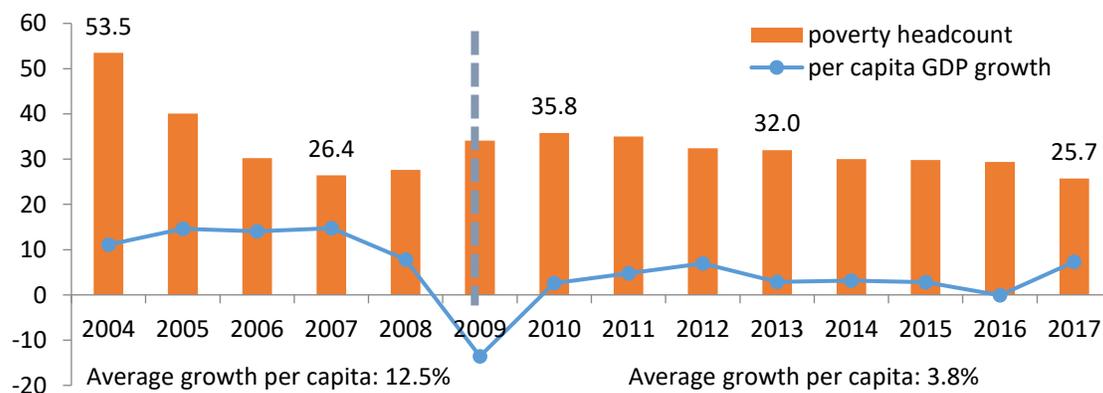
Source: World Bank staff calculations based on data published by National Statistical Service (NSS), CBA, and World Bank Global Economic Prospects.

2.3 Poverty and Shared Prosperity

15. **Armenia made significant progress in reducing poverty from a peak of close to 54 percent in 2004 to 25.7 percent in 2017.** These gains were driven largely by growing labor income and earnings from employment growth, notably in the construction sector, and agricultural sales in rural areas during the double-digit growth period of the 2000s. International outmigration reduced pressure on the domestic labor market, and remittances supported consumption growth among all households. Social transfers through contributory old-age pensions and the Family Benefit Program (FBP) boosted consumption among the elderly and provided a cushion to poor and vulnerable households.

16. **Poverty reduction has slowed considerably since the 2008–09 global financial crisis, however, showing meaningful reductions only in 2012 and 2017.** The most recent available data show that Armenia still has one of the highest poverty rates in Europe and Central Asia (ECA),¹¹ with over one-fourth of its population living in poverty (Box 1). The slower pace of poverty reduction can be attributed to: (i) a deterioration of the external environment since the onset of the global financial crisis; (ii) the collapse of the construction sector and the resulting loss of many low-skilled jobs; (iii) sharp declines in remittances during the global financial crisis and again during the Russian crisis in 2014–15; and (iv) the exhaustion of fiscal buffers to support higher public transfers. The post-crisis slowdown in poverty reduction coincides with broadly lower rates of economic growth (Figure 1), whereas the two years during which poverty declined in a meaningful way coincided with higher growth rates (7.2 percent in 2012 and 7.5 percent in 2017). This means that, for Armenia to increase the pace of poverty reduction, it needs to increase the pace of economic growth. To this end, the strong economic rebound in 2017–18 and the positive economic outlook provide a useful platform.

Figure 1. Poverty and Growth in Armenia, 2004–17



Source: World Development Indicators and NSS for national poverty rates.

17. **The 2009 economic contraction hit those in the bottom 40 percent of the income distribution particularly hard, with important implications for shared prosperity.** During the 2000s, the bottom 40 percent of the population experienced annual growth in mean consumption of 5.6 percent, above the average for the total population of 2.4 percent. This inclusive pattern of growth stopped suddenly when the global financial crisis hit Armenia. Indeed, between 2008 and 2010, the average consumption expenditure

¹¹ In 2017, 12.3 percent of the population in Armenia lived below the World Bank international poverty line for lower-middle-income countries of US\$ 3.20 per person a day on purchasing power parity terms in 2011 dollars, which is the fourth highest poverty rate among ECA countries with available data.

of the bottom 40 percent declined by 7.5 percent a year—more than that for the overall population. Since then, growth did not revert to the pre-crisis inclusive pattern. Between 2012 and 2017, mean consumption among the bottom 40 percent grew by only 1.8 percent—below the overall growth rate of 3.2 percent.¹² These divergent growth patterns increased inequality, such that the Gini coefficient for consumption rose from 0.265 in 2010 to 0.289 in 2017.

Box 1. Distinctive Features of Poverty in Armenia

Close to 750,000 people continue to live below the national poverty line, and a large share of the population remains vulnerable to shocks. Poverty in Armenia has three distinctive features that present significant challenges to sustainable poverty reduction:

1. Regional disparities between the capital, Yerevan; other urban areas; and rural areas persist due to limited economic activity and a lack of job creation beyond the agricultural sector. The poverty headcount is highest in urban areas outside the capital city, at 27.9 percent in 2017, with elevated levels of unemployment and emigration. Poverty in rural areas is 26.8 percent. Over two-thirds (70 percent) of Armenia’s poor people, therefore, live in secondary cities and rural areas. The lowest poverty rate is in Yerevan, at 22.4 percent.

2. Many households experience multiple and overlapping deprivations linked to deficits in the human capital endowment, including low levels of education and access to health; insufficient access to economic opportunities; and inadequate access to good housing conditions, well-functioning infrastructure, and public services.¹³ The share of households in which no household member has more than a secondary education is higher for the lowest income quintile than for the highest (6.1 percent versus 3.9 percent). Similarly, the share of households reporting limited access to health services due to concerns about affordability is much higher at the bottom of the welfare distribution (22.7 percent versus 8.4 percent). Poor households are often employed in the informal sector,¹⁴ and female labor force participation is below those of more advanced economies in ECA,¹⁵ reflecting limited access to child and elderly care services and increasing the risk of poverty among female-headed households. Poverty rates among majority-female households are higher than in majority-male households (33.5 percent and 27.6 percent, respectively). A larger number of dependents (both children and the elderly) increase a household’s risk of poverty.

3. Vulnerability to poverty persists, and a large share of households are at risk of falling into poverty if aggregate or idiosyncratic shocks such as unemployment and severe illness were to hit. Between 2010 and 2015, for every household that moved above the national poverty line, one fell beneath it.¹⁶ High unemployment, together with limited coordination between employment services and social assistance, create poverty traps that threaten the inclusiveness of growth. High out-of-pocket health expenditures compound these vulnerabilities.

¹² Population growth rate from ECAPOV (World Bank database of harmonized consumption data); consumption aggregate from the national household survey (ILCS), harmonized for international comparison.

¹³ Diana Martirosova, Osman Kaan Inan, Moritz Meyer, and Nistha Sinha. 2017. “The Many Faces of Deprivation: A Multidimensional Approach to Poverty in Armenia.” *World Bank Policy Research Working Paper* No. 8179. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/28356>.

¹⁴ According to the 2017 Labor Force Survey and the Statistical Committee definition of informality, informal employment represented 44.5 of total employment. Informal workers represent just above 18 percent of the nonagricultural workforce, but over 95 percent of the agricultural sector given the prevalence of self-employment and unpaid family workers in the sector.

¹⁵ Estimates of the labor force participation rate (as a share of the female population aged 15-64) are based on modeled estimates from the International Labour Organization for 2018. Armenia reports a female labor force participation of 58.1 percent, as compared to an average of 63.9 percent for all ECA countries.

¹⁶ Cancho, Fuchs, Meyer, and Tiwari. 2018. “South Caucasus in Motion – Economic and Social Mobility in Armenia, Azerbaijan and Georgia.” *World Bank Policy Research Working Paper* No. 8329. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/29317>.

2.4 Development Challenges and Opportunities

18. Facing much less favorable external conditions, Armenia requires a decisive shift toward the tradeable sectors to promote a new, more inclusive growth model. The SCD observed that historical drivers of growth and poverty reduction in Armenia have run their course. Armenia’s overreliance on windfall external financial inflows (remittances, mineral export earnings, FDI in the construction sector, and others) to finance growth and a large deficit between savings and investment could no longer be sustained. Going forward, to reignite inclusive and resilient growth, Armenia will need to embark on a shift toward the tradeable sectors and boost labor and firm-level productivity across the economy. The remainder of this section discusses the key development challenges (Table 2) faced by Armenia as it works to deepen reforms and move toward a new export-oriented model for increased productivity, inclusive economic growth, and good governance.

Table 2. Summary of Challenges and Constraints Identified in the SCD

Systematic Country Diagnostic	Weak External Sector Performance Exports of goods and services as a percentage of GDP remain relatively low and dominated by commodities and other low-value-added products	Underlying trade and logistics drivers explain low export performance: <ul style="list-style-type: none"> • High trade costs, most of which explained by geographical situation and closed borders (with Turkey and Azerbaijan) • Global connectivity (hard and soft) is lagging
	Limited Productivity Improvement at Firm Level Evidence suggests limited firm entry, exit and consolidation, leading to misallocation of resources, suggesting scope for efficiency gains	Major constraints on firm-level productivity growth include: <ul style="list-style-type: none"> • Important investment climate and governance gaps (public and corporate governance and transparency, regulatory quality, rule of law, corruption, conflict of interest) • Lack of competition, which takes a toll on the country’s attractiveness for FDI, on business productivity, and consumer welfare
	Deteriorating Quality of Human Capital Labor productivity growth slowed down significantly after the 2008 global financial crisis	Major constraints on labor level productivity growth include: <ul style="list-style-type: none"> • Limited labor market relevance of the education system • Mismatch between supply of and demand for skills and qualifications • Significant labor migration • Low participation of women in the labor market • Population aging and shrinking, which can reduce labor productivity and work participation
	Elevated Vulnerabilities Macroeconomic, demographic, environmental, and microeconomic	<ul style="list-style-type: none"> • Macroeconomic: High public debt • Microeconomic: Limited financial inclusion and low coverage of targeted Government transfers hamper people’s ability to cope with economic shocks • Demographic: Shrinking and aging population has implications for sustainability of pensions and health spending • Environmental: Climate change and depletion of natural resources affect environmental sustainability and constrain growth potential.

Weak external performance and limited productivity

19. Armenia’s key development challenge is to rebalance growth from internal to external demand, and from non-tradeable to tradeable sectors, by addressing poor export performance. Armenia’s external trade exposure is lower than that of its peers. Exports of goods and services were around 37 percent of GDP in 2017. Armenia is thus less integrated with global markets than its comparators. Its untapped export potential represents a significant opportunity for future growth.

20. In signing the Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union (EU), Armenia has expanded its access to international trade and economic opportunities. In 2015, Armenia had joined the Eurasian Economic Union (EAEU), which provides a free-trade zone to all EAEU members and could potentially attract to Armenia investors who are interested in accessing the EAEU. The EU CEPA, signed in 2017, establishes a solid basis for strengthening political dialogue, broadening the scope of economic and sectoral cooperation, creating a framework for new trade and investment opportunities, and harmonizing Armenian regulations with those of the EU. Located at the nexus of three large consumer markets—the Eurasian Economic Union (EAEU) (180 million consumers), the EU (512 million), and Iran (80 million)—Armenia could leverage its “multi-club economic membership” (Annex 3) to boost exports in key growth sectors. To do so, it will need to overcome existing high trade costs by improving multi-connectivity and supporting soft and hard infrastructure services, such as logistics, transport, energy, and digital infrastructure.

21. Pockets of productivity and export strength have emerged. The tourism industry is dynamic, and exports in the information and communications technology (ICT) sector are increasingly vigorous. Agribusiness products have expanded rapidly in recent years. Better understanding micro-business climates and the drivers of firm-level productivity in some of these sectors will be key to boosting Armenia’s private-sector-led growth. Despite these initial pockets of productivity, several constraints hold back Armenia’s progress in rebalancing growth and expanding exports.

22. Although agricultural productivity has increased in the past few years, several constraints prevent the sector from further transitioning away from informal and subsistence agriculture into a dynamic, export-oriented, modern sector with a diversified range of products and markets. These include Armenia’s limited areas of arable land, fragmented land ownership, the lack of widespread adoption of advanced technologies and management experience, outdated and uneconomical irrigation systems, and a large climate adaptation deficit. Agriculture is the most climate-sensitive of all economic sectors, yet Armenian farmers are not well adapted to current climate-related challenges. Nearly 40 percent of Armenia’s workforce relies on agriculture for a living, and the rural poor are disproportionately affected by the impact of climate change on agriculture because of their greater dependence on the sector, their relatively lower ability to adapt, and the high share of income they spend on food.

23. The tourism sector has shown potential for greater exports, but it, too, faces several constraints. International tourist arrivals have grown steadily, and tourism receipts were responsible for 26 percent of Armenia’s total exports in 2017. But average per-visitor earnings have declined over the past decade, suggesting that available tourism offerings are somewhat static and that marketing efforts are failing to capture higher-spending visitors. Armenia ranks 84th of 136 countries on the World Economic Forum’s 2017 Travel and Tourism Competitiveness Index,¹⁷ with low rankings on infrastructure holding back the exploitation of its strengths. Improving infrastructure would make it easier for visitors to reach attractive parts of the country, promote greater economic benefits for more people, and help diversify services to attract a wider range of potential tourists.

24. Limited access to reliable infrastructure services in key sectors—such as energy, transport, and broadband Internet—hampers exports and constrains business development. Despite recent improvements, the poor condition of power transmission and distribution assets jeopardizes supply reliability. The average interruption frequency is 2.5 times higher than for comparator utilities. Most

¹⁷ World Economic Forum. *The Travel & Tourism Competitiveness Report 2017*. Geneva: WEF. Available at: <https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017>.

substations are over 30 years old and have not undergone any major rehabilitation. While Armenia has a relatively well-developed road network, investment in road rehabilitation and routine maintenance is inadequate and close to 40 percent of the network is in poor condition. Approximately one-third of Armenia's rural population does not have access to an all-weather road. Degraded roads increase transport costs and journey times, restricting connectivity to agricultural markets and important services such as health and education. The information and high-tech sectors are among the fastest-growing in the country, and Armenia has advantages such as relatively high fixed broadband penetration—especially in urban areas, but the connectivity infrastructure needed to capture the full potential of the digital economy is still lacking, especially outside Yerevan (Annex 5). Armenia ranks 78th out of 144 countries on the United Nations Conference on Trade and Development (UNCTAD) B2C E-Commerce Index 2017,¹⁸ indicating the need for better conditions to support online commerce.

25. Armenia's low external performance derives in part from the lack of a vibrant private sector that creates jobs. Firm productivity growth has been low since 2010, with signs of poor competition and limited use of technology and innovation. Employment declined by 10 percent between 2010 and 2015, reflecting difficult labor market demand conditions after the global financial crisis. Informality levels remain high¹⁹ and Armenia's economy is still predominantly cash-based.²⁰ The SCD shows that insufficient private sector productivity prevents higher growth and job creation. Firms appear constrained in their ability to lift productivity against the background of unfinished investment climate reforms and the need to diversify financial markets. Armenia's financial market remains dominated by banks, with limited capital market development and availability of long-term finance. Gaps in the business environment are among the chief causes of the private sector's lackluster performance. While Armenia's ranking among 190 countries on the overall ease of doing business improved from 47th in *Doing Business 2018* to 41st in *Doing Business 2019*, important weaknesses remain in the areas of resolving insolvency, dealing with construction permits, and paying taxes.

26. Despite recent progress, there is considerable space to improve investor confidence and thereby increase investment and strengthen Armenia's outward orientation over the medium term. Competition and market contestability have progressed in recent years, but not enough to address foreign investors' negative perceptions of the business environment and the security of investments—the rights of creditors should an investment fail, the transparency and accuracy of corporate financial reporting, and the certainty that firms, including foreign firms, can compete on a level playing field when they decide to invest. Competition in some sectors has been shaped significantly by informal advantages provided to certain players—notably in consumer goods markets—which has prevented prospective entrepreneurs from contesting these markets.²¹ Recent accounts indicate that many of these discriminatory practices have been reduced.²² While this is important, creating competitive and efficient markets will require further efforts to improve sector regulations and public procurement frameworks, create a level playing field, and ensure

¹⁸ UNCTAD. 2017. *UNCTAD B2C E-Commerce Index 2017: UNCTAD Technical Notes on ICT for Development No. 9*. Geneva: UNCTAD. Available at: https://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d09_en.pdf.

¹⁹ An International Monetary Fund (IMF) working paper estimates that Armenia's shadow economy was worth 43 percent of GDP, on average, between 1991 and 2015. Source: Medina, L and Schneider, F. 2017. "Shadow Economies Around the World: What did we Learn Over the Last 20 Years?" IMF Working Paper No. 18/17. Washington, DC: IMF.

²⁰ In 2017, only 48 percent of adults had a transaction account, as compared to 61 percent in Georgia, 76 percent in the Russian Federation, and 81 percent in Belarus (Global Findex 2017).

²¹ See UNCTAD, 2010, Voluntary Peer Review of Competition Policy, Armenia. Available at: https://unctad.org/en/Docs/ditcclp20101overview_en.pdf; World Bank. 2012. "Ownership, Revenue and Competition: An Institutional and Governance Review," February; and Hrayr Maroukhian Foundation, 2013, Monopolies in Armenia, February 2013. Available at: <http://www.maroukhianfoundation.org/am/wp-content/uploads/2013/02/Monopolies-eng-web.pdf>

²² WBG interviews held with the private sector for WBG competition Reform Assessment, October 2018.

effective enforcement of the Protection of Economic Competition Law. To be successful, pro-competition policies need to be embedded in the policy making process (Annex 4).

Low level of human capital

27. Although Armenia has made significant human development gains over the past 25 years, many challenges remain in ensuring access to good-quality health and education services. Armenia is foregoing a substantial amount of future growth and development by not adequately prioritizing investment in human capital. Public spending on education in Armenia was 2.2 percent of GDP in 2017, 1.8 times lower than the average for upper-middle-income countries and 2.5 times lower than the average among ECA countries. In the same year, public spending on health was 1.5 percent of GDP in 2017, or less than half of the average for upper-middle-income countries and nearly five times lower than the average among ECA countries.²³ According to the Human Capital Index (HCI), released in October 2018 as part of the new WBG Human Capital Project (HCP), Armenia ranks 78th out of 157 countries.²⁴ The index implies that a child born in Armenia today will be only 57 percent as productive when she grows up as she could be if she enjoyed complete education and full health.

28. Armenia’s substantive gap in the HCI is attributable largely to the poor quality of education overall and wide social and spatial inequalities in access to good-quality education services. The HCI shows that a child who starts school at age four in Armenia can formally expect to complete 11.1 years of schooling by the age of 18. Factoring in what children actually learn, however, learning outcomes show that expected years of schooling equate to only 7.9 years—a learning gap of 3.2 years. The quality of secondary education appears to have stagnated, as shown by Armenian students’ consistently low performance on Trends in International Mathematics and Science Study (TIMSS) test scores in 2003, 2011, and 2015. With average TIMSS scores of 476 and 452, respectively, in mathematics and science, Armenian students performed well below the international average of 500 for both subjects. There is limited availability of and access to good-quality preschool education, which is essential for better performance in general education and development of higher-order cognitive and socioemotional skills that support further learning and productivity later in life. Students from poor families and rural and remote areas have higher dropout rates from formal education and often fail to pursue other training opportunities. The share of youth who are neither in employment nor in education or training has increased from about 27 percent in 2012 to 37 percent in 2017.

29. Higher education and vocational education and training systems are ill-adapted to the needs of the labor market. This is compounded by governance and quality issues triggered by the rapid expansion of the higher education subsector and unclear relationship between higher education, the scientific research community, and the private sector. There is a significant oversupply of humanities graduates in higher education and inadequate prioritization of investments to improve the quality and delivery of education in STEM fields. The rapid growth of non-public universities in Armenia reinforces the need for a systemic approach to education study programs to ensure value for students and parents.

²³ World Development Indicators and National Statistical Services of the Republic of Armenia.

²⁴ The HCI is made up of five indicators: the probability of survival to age five, a child’s expected years of schooling, harmonized test scores as a measure of quality of learning, the adult survival rate (the fraction of 15-year-olds who will survive to age 60), and the proportion of children who are not stunted. The HCI ranges between 0 and 1. The index is measured in terms of the productivity of the next generation of workers relative to a benchmark of complete education and full health. An economy in which the average worker achieves both full health and full education potential will score a value of 1 on the index.

30. Armenia has made substantial progress in improving health system performance and outcomes, but important challenges remain. Low spending on health presents a considerable challenge in achieving the twin goals. Armenia has one of the highest rates of out-of-pocket spending in the world, constituting about 81 percent of total health spending.²⁵ According to 2017 household survey data, about 5 percent of households spend over 25 percent of total expenditure on health, and 4 percent of the population has been pushed into poverty as a result. The key drivers of out-of-pocket spending are informal payments and lack of coverage for expensive services in the basic benefit package. There is limited integration and continuity of care between primary and tertiary care levels, and significant regional disparities in access to high-quality health services exclude much of the population living outside the capital. The current health system is poorly adapted to dealing with the growing burden of chronic, non-communicable diseases (NCDs) in an efficient and cost-effective way, and financial protection against health care expenditures remains weak. Health insurance reforms are needed to increase the share of prepaid revenues to reduce out-of-pocket payments and improve health care access.

31. While Armenia has relatively well-targeted social safety net programs, there are concerns about work disincentive effects and insufficient coverage among those who are extremely poor and vulnerable. Only one out of three poor people, as officially defined, is covered by the FBP—Armenia’s flagship cash transfer program—while 60 percent of households in the poorest quintile do not receive any form of social assistance, pointing to high exclusion errors.²⁶ The administration of various social benefits (social services, the FBP, categorical benefits, pensions, and employment services) is fragmented, resulting in coverage gaps. Links between the social assistance system and employment services are missing, challenging efforts to activate FBP beneficiaries. Ongoing reforms aim to integrate social service centers and strengthen the role of social workers in case management and referrals, as a step toward improving the internal cohesion of the social protection system. Processes for eligibility verification and control systems for cases of error and fraud are not fully digitalized, leading to inefficiencies. Further efforts will be needed to strengthen the targeting mechanism for social assistance benefits by leveraging ICT tools that can enhance the interoperability of administrative databases, together with stronger accountability mechanisms to ensure that the system is responsive to citizens’ needs in line with the country’s renewed commitment to good governance.

Elevated vulnerabilities

32. In addition to the macroeconomic vulnerabilities described in section 2.2, vulnerabilities exist at the household level, and mechanisms for household risk management and consumption smoothing in the face of shocks are inadequate. The limited development of Armenia’s savings, credit, and insurance markets suggests that they are inadequate to enable firms and individuals to manage risks and respond to shocks. As the population ages overall, the burden on government resources and on households’ out-of-pocket spending on health is likely to increase significantly over time if the current cost trajectory for treatment of NCDs remains unchanged. An increase in the economic dependency ratio could also threaten the funding of the pension system. Improved access to social services and economic opportunities will be critical in strengthening individuals’ ability to cope with shocks and support the most vulnerable to sustainably move out of poverty.

²⁵ The figure for out-of-pocket spending is based on the recently revised National Institute of Health methodology, in which household total health expenditure is calculated according to the share of health expenditure in household final consumption expenditure.

²⁶ Statistical Committee. 2018. “Social Snapshot and Poverty for Armenia.”

33. Armenia is exposed to significant environmental and climate change risks and has had limited success in managing its environmental sector sustainably. The strongest direct influence of climate change on longer-term sustainable economic growth and poverty reduction is expected through the multidimensional “agriculture-water-energy-forestry” nexus and increased vulnerability to natural disasters. Armenia is one of the most disaster-prone countries in ECA, facing major risks from earthquakes, landslides and mudflows, and hydro-meteorological hazards.²⁷ Over recent decades, the frequency and intensity of extreme weather events has increased. Drought has a significant impact on agricultural production and water availability in rural areas, as about 80 percent of crops cultivated in Armenia are irrigated, and almost all drinking water is sourced from groundwater. Yet water availability is predicted to decline further as a result of climate change and associated reductions in precipitation. Increasing demand for irrigation, coupled with the fact that close to one-third of Armenia’s electricity is generated through hydropower, is adding stress on water systems, on major water bodies such as Lake Sevan, and on groundwater aquifers. The natural landscapes on which many rural communities depend are being degraded. Armenia has been losing forests at an alarming pace and is one of ECA’s least forested countries.²⁸ Prolonged unsustainable mining operations and disposal of mining waste have also contributed to degradation of the natural environment. Although environmental laws and regulations have been improved in recent years, they still need significant strengthening in terms of both regulatory aspects and implementation capacity. Institutional strengthening is also required to improve the efficiency with which financial resources are allocated across competing priorities, in order to deliver environmental management more effectively and, in turn, support efforts to strengthen sectors with export potential, such as agriculture and tourism.

Pathways to reform

34. The SCD proposes the following pathways and reform areas to develop a new model of inclusive, resilient economic growth grounded in productivity improvements (Figure 2). Rebalancing growth from domestic demand to exports and productivity enhancement, together with addressing the challenges posed by an aging and declining population, would boost economic growth, poverty reduction, and disparities and thereby put Armenia on track toward achieving high-income country status.

²⁷ Due to the country’s aging infrastructure, disaster events can result in significant damage. The 1988 Spitak Earthquake, for example, resulted in over 24,000 deaths and US\$ 15 billion in direct economic costs.

²⁸ Pressure on forest resources have historically come from high dependence on forests for income, fuelwood, and non-timber forest products, shelter and fodder for livestock, as well as expansion of land cultivation and mining activities.

Figure 2. Proposed Reform Agenda and Recommendations Identified in the SCD²⁹



III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

3.1 Government Program and Medium-Term Strategy

35. **The Government Program, adopted in February 2019, builds on the vision outlined in the immediate aftermath of the velvet revolution, while fleshing out the government’s strategic development directions in more detail.** The new program aligns closely with the core findings of the SCD and aims to build a competitive, inclusive, and modern export-led economy that upholds high industrial and environmental standards. Key priorities include: (i) boosting economic activity by encouraging entrepreneurship and innovation, simplifying regulatory procedures, creating an attractive investment climate, reducing the tax and customs burden, expanding export opportunities, and enlarging business opportunities outside Yerevan; (ii) improving the efficiency of public administration; (iii) increasing human capital potential; and (iv) strengthening the reliability of and access to infrastructure.

36. **The Government Program envisions the export of goods and services to be the primary driver of economic growth in Armenia.** The program aims for fast-paced economic growth, at 5 percent per year, fed mostly by an increase in the export of goods and services to a projected 43–45 percent of GDP by 2023. The government intends to ease the access of Armenian traders to target markets through membership in the EAEU, favorable Generalized Scheme of Preferences (GSP+) terms in trade with the EU, and various free trade agreements with other trading partners. ICT and technology, agriculture and agro-processing, and tourism have been identified as sectors in which more economic dynamism could bring additional benefits.

37. **Stimulating competition, promoting participation, and ensuring inclusiveness are at the core of the government’s economic reform priorities.** The Government Program aims to create opportunities for public participation in generating growth through a predictable, fair, and competitive business environment,

²⁹ The SCD showed that reinvigorated exports, productivity, and sustainability could build the foundations for resilient and inclusive growth, and identified four pathways, nine reform areas, and 35 actions that Armenia could take to pursue this agenda.

enabled by favorable legislation to boost new business entry, innovation, and development of MSMEs. Economic policy will aim to create new job opportunities with attractive compensation to ensure that Armenia's labor force productivity is competitive with that of its trading partners.

38. Setting up systems of open and accountable government is a top domestic priority. The creation of an appropriate, comprehensive regulatory framework, together with an effective anticorruption independent mechanism and body with a clear mandate and enforcement authority, will help to operationalize checks and balances. Achieving transparency in public servants' income and assets, in public administration and procurement, and in the beneficiary owners of state-registered companies is a guiding principle. The government aims to strengthen the justice system by improving trust, strengthening judicial integrity and independence, and emphasizing access to justice for all. Supporting opportunities for greater citizen voice and participation in governance, including through ICT and social media tools, will also be prioritized.

39. The government is seeking to raise human capital through "free, dignified, and happy citizens." The program emphasizes efforts to reduce poverty, strengthen social assistance, improve health system quality and accessibility, increase access to better education, and reduce environmental degradation. Engagement of citizens in public life will be prioritized as a means to create trusted national institutions that can support the country's development and help promote inclusion and equity.

40. Prudent use of natural resources, balanced with social equity and economic efficiency, is the government's environmental priority. The Government Program targets environmental conservation through minimizing harmful impacts (on air, climate, water, soil, flora, and fauna), preventing overexploitation and illegal use of natural resources, and ensuring that effective preventive and oversight policies are in place to protect the environment. In addition, the government has completed its internal process for ratification of the Paris Agreement under the United Nations Framework on Climate Change and has defined its mitigation and adaptation targets in the Nationally Determined Contribution (NDC). Armenia's NDC highlights priority sectors for mitigation and adaptation measures (energy, transport, waste management, land use and forestry, water resources management, agriculture, and human health) as well as a conditional target to achieve ecosystem-neutral greenhouse gas emissions in 2050.

41. The government recognizes the potential benefits of nurturing stronger links with the diaspora. Since before Armenia's independence, members of the diaspora have contributed actively to FDI, humanitarian aid, and other philanthropic transfers. Armenia's diaspora comprises between 6 and 8 million people, many of whom make financial and knowledge transfers to the country. Financial transfers, particularly personal remittances, have risen from less than 5 percent of GDP in 1995 to a peak of close to 20 percent in 2013. The Government Program seeks to focus Armenians' human and economic capital—wherever it is around the world—on the country, while maintaining the identity of diaspora groups abroad. New policies in this area will facilitate links between the diaspora and public institutions and encourage opportunities for repatriation.

3.2 Lessons Learned

3.2.1 Lessons from the Completion and Learning Review for the FY14–FY17 CPS

42. A Completion and Learning Review (CLR) was prepared to evaluate achievement of expected outcomes under the previous CPS, and WBG performance in implementing the strategy (Annex 2). Following is a brief review of the key lessons from CPS implementation.

43. Engaging steadily with development partners across investment operations, supported by analytical work and policy dialogue, helps to leverage partners’ resources for maximum impact. During the CPS period, the WBG established strong partnerships with many donors. This collaboration helped mobilize and leverage resources in support of policy reforms with the *Agence Française de Développement* (AFD), Asian Development Bank (ADB), Eurasian Development Bank (EDB), and International Monetary Fund (IMF); school rehabilitation with a greater focus on seismic resilience with ADB and the United Nations Children’s Fund (UNICEF); strengthening the disaster risk management preparedness framework with the Japan International Cooperation Agency (JICA) and the United Nations Development Programme (UNDP); advancing public financial management (PFM) reforms with the German International Cooperation (GIZ); regional development to address territorial disparities with the United States Agency for International Development (USAID), EU, and Swiss Agency for Development Cooperation (SDC); and energy and private sector development with the European Bank for Reconstruction and Development (EBRD), KfW, and ADB. Continuing this approach to partnership during the FY19–FY23 CPF will allow for more crowding in of ideas and financial support for new development initiatives.

44. The government’s limited borrowing capacity increases the value of the WBG’s advisory services and analytics (ASA), which could be improved through more in-depth consultation with the government and other stakeholders. Planning for dissemination and communication would increase the range of audiences that would benefit from ASA, thereby encouraging more extensive sharing of data and ideas and upstream discussion and coordination of potential new activities.

45. Piloting new approaches in partnership with civil society encourages learning that can inform policy. Under the CPS, the Strengthening the Livelihoods and Voice of Poor and Vulnerable People in Armenia Project found that piloting the coordination and financing of social services with non-governmental organizations (NGOs) encouraged policy discussion and sensitized the government to innovative approaches, especially those benefiting the extreme poor and people with disabilities. This pilot increased intervention benefits for beneficiaries and provided a valuable example of effective social assistance programs targeted toward providing economic opportunities to vulnerable people—efforts to be explored further under the new CPF.

46. The “One World Bank Group” approach can generate strong synergies and substantial outcomes in critical sectors of the economy. When the International Bank for Reconstruction and Development (IBRD) sets the stage for change and investment through upstream policy support, the IFC and the Multilateral Investment Guarantee Agency (MIGA) can crowd in private sector investment to build on these efforts. During the CPS period, for example, the World Bank’s engagement through investment lending and ASA on the government’s energy sector priorities helped to build private sector interest, yielding significant improvements in sector sustainability and opening up space for IFC and MIGA to support further private investment. Opportunities to replicate this successful approach and maximize finance for development in other sectors will be explored under the new CPF.

3.2.2 Lessons from Stakeholder Consultations

47. Extensive preliminary internal and external consultations were organized between November 2017 and December 2018, and again with the newly elected government and parliament in January and February 2019, to discuss and validate the proposed CPF strategy and focus areas. Discussions with government representatives (at both national and regional levels), donors, civil society organizations, and the private sector indicated strong support for the proposed themes (Annex 6). External consultations emphasized, *inter alia*, the need to focus more strongly on improved public and corporate governance,

anticorruption, rule of law, and the courts system; the separation of political and business interests; removing barriers to competition; development of human capital; and reduction of spatial disparities.

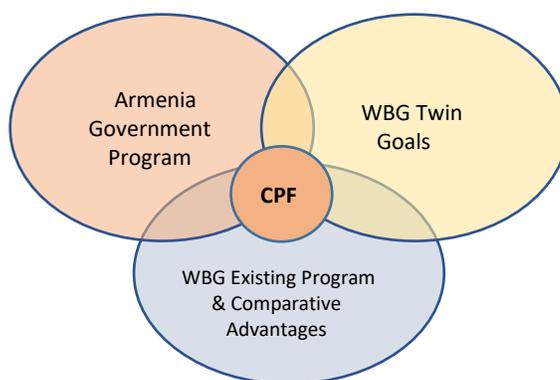
48. **The FY18 Country Opinion Survey Report suggested widespread support for the approach taken by the proposed CPF (Annex 7).** Economic growth was seen by 34 percent of respondents to be Armenia’s development priority, followed by education at 31 percent. Support for increasing Armenia’s institutional capacity was viewed as the WBG’s most effective role, with a mean score of 8.1 out of 10. One of the highest priorities for future engagement, highlighted by 23 percent of respondents, was offering more innovative knowledge services.

3.3 An Overview of the Proposed WBG Country Partnership Framework

3.3.1 Selective filtering in the development of the CPF

49. **Three selectivity criteria have been used to translate the SCD pathways into three CPF focus areas (Figures 3 and 4).** First, the CPF prioritizes areas that link closely to the twin goals through a focus on the resilience and livelihoods of those at the bottom 40 percent of the income distribution. Second, the focus areas align with Armenia’s Government Program and requests for WBG support. Third, the WBG will concentrate on areas in which it has a comparative advantage, drawing lessons from past or existing engagements. The latter points to several factors: (a) the WBG’s current active portfolio, consisting of 14 Bank lending operations³⁰ and 10 IFC investment projects³¹ that will transition to the new CPF, around 20 trust funds, and various ASAs; (b) the confidence placed by public officials in the WBG’s ability to contribute to the government’s technical capacity through rigorous analytical support, knowledge sharing, and just-in-time advisory assistance; (c) IFC’s and MIGA’s success in demonstrating the potential for maximizing finance for development, as shown by their recent record of investment mobilization, particularly in the energy sector; (d) the WBG’s record of robust collaboration with multiple development partners; and (e) the WBG’s convening power, consultative approach, and citizen engagement in participatory program design and implementation in support of the government’s citizen-centric approach.

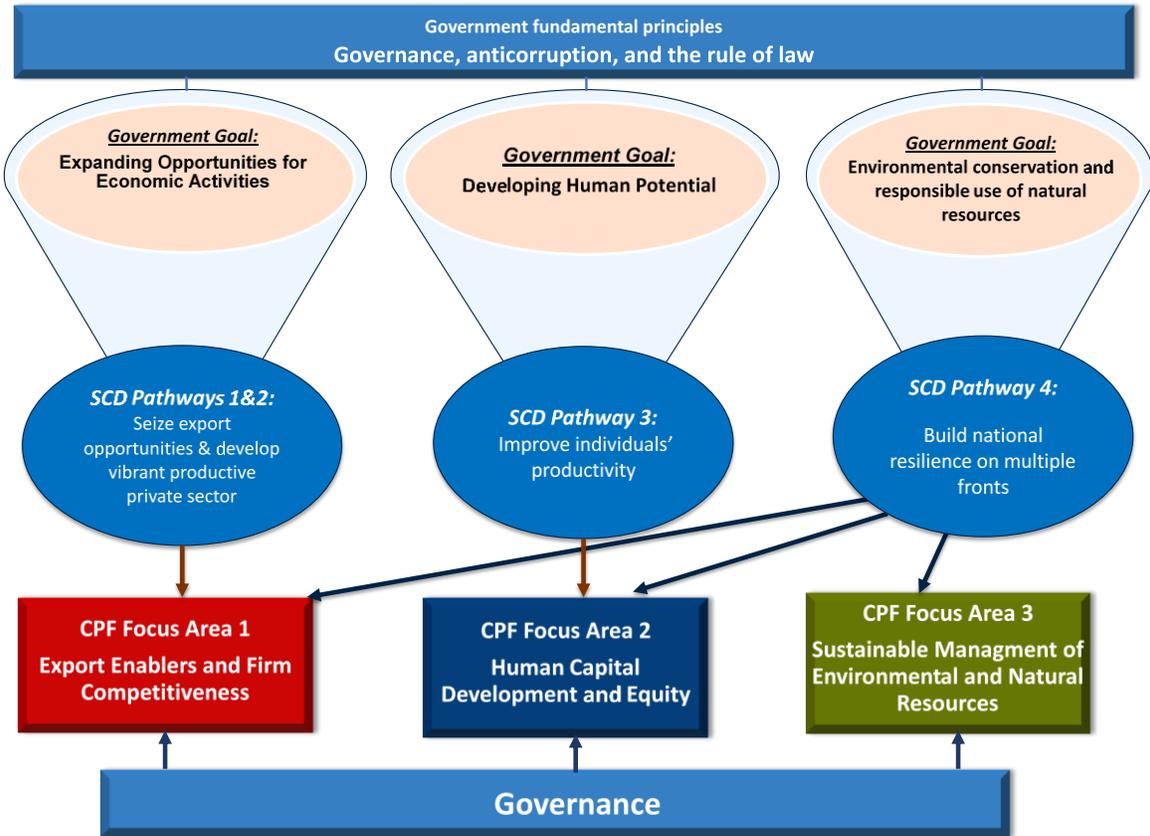
Figure 3. The CPF at the Intersection of Three Selectivity Filters



³⁰ The portfolio totaled US\$ 557.42 million, with a remaining undisbursed balance of US\$ 251.52 million as of February 26, 2019. It is well-balanced and diversified, covering a wide range of sectors: trade and competitiveness, public administration modernization, agriculture and irrigation, local economic development, education, social protection, health, community-driven development, roads, and energy.

³¹ During the previous CPS period, IFC built up a solid investment program of around US\$ 300 million, including mobilization.

Figure 4. Filtering Process to Derive CPF Focus Areas



50. **The content of interventions under each CPF focus area was further determined on the basis of these selectivity criteria.** These criteria also helped identify areas in which the WBG will not engage during the CPF period. For example, the WBG is not planning to lead in the area of trade policy or trade and transport facilitation, where Armenia benefits from the support of other donors. In the transport sector, the WBG will focus on local roads that connect rural and remote communities to essential services and markets, rather than on high-level national roads and highways, as several other donors are active in these subsectors. In the water sector, because other partners have crowded into the sector, the WBG will shift from its significant past engagement on water supply toward more targeted assistance to gravity irrigation schemes that improve efficiency and reduce energy consumption, complementing irrigation investments by other international financial institutions. The current engagement in geothermal exploration will be closed, as the results from exploration drilling showed that there is no geothermal resource commercially exploitable for power generation at the Karkar geothermal field. Finally, as part of the program-wide reorientation toward increasing Armenia’s global competitiveness, the WBG will narrow its human development focus during the CPF period to areas that are directly relevant to developing human capital and boosting labor productivity, primarily through lending and advisory support as well as new initiatives in collaboration with other development partners. For example, while social protection support will continue to help strengthen the targeting of safety nets to improve coverage of poor people, renewed attention will be paid to promoting the activation and employability of social protection beneficiaries.

51. **The three selected focus areas of the CPF are closely interrelated and reinforce each other in support of the twin goals (Figure 4).** For example, Focus Area 1 on boosting export enablers and firm

competitiveness is expected to lead to more job creation through enhanced private sector participation and exports, notably in sectors that can extend externally oriented growth to those who have been excluded to date, particularly in the regions. Focus Area 2 on enhancing human capital and equity will support the development of human capital and skills to boost labor productivity and more inclusive labor market participation, while expanding social assistance coverage to those most in need. Similarly, by supporting improved environmental and natural resource management, Focus Area 3 will help strengthen the resilience and livelihoods of low-income populations dependent on agriculture and thus highly vulnerable to climate change, and support the competitiveness of job-creating, nature-dependent sectors such as agriculture and tourism.

52. With a view to strengthening the inclusiveness of Armenia’s growth model, the CPF will seek opportunities under each focus area to incorporate key elements of good governance and inclusion. First, improvements in *accountability and transparency* will be pursued across all sectors with the aim of leveling the playing field for individuals and firms across the country (Box 2). Second, in line with the 2014 Strategic Framework for Mainstreaming Citizen Engagement in WBG Operations, the CPF will support the use of *citizen engagement* mechanisms to strengthen the demand side of good governance, to build on existing feedback systems and institutionalize new ones, and to adopt distinct approaches for engagement with specific vulnerable groups. Third, informed by the Armenia Country Gender Action Plan (CGAP), *gender inclusion* will be mainstreamed across the three CPF focus areas. The CGAP will be used to develop a methodical approach to addressing gender constraints to economic participation, human capital development, and the expression of voice and agency. Fourth, the need for better *spatial inclusion*—that is, inclusive opportunities and job creation across Armenia—will guide the selection of new activities with an emphasis on the need for more widely shared growth and human capital development outside of Yerevan. Finally, where possible and in collaboration with development partners, the CPF will explore *digital connectivity* solutions to support further improvements in public service delivery (including integrated social services and benefits), government transparency, agricultural productivity, natural resources management, and citizen engagement.³² Armenia’s active membership in the international Open Government Partnership supports the use of digital solutions in public service delivery. Questions related to coverage and affordability, especially in rural areas, will be addressed (Annex 5).

Box 2. How is Governance Mainstreamed in the Armenia CPF?

The CPF proposes to integrate governance and define governance-related results indicators in each focus area.

- **In Focus Area 1 on boosting export enablers and firm competitiveness**, the governance engagement aims to promote a more transparent, rule-based, accountable, and predictable business environment for the private sector. To boost investor confidence, the World Bank Group will support improved corporate financial reporting, efforts to fill gaps in lagging investment climate areas, greater transparency to limit conflict of interest, and evidence-based policymaking. It will promote better governance of road asset management to support improved access to reliable infrastructure, and stronger public investment and procurement management to strengthen the efficiency of public spending.
- **In Focus Area 2 on enhancing human capital and equity**, governance interventions will focus on improving service delivery by strengthening management of the health insurance system and health financing, use of data for evidence-based decision making in the education sector, monitoring and evaluation of social protection systems, and assessment of the distributional impact of fiscal reforms.

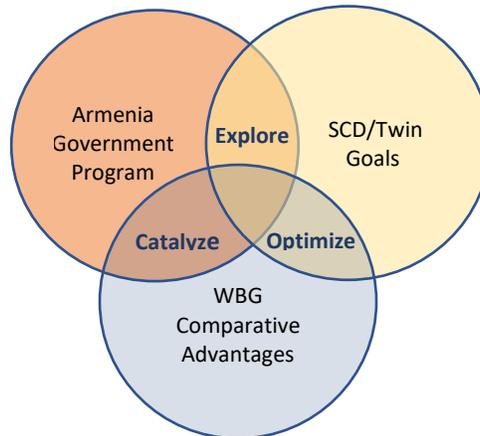
³² The potential effectiveness of digital government solutions has been demonstrated in recent years with the establishment of an electronic identity card system, an automated vehicle licensing system, an e-health system linking all medical service providers in receipt of public funds and licenses, electronic platforms in the justice sector (such as e-notary), and a citizen feedback platform.

- **In Focus Area 3 on sustainably managing environmental and natural resources**, governance interventions will support the establishment of reliable monitoring and evaluation systems for evidence-based policymaking, greater transparency and mutual public and private sector accountability in environment-sensitive sectors such as mining, implementation of the Extractive Industries Transparency Initiative (EITI), policy and institutional reform to address environmental and climate challenges, and appropriate standards and methodologies for disaster risk management (DRM).

The World Bank will seize opportunities to broaden governance engagement across the board. Themes that can be explored flexibly and on demand include public administration reforms, tax policy and administration, civil service and justice reform, and stolen asset recovery initiatives. Finally, the CPF will support the demand side of governance through a comprehensive citizen feedback platform for public services. In partnership with civil society organizations, demand-side anticorruption interventions may also be initiated as part of proposed collaboration with the Global Partnership for Social Accountability.

53. **Filtering was also used to determine three engagement principles through which the WBG will seek to maximize its impact under the proposed CPF (Figure 5).** First, at the intersection of Armenia’s Government Program and the WBG’s comparative advantages, there are opportunities for the WBG to *catalyze* development and private sector partners around high-priority projects that may require significant resources. The viability of this approach was demonstrated under the FY14–FY17 CPS, during which the WBG’s robust engagement through investment lending and analytical work helped to build private sector interest in the energy sector (Box 3). Under the CPF, opportunities to integrate this approach into the portfolio and maximize finance for development will focus on investments and initiatives that might require substantive investment. Beyond the energy sector, potential areas could include new sectors ranging from irrigation to health care facilities, depending on feasibility. Second, between Armenia’s Government Program and the SCD’s recommendations as filtered through the twin goals, the WBG can leverage its vast knowledge and implementation experience to address complex development problems, thereby helping the government to *explore* areas in which Armenia can benefit from the recent experiences of other countries and customize these approaches to the specific needs of the country. Recognizing the importance and value of the WBG’s ASA, the government has requested a robust program of analysis and advisory support to inform policy design and implementation in priority areas. Possible topics for exploration under the CPF could include areas on which the government has requested more granular analysis of constraints (for example, specific sector productivity and export bottlenecks) as well as innovative topics, such as how to harness disruptive technologies in service delivery, apply insights from behavioral economics to policy design, and crowdsource development solutions. Third, at the intersection of the SCD’s recommendations filtered through the twin goals and the WBG’s comparative advantages are opportunities to adjust and/or augment ongoing WBG engagements, and thus for the WBG to *optimize* its existing portfolio to better respond to government priorities, using proactive management to see investments through to completion and—where warranted—adjusting its support to maximize relevance, impact, and contribution to the new CPF focus areas.

Figure 5. Three Engagement Principles: Catalyze, Explore, Optimize



Box 3. Maximizing Finance for Development in the Power Sector

Reform in the energy sector has enabled large-scale private investment in traditional and renewable energy generation. World Bank Group policy advice, technical assistance (TA), and investment financing in support of key reforms—such as a transition to cost-based tariffs; unbundling of the state-owned, vertically integrated utility; establishment of a highly effective and competent regulatory body, the Public Services Regulatory Commission (PSRC); and introduction of guaranteed electricity purchase tariffs (feed-in tariffs) for small renewables (small hydro, solar, wind, and biomass)—have laid the foundation for private investment in the sector underpinned by IFC’s long-term financing for energy efficient generation capacity. The improved enabling regulatory and legal framework for renewables has attracted about US\$ 600 million in private investment in more than 328 MW of small hydropower. Improvement of the financial condition of the distribution company, Electric Networks of Armenia (ENA) has been essential in attracting commercial financing into power generation, given that it is the single purchaser of electricity. It also supported the privatization of the Vorotan hydropower cascade, which accounted for 12 percent of total electricity generation in 2017 and was financed with IFC support. Support from the WBG and the Energy Sector Management Assistance Program (ESMAP) has enabled the government to coordinate donor financing from the Bank, ADB, and KfW for priority transmission investments. Recently, the PSRC has adopted a new model power purchase agreement for small renewable energy projects (up to 30 MW), with support from ESMAP and the WBG.

Armenia has moved to the next stage of large-scale renewable energy integration by adopting competitive approaches to private and commercial investment. With WBG support, the government secured concessional resources from the Scaling-up Renewable Energy Program (SREP) under the Strategic Climate Fund to support the implementation of solar and geothermal projects. The government organized an auction to select a developer for a 55 MW solar power plant—the first utility-scale, commercially financed solar plant and first competitively tendered independent power project in Armenia, and one of the first competitively tendered solar plants in ECA. WBG transaction advisory support and the offer of a loan guarantee by IBRD/SREP were critical factors in generating strong interest and attracting top-tier investors. The tender resulted in a winning bid of 4.19 US cents/kWh (below the average generation cost of about 4.05 US cents/kWh), offered by FRV, a global solar power development company with a large portfolio of projects across emerging solar markets. IFC and EBRD have been mandated by the winning consortium to put together the long-term financing package for the project. The next phase of utility-scale solar PV development is under discussion and expected to attract similar attention from international solar companies. With ongoing support from IFC and MIGA as well as other development partners, energy infrastructure projects continue to show strong potential to maximize finance for development in Armenia.

3.3.2 Objectives Supported by the WBG Program

FOCUS AREA 1: Export Enablers and Firm Competitiveness

FOCUS AREA 1: EXPORT ENABLERS & FIRM COMPETITIVENESS	
Country Development Goal: Expanding Opportunities for Economic Activities	
CPF Objectives	Expected Results
<p>1. Improved performance in export-enabling sectors</p>	<ul style="list-style-type: none"> • Increased number of international tourist arrivals • Increased number of jobs for men and women, created by activities linked to support for the tourism industry • Increased value in annual marketed production of milk, meat, fruits, vegetables, fish, and fodder production • Increased sales of Engineering City resident companies
<p>2. Improved business environment to support investor confidence</p>	<ul style="list-style-type: none"> • Improved score on the Doing Business report’s Strength of insolvency framework index • Improved corporate financial reporting • FDI Law revised to introduce key investment protection standards and alternative dispute resolution mechanisms
<p>3. Enhanced connectivity and access to reliable infrastructure (transport, energy, digital)</p>	<ul style="list-style-type: none"> • Increased share of the rural population with access to an all-season road • Reduced plant and equipment failures in power transmission substations • Increased share of households with fixed broadband subscriptions
<p>4. Improved public spending efficiency and increased private financing for development</p>	<ul style="list-style-type: none"> • Upgraded public investment management framework in place • Increased public procurement efficiency following implementation of new Public Procurement Law • Improved institutional framework and capacity to combat corruption • Increased volume of private financing mobilized for energy infrastructure with WBG facilitation

54. **The first focus area aims to rebalance growth drivers from internal to external demand, supported by competitiveness and productivity gains. Under the CPF, the WBG will provide multilayered support for this shift.** The country’s export potential—especially in agriculture, ICT and high tech, and tourism—represents a significant opportunity for future growth, and the WBG will focus on removing barriers to growth in these export areas. The WBG will also help to strengthen business regulations supporting the investment climate and improve access to reliable connective infrastructure. In a fiscally constrained environment, the CPF will seek to maximize the impact of public investment by strengthening public procurement efficiency and mobilizing private finance for investment. These changes would aim to reduce the cost of exports, remove uncertainties surrounding investments, and expand opportunities to connect.

55. **Transitioning to a growth model that pivots toward foreign demand is a long-term proposition.** During the CPF period, the WBG will seek to help Armenia build on initial gains, beginning with deep-dive analysis

in sectors with export potential to identify—at a more granular level—barriers to reaching the next level of export growth. Recent consultations with the private sector have suggested that bottlenecks preventing key sectors from realizing their export potential include logistics-related constraints and issues with firms’ ability to produce large volumes at high quality. The extent to which competition bottlenecks may be constraining the tradeable sectors will be investigated. This would allow the WBG, in the context of the CPF, to help address the issue of market contestability and—through policy dialogue—support a sound competition ecosystem. Additional investments and advice will depend on the findings of the analysis and government interest and will be considered at the time of the PLR.

CPF Objective 1: Improved performance in export-enabling sectors

56. Sectors such as tourism, agriculture, and ICT and high tech have significant potential to increase exports and drive the initial transition to a new growth model with opportunities for new entrants and market contestability. These sectors can extend the gains from externally oriented growth to those in Armenia who have been excluded to date, particularly in the regions. To scale up these sectors’ export potential, the WBG will focus on removing barriers to their growth and productivity. Several other sectors in Armenia may also have export potential; as such, the World Bank will seek to strengthen broader export support capacity, including through quality support infrastructure and matching grants for firm competitiveness. IFC will explore ways to support private investment in tourism and services as well as improved connectivity.

57. The WBG will apply an integrated approach to tourism development, with a focus on expanding opportunities for those in the bottom 40 percent, who reside largely outside of Yerevan. Through the Local Economy and Infrastructure Development Project, the WBG will support investments in tourism-related infrastructure, urban regeneration, cultural heritage restoration, skills development, tourism product development and diversification, and private sector investment. Capacity building activities will aim to increase the number of tourism-related small and micro enterprises in target project sites, thereby boosting returns from tourism across a broader range of the population and supporting shared prosperity. Based on the gender profile of Armenia’s tourism industry, particularly in regions affected by male outmigration, women are expected to be major beneficiaries of these interventions.

58. World Bank engagement in agriculture and food will focus on adoption of digital technologies to increase sector efficiency, equity, and sustainability. In addition to ongoing work on sustainable pasture management, the CPF will focus on improving irrigation services for high-value crops to help producers move up the value chain. The World Bank will explore the development of a new operation to increase agriculture productivity, mitigate the impacts of climate and market risks (Box 4), and improve rural livelihoods. An innovative “digital lens” will be used to reduce market failures by increasing the supply of public goods through open data (for example, information on soil conditions, weather forecasting, and agricultural advisory services) and innovative digital platforms for more efficient supply chain management, better irrigation and input use, market access, and improved input and output price formation and traceability. These initiatives would encourage food and agriculture growth and ultimately more and better jobs through the sector’s important multiplier effect.

Box 4. Digital Potential in the Agriculture Sector

How Armenia responds to new innovations and technologies afforded by the digital economy will determine whether its economy will leapfrog or lag. In the agriculture sector, technology adoption will determine whether farmers can improve productivity and strengthen resilience to climate and market risks.³³ Growth in the agriculture sector has proven to be effective at reducing poverty, and interventions that incorporate new digital technologies can address climate and weather risks (digital maps and soil information systems), improve market access (digital marketplaces), reduce costs, make efficient use of inputs, and improve farm profits (precision farming systems, modern small-scale irrigation systems, digital advisory services and learning).³⁴ However, the potential of digital agriculture in Armenia has not yet been explored in earnest.

Sector interventions that incorporate new digital technologies have been shown to provide an effective basis for mitigating climate and markets risks, as well as accelerating equitable growth.³⁵ For example, big data-based software and platforms (such as aWhere) enable farmers and policy makers to more effectively predict agro-climatic risks and thus prepare for events such as droughts or hailstorms in a timely manner. Open-data policies in Kenya enable various fintech companies to serve small farmers, such as through the M-PESA mobile money platform, which helps local farmers to quickly transfer money to and from others in their supply chain. Innovative small-scale precision and drip irrigation technologies, such as those developed by Jain in India, help lower the cost of irrigation for small-scale farmers. Armenian agriculture could benefit from a range of similar digital solutions that bring farmers closer to high-value markets, improve farmers' access to finance, improve input use, help mitigate climate and market risks, and bring down transaction costs.

59. The World Bank will support the significant export potential of the ICT/high-tech sector through continued support for the digital agenda and inclusive ICT. Building on enterprise incubation and ICT infrastructure and access work under the E-Society and Innovation for Competitiveness Project (EICP), the WBG will provide just-in-time advice to inform the government's digital transformation strategy. Continued implementation of the Trade Promotion and Quality Infrastructure (TPQI) Project will support, among other activities, the development of Engineering City, a public-private partnership (PPP) that will leverage existing foreign private sector investment and localize technology-based firms and research-and-development institutions in a new competitive high-tech cluster focused on the provision of world-class export-oriented engineering services.

60. Building on recent support for the preparation of Armenia's new digital transformation strategy, the WBG will engage in policy-focused analysis on sector- and firm-level productivity in areas where the government has expressed interest. Areas of focus may include: (i) assessment of the competitiveness of Armenia's high-tech service offerings, and the positioning of Armenia's high-tech firms in global value chains; (ii) Industry 4.0, the digital economy, and technological innovation, including improvement of firms' managerial tools and skills; (iii) *Doing Business* and business environment reforms (including quality of regulations) more broadly; and (iv) an FDI sector scan in priority sectors, including agriculture, tourism, and ICT.

³³ Uwe Deichmann, Aparajita Goyal, and Deepak Mishra. 2016. *Will digital technologies transform agriculture in developing countries?* Washington, DC: World Bank.

³⁴ World Bank. 2017. *ICT in Agriculture: Connecting Smallholders to Knowledge, Networks, and Institutions*. Updated Edition. Washington, DC: World Bank.

³⁵ Ibid.

CPF Objective 2: Improved business environment to support investor confidence

61. In light of lagging investor confidence, the WBG will help the government address key constraints on investment. In the context of the Financial Sector Assessment Program (FSAP), carried out jointly with the IMF, the World Bank will provide support for strengthening the effectiveness of the existing legal, regulatory, and institutional framework for the protection of creditors' rights, debt enforcement of both secured and unsecured assets, debt restructuring, and insolvency. This advice, complemented by EBRD's ongoing involvement in this area, is expected to improve the country's insolvency framework. The World Bank will support the establishment of a modern corporate financial reporting framework, made up of a Chamber of Accountants and Auditors and a parallel Public Oversight Board. This will provide investors with access to reliable, high-quality corporate information and strengthen public trust in private sector disclosures.

62. These investment climate support activities will be complemented by joint World Bank-IFC advisory services on increasing efficiency-seeking FDI. These efforts will focus on strengthening the legal and institutional framework for FDI, improving investment incentives, and increasing the sectoral value proposition of key promising sectors. In addition, the WBG will support the government and other potential development partners in identifying suitable institutional arrangements and mechanisms to provide *ad hoc* investor support and investor after-care to further build investor confidence. IFC will work on improving the preconditions for future investment flows through FDI attractiveness scans in selected sectors and subsectors of the economy as well as strengthened FDI policy. The WBG will provide support on market openness and contestability across the board given the government's strong interest in this area.

CPF Objective 3: Enhanced connectivity and access to reliable infrastructure (transport, energy, digital)

63. As part of the effort to connect rural and remote communities to essential services and markets, the World Bank will continue to support lifeline roads, better connectivity, and regional integration into the Trans-European Transport Network (TEN-T). In line with government objectives, the WBG will support enhancing access to reliable local roads that make essential connections for rural and remote communities, promoting road safety initiatives, introducing innovative contracting practices, and strengthening the capacity of the Ministry of Transport, Communications, and Information Technologies to manage the road network. In collaboration with the EU and other development partners, the World Bank will support Armenia's participation in TEN-T and the Eastern Partnership Transport Panel, helping Armenia to: (i) develop a list of priority transport projects for improving national and international connectivity; (ii) explore policies that would support "green" transport; (iii) deliver improved outcomes on energy efficiency and transport sustainability; and (iv) strengthen road safety and asset management capabilities. Moreover, the World Bank will support the "soft" side of connectivity, including through analytical work on freight transit and logistics and advisory support to identify policy reforms and new investments that would best enable Armenia to improve its international connectivity. Findings from this work will provide guidance on additional analysis or TA needs, for example in the area of air connectivity. The WBG will not support high-level national roads and highways, as several other donors are active in these sectors.

64. In energy, the World Bank will support the government's investments in improving the reliability and capacity of the country's electricity transmission networks through the rehabilitation of two critical power transmission lines and seven transmission substations. These investments are expected to directly benefit one million customers across the country. Building on recent successes in maximizing finance for development in the energy sector, IFC will continue to support new investment and advisory services to build efficient energy generation assets and improve distribution infrastructure.

65. In digital development, the World Bank will support the government in developing a broadband strategy and harmonizing its digital environment with the EU and other Eastern Partnership countries.

This activity is expected to help Armenia enhance competition in—and extend the full frontier of commercial viability around—broadband connectivity, which is expected, in turn, to attract greater private participation and investment to accelerate inclusive broadband deployment throughout the country, and to enable improvements in affordability and access, notably for rural and remote areas. This would also create an enabling environment for additional investment and job creation in the ICT sector.

CPF Objective 4: Improved public spending efficiency and increased private financing for development

66. While recognizing the government’s strong macroeconomic management capacity, the WBG will provide policy support to strengthen macroeconomic foundations and key reform priorities through dialogue and potential development policy operations.

WBG support will focus on monitoring and analyzing the sustainability of the overall macroeconomic framework, in particular as part of proposed development policy operations. A 2018 joint IMF-World Bank FSAP has assessed financial sector stability and the adequacy of the banking supervision framework. A cross-cutting issue affecting both financial stability and development is the lack of transparency in reporting and accounting by corporations, subnational entities, and state-owned enterprises. Engagement in this area will be coordinated closely with the IMF’s dialogue and program addressing these issues.

67. Given the limited fiscal space for public expenditure, enhancing spending and revenue collection efficiency in public administration are crucial.

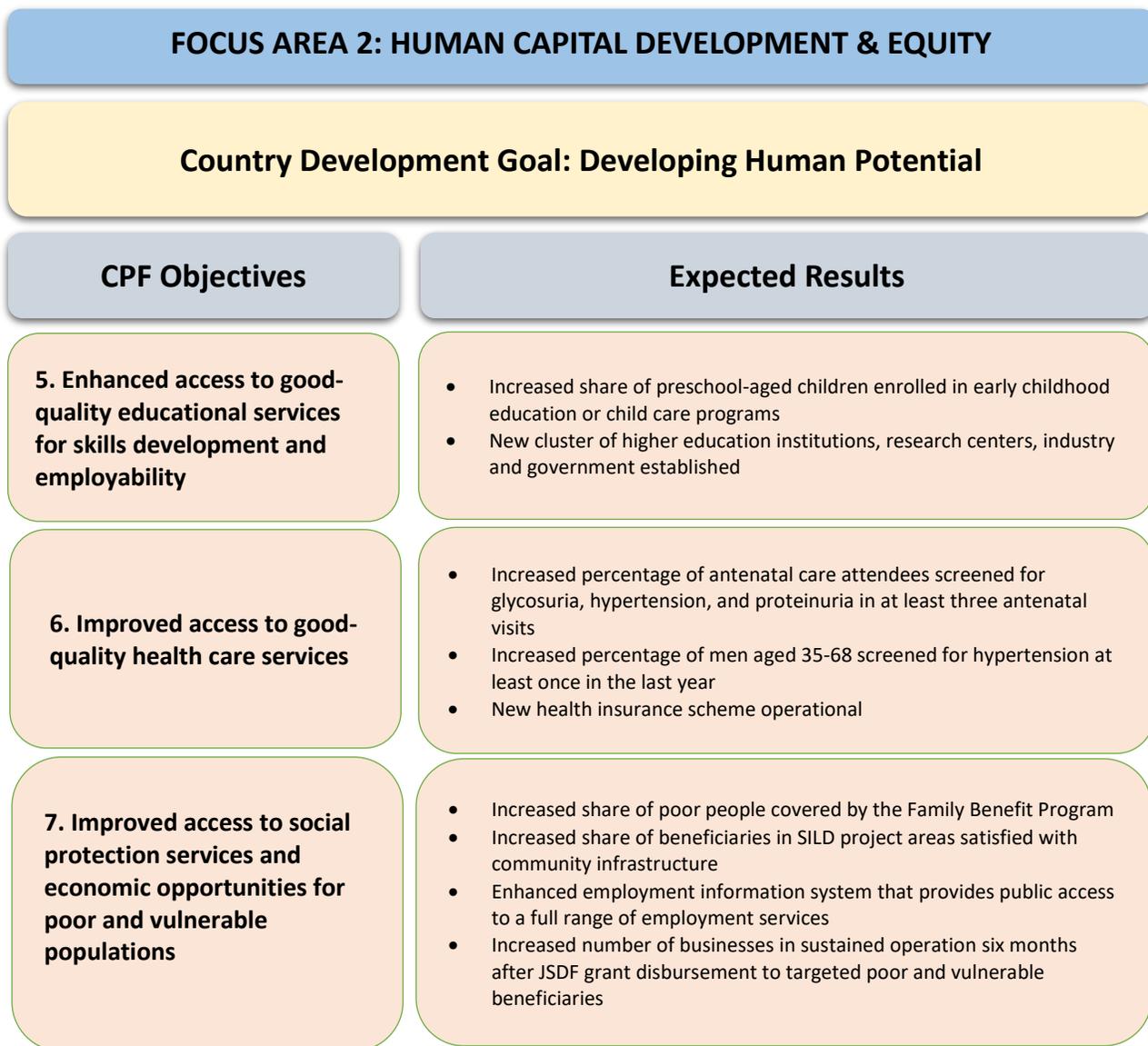
Through the Third Public Sector Modernization Project (PSMP3), the WBG will help to build the foundations for the eventual rollout of a Government Financial Management Information System (GFMIS), which may become operational after CPF completion. Ongoing TA will support the formulation and implementation of a public investment framework, clarification of institutional roles and responsibilities, and capacity building for sound management of public projects. The WBG will also continue to provide TA on public sector internal control and audit, and on strengthening the institutional framework and capacity for combating corruption (prevention and enforcement). These efforts will be complemented by TA to support better strategic procurement, including effective planning, introduction of framework agreements, an e-catalog (as part of GFMIS preparation), and effective cost estimation. Following the recently completed FSAP update, the World Bank will support the government in leveraging the existing digital identification infrastructure to foster a “less-cash” economy as a means to enhance the efficiency and outreach of financial services in lagging regions, decrease the shadow economy and thus increase tax revenue collection.

68. The WBG will help the government to explore sources of innovative financing for development and mobilize private financing for infrastructure.

Through ASA, the WBG will support efforts to deepen the financial market and increase the country’s ability to finance productive investment, infrastructure, and exports. Trust-funded TA supported by the Financial Sector Reform and Strengthening Initiative (FIRST) will improve the legal, regulatory, and supervisory framework for the capital market, long-term finance, syndicated lending, and project finance. Informed by the 2018 FSAP, this initiative will work to introduce new collective investment funds or other capital market products to expand the investor base, and to improve capacity for market intermediation. Support for developing the insurance sector will strengthen not only firms’ and households’ ability to manage and cope with risk, but also capital market development through insurers’ role as institutional investors. The WBG will support the development of a PPP pipeline, together with strengthening government capacity to coordinate and manage PPPs through the project cycle. Support for the PPP Fiscal Risk Assessment Model will help the government to manage the risks associated with PPPs, the most significant of which is fiscal risk. This support will complement other development

partners' engagements in the financial sector and PPPs. The World Bank will also continue to support the financial sustainability of the energy sector through a Power Sector Financial Recovery Program-For-Results that works across several fronts to improve the financial viability of state-owned power generation companies and the private power distribution company, ENA. Finally, the WBG will launch a Power Sector Infrastructure Assessment Program to identify obstacles to enhanced private sector investments in the power sector.

FOCUS AREA 2: Human Capital Development and Equity



69. **The second focus area provides support for enhancing Armenia’s human capital and improving social and spatial equity in access to services and economic opportunities.** This focus area is well aligned with Armenia’s commitment as an early adopter of the WBG’s HCP. As part of the program-wide reorientation toward increasing Armenia’s global competitiveness, the WBG will focus its support during this CPF on areas that are directly relevant to developing human capital and boosting labor productivity, primarily through

ongoing lending and advisory support as well as new initiatives in partnership with other donors, such as the EU and UNICEF.

CPF Objective 5: Enhanced access to good-quality educational services for skills development and employability

70. The WBG aims to support Armenia in mitigating adverse demographic trends through investments in the equity and relevance of its education system. WBG support, comprising both investment financing and ASA, will target several areas of education with close links to the labor market, from early childhood development through to higher education.

71. Early childhood development interventions will be key in preparing Armenia for the future of work, in addition to providing childcare and giving women more opportunities to enter the labor market themselves if they wish to. The ongoing Education Improvement Project (EIP) will support the government's initiative to promote early childhood development and access to preschool education, including by revising the school curriculum to enhance its relevance and improving gender balance in school programs.

72. In addition to ongoing operations, the World Bank will support the government's priority of improving the quality and equity of the education system in Armenia through a series of diagnostic tools implemented across different areas of the education system. The World Bank will leverage the Systems Approach for Better Education Results (SABER) framework,³⁶ which collects, analyzes, and disseminates comparative information on education policies, institutions, and governance to provide the government with contextually relevant, evidence-based recommendations to systematically strengthen and promote sustained, equitable learning for all children, in particular the poor and most vulnerable.

73. As teachers are the key to the quality of education, the WBG will support implementation of formal mechanisms at the system level to support the development of teachers' competencies in classroom assessment. Under the new EU4 Innovation: Enhanced Education Focused on STEM Project, the World Bank will support the Government of Armenia in modernizing STEM curricula and training teachers on modern, student-centred pedagogies in middle schools and high schools. The World Bank will share good practices in the use of low-cost educational technology to promote teacher development and student learning.

74. Through its ongoing education projects, the World Bank will support Armenia in developing productive synergies among higher education institutions, research centers, the business community, and the government. These stronger links will create a more effective mechanism for accelerating knowledge creation and innovation, thus enabling students to acquire relevant skills for greater employability. A key success factor will be to transcend traditional forms of research collaboration to focus on shared efforts in innovation, while enabling participating students to acquire practical skills.

75. The WBG will support efforts to strengthen labor market information systems through ongoing investment projects and ASA. The ability to collect and analyze better data on the labor market will provide students with the information they need to choose a career, workers the information they need to find a job that best suits their skills, and firms the information they need to choose the workers who would best meet their needs.

³⁶ The SABER program focuses on implementing a Systems Approach for Better Education Results. SABER-Teachers has identified eight teacher policy goals to support education system performance. See <http://saber.worldbank.org/index.cfm?indx=8&pd=1&sub=0>.

CPF Objective 6: Improved access to good-quality health care services

76. The WBG will continue to support Armenia in consolidating gains in improving access to primary and preventive health care services, with a focus on poor and vulnerable populations and regions that have received less attention in the past. The World Bank has supported Armenia in strengthening primary and preventive health care service provision, downsizing the inefficient hospital sector, and supporting the introduction of a basic benefits package for the poor and vulnerable. The ongoing Disease Prevention and Control Project (DPCP) focuses on the prevention, early detection, and management of selected NCDs (such as cardiovascular diseases, diabetes, and cervical cancer) at the primary health care level, and on the efficiency and quality of selected hospitals in Armenia. IFC will seek ways to support investment in health care infrastructure, subject to the development of a sound national health insurance system.

77. The WBG will support efforts to improve public financial management in the sector, to design incentives to increase the demand for preventive health care, and to strengthen the governance of the health insurance system. With support from the Health Results Innovation Trust Fund and the Strategic Impact Evaluation Fund, the WBG is testing the effectiveness of information and financial incentives, informed by behavioral economic theory, on demand for NCD screening in Armenia. If successful, these demand-side incentives may serve to complement the nationwide performance-based financing scheme, a component of the ongoing health project that rewards health care providers for higher screening rates. With a grant from the Korea-World Bank Partnership Fund, the WBG will also contribute to ongoing efforts to design a model for effective governance of health insurance ultimately aiming at improving financial protection.

CPF Objective 7: Improved access to social protection services and economic opportunities for poor and vulnerable populations

78. The World Bank will continue to support labor market and local development interventions. Under the ongoing Social Protection Administration Project II (SPAP II), and with possible support from a proposed Japan Social Development Fund (JSDF) grant on Promoting Social Inclusion and Self-Reliant Livelihood Activities in Armenia, the WBG will help to improve the design, coverage, and implementation of active labor market programs; promote small-scale entrepreneurship activities, especially in rural areas and lagging regions where demand for wage employment is low; and expand entrepreneurship and self-employment opportunities for poor and vulnerable people. Under the Social Investment and Local Development (SILD) project, the WBG will provide assistance to productive communal investments in newly consolidated community clusters that support income-generation initiatives and improve service delivery at the local level. Fostering more meaningful participation of women as members of project implementation committees under the SILD Project will help ensure that the design, implementation, and monitoring of communal subprojects meet the needs of women in targeted local communities.

79. Improving the coverage, efficiency, equity, and integration of the social protection system will remain key parts of the WBG's engagement in the sector. The World Bank will continue to support the efficient delivery and integration of social protection benefits through lending (SPAP II) and ASA informing reforms in social case management, integrated data systems, and the establishment of one-stop shops for the delivery of social and disability benefits, employment services, and pensions. These improvements are expected to inform policy decisions, thereby strengthening the overall governance of the social protection sector. ASA will be conducted to inform possible reforms to expand the FBP's coverage and correct exclusion errors, to ensure that benefits go to the people most in need. The proposed JSDF grant, if awarded, would test an operational link between social assistance and employment programs by piloting an activation

approach for the FBP beneficiaries who are able to work, thereby promoting their self-sufficiency and independence from public support.

80. **The World Bank is supporting Armenia’s effort to put in place a stable, fiscally sustainable, predictable, and reliable pension system.** The CPF will provide TA to build national capacity to project future pension obligations, as well as the poverty and social impacts of future pension reform efforts. It will build national capacity to assess the poverty and distributional impact of fiscal reforms. Broad issues of equity, vulnerability, and regional disparities—which cut across the whole of Focus Area 2—will be at the focus of the analytical program and policy dialogue, possibly through two major ASAs on human capital and jobs diagnostics.

FOCUS AREA 3: Sustainable Management of Environmental and Natural Resources

FOCUS AREA 3: SUSTAINABLE MANAGEMENT OF ENVIRONMENTAL & NATURAL RESOURCES

Country Development Goal: Environmental conservation and responsible use of natural resources

CPF Objectives	Expected Results
<p>8. Improved management of natural resources</p>	<ul style="list-style-type: none"> • Increased land area under sustainable landscape management practices • Increased number of water users provided with improved irrigation or drainage services • Completed inventory of abandoned mining sites, ranked by risk to the environment and human health
<p>9. Enhanced climate-change resilience, water security, and disaster risk management capacity</p>	<ul style="list-style-type: none"> • Increased number of adaptive water systems and institutions providing water-secure services for irrigation and other water uses • Increased number of communities with improved forest management and/or use practices • Increased number of high schools retrofitted to meet current building standards
<p>10. Enhanced energy sustainability and renewable energy resources</p>	<ul style="list-style-type: none"> • Increased solar PV generation capacity constructed or rehabilitated • Reduced greenhouse emissions as a result of new renewable energy investments • Increased amount of energy saved annually in operating gravity-based irrigation systems

81. **The third focus area responds to Armenia’s stated goal of protecting the environment, improving the management and governance of natural resources, and managing environmental and climatic risks.** Forward-looking management of environmental and natural resources—including forests, pasture lands, watersheds, and mineral resources—provides the foundation for sustained inclusive growth through improved performance and citizen engagement in sectors such as agriculture, mining, tourism, and forestry, as well as providing a buffer against climate change and extreme weather events. To enhance environmental and climate-change resilience, the World Bank will focus on strengthening government capacity to deliver critical and timely weather and climate services, and improving preparedness against natural disasters at

the national, subnational, and local levels. With respect to renewable energy, the World Bank is focusing on creating an enabling environment for a wide range of partners to invest in renewables, including through support for a new regulatory and policy framework for private sector engagement.

82. This focus area will support the government's strong commitment and vision for Armenia as an environmental leader in the region. The WBG's engagement will rely on a wide range of instruments and promote synergies between the World Bank, IFC, and MIGA. Support for Armenia to align with and benefit from international environmental initiatives and potential innovative mechanisms for financing the environment will be key throughout this engagement. The World Bank will use its convening role to assist the government in its dialogue on the environment with other partners. In addition to the specific engagement detailed here, the CPF will support the mainstreaming of environmental and natural resource dimensions in sectors where the WBG is providing policy and advisory support, including through policy dialogue as relevant.

CPF Objective 8: Improved management of natural resources

83. The World Bank's engagement in community agricultural resource management directly promotes the productivity, sustainability, and governance of pastures and livestock systems. Through initiatives to build capacity and increase women's participation in Pasture Users Associations, the World Bank aims to enhance women's voice and engagement in the sustainable management of communal resources. Irrigation investments target the bottom 40 percent, notably farmers and rural communities. Farmers benefit from greater access to irrigation water and from improved capacity to manage water resources through Water Users Associations. To capitalize on the improvements in water access and management brought about by Water Users Associations, the WBG will focus on boosting cost recovery for used water and on economic sustainability. Following significant past WBG engagement around water supply, other partners have crowded into the sector and so the World Bank will not seek further engagement in water supply or wastewater. Instead, the World Bank is focusing on gravity irrigation schemes that improve irrigation conveyance efficiency and reduce the amount of energy used compared to outdated pump irrigation systems, complementing irrigation investments by other international financial institutions. More broadly, the World Bank's engagement in agriculture and irrigation aims to strengthen water resource management and governance; enhance climate change mitigation and adaptation; and support structural transformation in the agricultural sector and a broadening of the rural employment base.

84. The World Bank is supporting the government in developing a new mineral sector policy that establishes a framework for sector governance, supports sustainable development and management of mineral resources, and develops high social and environmental standards. Development of the policy will be achieved through an inclusive, gender-sensitive, and multi-stakeholder process. In parallel, the World Bank will support the government in increasing mining sector transparency and accountability (Box 5) by further implementing the Extractive Industries Transparency Initiative (EITI) Standard and will work with the EITI Multi-Stakeholder Group to create a shared understanding and an agenda for promoting responsible mining. This engagement will directly benefit poor people outside of Yerevan by supporting a policy framework that will enable modern mining operations, performed in an environmentally and socially responsible way, with adequate concern for the health and safety of mine workers and local communities, and with greater transparency, stakeholder dialogue, and responsible investors. WBG support will continue to build enforcement and implementation capacity in the government agencies responsible for managing and mitigating the environmental and social impacts of the mining sector; it will address environmental and health safety risks at former and present mining operations and help to develop guidelines for the safe design and management of mine waste handling facilities, including disaster risk management (DRM) plans.

The WBG will support the government in conducting a detailed risk assessment of polluted and/or abandoned mine sites, including possible opportunities and tools for economic re-mining and reprocessing, environmental cleanup, and restoration/reforestation; in developing a strategy to attract responsible investors, including collecting and making available geological and environmental monitoring data; and in promoting “local content,” putting in place conditions to support and promote a local supplier development program for the mining sector in Armenia.

Box 5. Mining Sector Governance

The effects of mining on the environment and on local communities have often overshadowed the potential for economic gains through sector investment. In 2017, the mineral industry made up 3 percent of GDP, and mineral exports accounted for 28 percent of the country’s export revenue. The historical lack of information sharing and dialogue among stakeholders, and the fact that most metallic mines were developed in the Soviet era under weak environmental and social standards, contribute to the lack of trust between communities and the private sector.

Armenia has significant deposits of copper, molybdenum, and gold, as well as smaller deposits of zinc, lead, and silver. There are 27 granted rights for metal mining and 28 rights for projects still at the exploration stage. The sector comprises a number of small- to medium-sized projects and only one large and stably operating mine: ZCMC’s Kajaran copper-molybdenum mine, which produces some 22 metric tons of ore per year and in turn represents more than 60 percent of the turnover of the entire mining sector. The Teghut mine in Lori province, which commenced operations at the end of 2014 and was the second-largest copper mine in Armenia, shut down in February 2018 due to financial concerns.

A sustainable minerals sector is one in which social and environmental impacts are well mitigated, mine sites are rehabilitated after closure, and economic benefits contribute to the country’s long-term development, in particular for the poorest and most vulnerable people in affected regions. The operations must not represent a significant risk to surrounding communities and land use in terms of, for example, accidental spills or geotechnical failures of mine waste handling facilities. Operations should enjoy overall support by the local populations—a “social license” to operate.

Armenia’s Mining Code establishes the regulatory framework governing mining and concessions. The Law on Environmental Impact Assessment and the Law on Waste Management set environmental standards that aim to align the industry with global environmental practices. The effectiveness of sector legislation and codes could benefit from improved implementation. Guidelines can be ambiguous and unwieldy, while fines and other consequences for noncompliance with environmental laws are currently too low to be a deterrent. Many companies, especially the smaller ones, may not be aware of the laws or have a poor understanding of what is required to comply with them. To improve transparency, good governance, trust, and the investment climate in the mining sector, Armenia became an EITI candidate country in 2017 and produced its first national EITI report in January 2019.

CPF Objective 9: Enhanced climate-change resilience, water security, and disaster risk management capacity

85. Helping the government implement and achieve its environmental and climate change commitments will be a key part of the WBG engagement. The CPF will support the government in identifying practical ways to increase the financial resources available for addressing climate and environmental challenges and to meet its international commitments through innovating financing—both domestically and from international sources. To do so, TA will support the establishment of a transparent and efficient implementation framework, coupled with a robust project pipeline aligned with the government’s strategic policy priorities.

86. The CPF will build on the WBG’s long-standing engagement on DRM and will support improved national preparedness for and understanding of disaster and climate risks—all of which will build the resilience of poor, rural, and remote communities. Key trust-fund-supported activities will include support for improvements in hydro-meteorological systems and services; support for the implementation of updated seismic building codes; a hazard and risk assessment of rock slope failures on the road network; and an effort to deepen understanding of disaster risk financing and insurance options. The WBG is looked to as a key stakeholder on DRM and climate change in Armenia and will leverage this role to promote dialogue and knowledge sharing on these themes. As such, DRM interventions under the CPF will continue to be highly collaborative, engaging with a wide range of partners that are active in this field, including JICA, ADB, UNDP, and local and international NGOs.

CPF Objective 10: Enhanced energy sustainability and renewable energy resources

87. The WBG is focusing on creating an enabling environment for a wide range of partners to invest in renewable energy resources, including through support for a new regulatory and policy framework for private sector engagement. The CPF will support the government in developing utility-scale solar power generation capacities in the country under the two-phase Utility Scale Solar Power Project. In the first phase, launched in 2015, the World Bank supported the Government of Armenia in organizing and running the first international tender for the development of the first large utility-scale solar plant in the country, with initial capacity of 55MW. This will be the first power plant from renewable energy sources in the ECA region intended to be financed by IFC. The project represents a major milestone for the development of solar power in the country, setting the stage for more solar development and thus a gradual reduction in the overall cost of energy. This will help to reduce Armenia’s reliance on imported fuel, narrow its current account deficit, and improve its energy security. The second phase of the project envisages the development of an additional 60–100 MW of solar power generation capacity. These joint World Bank-IFC interventions will aim to maximize financing for development with the ultimate objective of mobilizing commercial financing for Armenia’s solar program.

88. With ESMAP financing, the World Bank is supporting the Public Services Regulatory Commission in developing a new, bankable model power purchasing agreement for small renewable energy projects, which will make such projects attractive to international investors. Finally, as improved energy efficiency is the least-cost option for meeting electricity demand, the World Bank will build on past engagement in this area to explore increased energy efficiency investments for public and residential buildings in Armenia in cooperation with the EU and the European Investment Bank.

3.4 Implementing the FY19–FY23 Country Partnership Framework

3.4.1 Indicative program

89. The WBG will remain responsive to client needs, which may evolve over the course of CPF implementation. On a preliminary basis, and subject to Armenia’s fiscal space, the program foresees a new indicative lending envelope of US\$ 300–400 million to complement ongoing lending operations that will carry through the new CPF. Actual IBRD lending volumes over the CPF period will depend on country demand (itself subject to external debt levels and disbursement progress under the current stock of foreign-funded projects) and overall country performance, as well as global economic and financial developments, IBRD’s financial capacity, and demand from other World Bank borrowers. IFC will maintain its focus on supporting banking sector capacity to expand access to finance and address sector risks; continuing efforts to ensure adequate, reliable, and efficient electricity supply; and continuing to implement the Armenia

Investment Policy and Promotion Project. On the back of the expected acceleration in business-climate-related reforms and opening up of industry sectors following the outcome of the December 2018 parliamentary elections, IFC will actively seek to create market opportunities for the private sector on a competitive and transparent basis. IFC aims to expand its operations beyond ongoing activities, as described above, subject to the materialization of investment opportunities in the infrastructure sector and improvements in fiscal transparency and corporate governance practices in the real sector. IFC will continue to assist Armenian companies in improving corporate governance practices and aim to boost women entrepreneurs across Armenia. MIGA does not currently have active guarantees in Armenia. However, it is in the process of closing a guarantee transaction in support of foreign investments in the energy sector (Yerevan gas-fired power plant) and remains open to explore further opportunities in the energy and infrastructure sectors, as well as other areas that will help to develop the private sector.

90. **The indicative IBRD pipeline may include new development policy operations, additional financing operations to augment ongoing activities, and new investment projects.** The budget support operation(s) would seek to support the government’s reform agenda focusing on economic, fiscal and public-sector governance. Proposed new investment lending (Table 3A) would seek to amplify the impact of selected ongoing operations focused on enhancing human capital and spatial equity, climate-smart and competitive agriculture, and other possible investment priorities. These initiatives will be informed by a comprehensive ASA program (Table 3B) encompassing policy dialogue, TA, analysis, broad programmatic engagements, and just-in-time assistance in support of the three CPF focus areas.

Table 3: Indicative IBRD Program FY19–FY23

A. Indicative IBRD Program by Focus Area

Activity	Focus Area	Amount (US\$ million)
FY19		
Lifeline Roads Network Improvement (AF)	1,2	15
FY20/23		
Development Policy Operation	1,3	50
Education Improvement & Skills Development	2	20
Social Investment & Local Community Development (AF)	2	20
Health Preventive Care & Service Delivery (AF)	2	20
Competitive & Climate-Smart Agriculture	3	60
Irrigation Modernization	3	50
MfD for environment	1,2,3	TBD
MfD for Power Sector & Energy Efficiency	1,3	TBD
Development Policy Operation*	1,2,3	60
Total (w/o MfD operations)		295

*Depending on successful implementation of the first FY20 DPO

B. Indicative Upstream ASA Program FY19–FY20

Activity	Focus Area
Firm-level Productivity Diagnostic	1
Value Chain Analysis of ICT/High-Tech Sector	1
Climate-Smart & Export-Oriented Agriculture	1,3
Improving Freight Transit and Logistics Performance	1
Economic Management and PFM	1
Jobs Diagnostic	1,2
Education – SABER Assessments	2
Health Insurance System	2
Distributional Impact of Fiscal Reform	2
Mobilizing Finance for Environmental Priorities	3
Model PPA for Small Renewable Energy Projects	1,3

3.4.2 Financial management and procurement systems

91. **Major progress has been made in advancing the country’s PFM systems in recent years, and once the key remaining Bank-supported PFM reforms are implemented, the World Bank portfolio will fully use the country’s financial management systems.** The State Treasury already maintains the projects’ designated accounts and funds flow, and country budgeting procedures are used in budgeting all projects. Efforts are

now being made to strengthen the Audit Chamber so that it can provide external audit for Bank-financed projects. In parallel, the government is strongly committed to the full rollout of the Armenian Public Sector Accounting Standards (APSAS), developed with World Bank support, to be used for project accounting and financial reporting. The government is working to strengthen the effectiveness of public internal controls and internal audit systems. In parallel, it will also be important to address issues related to the remuneration of key project fiduciary staff—the main reason for the frequent turnover of project financial management staff and the lack of interest among skilled candidates, which can in turn affect portfolio performance.

92. Armenia’s procurement system has introduced many good practices to tackle fraud and corruption risks, and Bank-financed projects use the country’s e-procurement system. The new Law on Public Procurement, adopted in December 2016, is harmonized with the World Trade Organization’s Agreement on Government Procurement and EAEU Treaty requirements. The law reflects good international practices, such as value for money, equal rights and nondiscrimination, competition, transparency and openness, and proportionality in the procurement process. Transparency and service delivery improvements were enabled through various digital government systems, including the Armenian electronic procurement system (ARMEPS), which covers the whole procurement cycle from planning to payment. Implementing agencies under WBG-funded projects use ARMEPS for all procurement except international competitive bidding. These changes have shown good results, ensured value for money, and increased transparency, although a few areas—such as strategic procurement and capacity building for procurement professionals—require further improvements.

93. In line with its broader reform efforts in the area of public administration consolidation, the government is planning to streamline project implementation units (PIUs) into government agencies. This process was initiated in December 2018 with the mainstreaming of the Foreign Financing Projects Management Center (FFPMC)—a PIU responsible for fiduciary management under several Bank-financed projects—into the Ministry of Finance as a new subdivision. While the principle of mainstreaming PIUs is commendable to support greater government institutional capacity and efficiency, it could create transitional delays through, for example, disruptions in business procedures, staff turnover, and loss of knowledge and skills with regard to Bank procedures and rules. The World Bank has initiated TA to assess the possible implications of the intended integration of PIUs into line ministries and to provide *ad hoc* support to concerned government agencies through training of new staff. In addition, the use of country systems will be enhanced, by assessing the potential for the use of alternative procurement arrangements (APA) in which an implementing agency can obtain approval to use its own arrangements for Bank-financed procurement. Use of APA would thus support the use of country systems more broadly. Finally, support to the broader public administration reform will be explored.

3.4.3 Citizen engagement

94. Under the previous CPS, implementation of the WBG’s Armenia program demonstrated strong compliance with corporate requirements on mainstreaming citizen engagement in operations and strengthening the capacity of the country team and government counterparts. All investment projects approved since FY14 have a citizen-centric design, and 86 percent include at least one citizen engagement indicator in the results framework. Mainstreaming citizen engagement in operations has served to strengthen national feedback systems and improve project-level governance. Several projects, such as SILD, PSMP3, EIP, and DPCP, support or rely on government web platforms for public information and citizen feedback, which makes citizen engagement mechanisms more sustainable. Training was provided in 2015 and 2016 to build the capacity of the country team and government counterparts in citizen engagement. A Beneficiary Engagement Assessment and Communication Strategy guide was developed for one of the

largest implementation agencies, the Armenian Territorial Development Fund, with WBG technical support. Bidding opportunities (for procurement following competitive bidding procedures) are now published on the Armenia e-Procurement Portal and widely accessible to the public.

95. The Armenia Citizen Engagement Roadmap, developed in FY17, proposes the application of a more systematic and robust approach to citizen engagement under the CPF (Annex 9). The roadmap has two key objectives: (i) laying the groundwork for continuous, evidence-based dialogue with the government on how the World Bank can provide support for strengthening the state–citizen interface; and (ii) deepening citizen engagement across the World Bank’s portfolio in Armenia based on a context-specific, results-focused, gradual, and scalable approach that is aligned with the key principles of the 2014 Strategic Framework for Mainstreaming Citizen Engagement in WBG Operations. To serve these objectives, the new CPF will seek to: (a) support task teams in utilizing diverse citizen engagement mechanisms and indicators to improve project design and implementation; (b) build on existing feedback systems, such as the automated web system used by the Ministry of Education and Science, to publish reports on inquiries or grievances received and how these have been addressed; (c) support PIUs and other public institutions to institutionalize feedback mechanisms, for example by rolling out national budget reporting mechanisms to regional budgets or extending project grievance redress mechanisms to the relevant ministry as a whole; and (iv) adopt distinct approaches for engagement with specific vulnerable groups.

3.4.4 Gender

96. The Armenia 2017–20 Country Gender Action Plan, further informed by the Armenia SCD, will support a more robust gender focus under the proposed CPF. The CGAP was one of the two pilot CGAPs in ECA under the framework of the Regional Gender Action Plan 2017–20. It was built on both the FY14–FY17 CPS, which emphasized promoting women’s economic and public participation, and the 2016 Armenia Country Gender Assessment, which highlighted key gender gaps and challenges (Annex 8). The CGAP identified concrete operational interventions with measurable outcomes under the current portfolio that will carry over to the new CPF, which will enhance and evaluate more systematically the gender impact of the WBG’s portfolio in Armenia going forward. These interventions will aim to address key gender gaps by supporting more equal endowments, boosting women’s participation and enhancing their inclusion in economic activities, and promoting women’s participation in decision making.

97. In addition to mainstreaming gender throughout the WBG program, the CGAP commits to several cross-cutting actions to create space and momentum for enhanced gender integration into WBG operations. These include: (i) providing task teams with good models of gender inclusion actions, including from other countries, at the project preparation stage to be applied in future operations or during restructuring, where applicable; (ii) carrying out case studies and evaluations of how selected operations have affected gender inclusion and helped address key gender gaps in the country to better inform the gender dimensions of future operations; (iii) ensuring that all new operations are screened for gender entry points at the concept stage; and (iv) raising awareness of critical gender challenges in Armenia, such as those related to skewed sex ratio at birth (“missing girls”), low female labor force participation, and low participation in decision making, based on the findings of prior WBG analytical work.³⁷

³⁷ Monica Das Gupta. 2015. “‘Missing Girls’ in the South Caucasus Countries: Trends, Possible Causes, and Policy Options.” *Policy Research Working Paper No. 7236*. Washington, DC: World Bank. Available at: <http://documents.worldbank.org/curated/en/233691467992010518/Missing-girls-in-the-south-Caucasus-countries-trends-possible-causes-and-policy-options>.

3.4.5 Climate change

98. **A strong commitment to the climate change agenda has been built into the CPF.** This is reflected in: (i) the development of a stand-alone CPF focus area on sustainable environmental management and climate change resilience; (ii) ongoing TA and analysis on DRM and climate-smart agriculture; (iii) the WBG’s ongoing commitment to helping the government design and implement new financing mechanisms for environmental and climate projects; and (iv) the WBG’s commitment to supporting renewable energy and energy efficiency in the country, notably through the planned first large utility-scale solar power plant. Moreover, climate change and climate risk considerations will be integrated systematically into the pipeline portfolio and maximum climate co-benefits pursued in relevant sectors such as energy, agriculture, water, and DRM.

3.4.6 Partnerships

99. **The WBG will continue to leverage partnership opportunities, building on numerous initiatives undertaken with development partners over the course of the FY14–FY17 CPS.** These partnerships allowed the World Bank to crowd in important additional financial and technical resources (paragraph 43). The World Bank will continue to explore and leverage partnership opportunities—with all development partners. Donor partnerships may fulfill one of three goals: (i) providing enhanced financial support to the country; (ii) providing technical advisory and analytical support; and, importantly, (iii) conducting coordinated advocacy on key topics in need of attention, such as social protection and gender. The WBG will also continue to foster partnerships with civil society, building on the positive implementation experience under the previous CPS (paragraph 45).

IV. MANAGING RISKS TO THE FY19–FY23 CPF PROGRAM

100. **The overall risk to achieving the CPF objectives is assessed as moderate (Table 4).** This assessment reflects the current political, geopolitical, and governance context, as well as risks from overall macroeconomic vulnerabilities. As an overall risk-mitigation measure, the new CPF is being designed as a flexible program that can be adapted to respond to the country context and developments. Implementation progress will be assessed regularly, including at the PLR stage.

Table 4: Risk Ratings for CPF Implementation—Systematic Operations Risk-Rating Tool

1	Political and governance	Substantial
2	Macroeconomic	Moderate
3	Sector strategies and policies	Low
4	Technical design of project and program	Moderate
5	Institutional capacity for implementation and sustainability	Substantial
6	Fiduciary	Substantial
7	Environmental and social	Moderate
8	Stakeholders	Moderate
	Overall	Moderate

101. **Political and governance risks are rated substantial.** While political risk is moderate given that the constitutional transition has been completed and new government structures are in place, the achievement of CPF objectives may be subject to governance risks, civil service capacity constraints, resistance to change, and the time needed to transform the model for good governance. Weak corporate transparency and monopolistic and oligopolistic ownership structures have inhibited the attraction of FDI. Many large companies do not meet IFC’s financial reporting requirements, inhibiting IFC’s ability to invest and underscoring the need for the WBG program to continue supporting good corporate governance practices.

Risk Mitigation: The WBG, together with other development partners, will continue to monitor these risks closely. Some of the above risks will be mitigated through governance-focused CPF interventions in the areas of public expenditure and investment management, transparency and accountability, and integrity of public administration. In addition, a series of TA activities will continue to support improvements in corporate governance practices in the area of insolvency as well as oversight over corporate financial reporting (Focus Area 1, Objective 2). Finally, while the political transition process may initially have slowed down the implementation of critical reforms and FDI, Armenia's transition from a semi-presidential system to a parliamentary republic and the incoming government's commitment to good governance and anticorruption establish the political basis for substantive reform in many areas.

102. Geopolitical and external connectivity constraints remain high. These limit Armenia's connectivity and access to markets.

Risk Mitigation: Although the WBG's ability to mitigate this risk is limited, the signing of the CEPA agreement and the EU Eastern Partnership engagement in regional transportation and trade facilitation (in collaboration with the World Bank), combined with a greater focus under the CPF on leveraging digital opportunities, may help ease some of the connectivity constraints.

103. Macroeconomic risk is rated moderate. Armenia's macroeconomic policies and institutions are generally adequate, though some risks remain. Fiscal and public debt management policies are consistent with fiscal sustainability and gradually lowering the exchange rate risk. Still, the Eurobond maturing in 2020 poses some refinancing risk in case of more serious disruptions to international capital markets. Monetary and exchange rate policies are consistent with price stability and manageable external deficits. Risks remain due to Armenia's heavy reliance on remittances and undiversified production and export market structures amid an external economic environment that has weakened. On the domestic front, the main risk would be to miss the window of opportunity presented by the current, still relatively positive outlook for implementing structural reforms and boosting growth. With a less favorable external outlook and a constrained fiscal environment, structural reforms to enhance macroeconomic resilience and to establish a favorable investment climate are vital to achieving CPF objectives.

Risk Mitigation: The country's strong institutional capacity for macroeconomic management, tested during recent crises, is recognized. The WBG will continue to support structural reforms through a proposed development policy operation, as per the government's request; improvements in spending efficiency; and opportunities to leverage private sector financing where feasible (Focus Area 1, Objective 4). In addition, discussions have advanced on a new program with the IMF, which would contribute to containing risks to economic and financial stability.

104. Risks related to institutional capacity for implementation and sustainability are rated substantial. Although a significant proportion of the CPF is comprised of ongoing investment projects carried over from the FY14–FY17 CPS, newly established structures (resulting from possible agency mergers) among the WBG's main counterpart implementing agencies may face capacity constraints. In addition, the government's recent decision to mainstream the FFPMC into the Ministry of Finance as a new subdivision, and possible changes in implementing arrangements through the streamlining of other PIUs into line ministries, could lead to implementation delays as a result of possible disruptions in business processes and high turnover among key project implementation staff.

Risk Mitigation: These risks will be addressed through careful supervision and implementation support by World Bank project teams, as well as on-the-job training of concerned staff and capacity building on key

issues such as strengthening fiduciary capacity and government-wide monitoring systems, as needed. In addition, the World Bank has engaged in close dialogue with the government through the country office on ways to streamline project implementation arrangements with a view to minimizing disruptions to the delivery of results under the current portfolio, while supporting the government's broader goal of enhancing public administration efficiency.

105. Fiduciary risk is rated substantial. The country procurement system has introduced many good practices, which contribute to an overall procurement risk rating of "moderate" in the context of political will to address substantial risks of fraud and corruption. WBG-funded projects use ARMEPS for all procurement except international competitive bidding. Although these changes have shown good results, ensured value for money, and increased transparency, further improvement is needed in areas such as the use of strategic procurement, the sustainability of the e-government system, and the capacity of procurement professionals and supreme audit institutions to conduct procurement audits. The overall country financial management risk is rated "substantial," given weaknesses in key PFM systems reported in the Public Expenditure and Financial Accountability assessment, while the residual fiduciary risk on a project level after mitigation measures is mainly moderate or low. The main issue at the portfolio level has been the high turnover among fiduciary staff caused by the 2015 reduction in the salary scale for newly recruited staff in PIUs. This could be aggravated by the recent decision to mainstream the FPPMC into the structure of the MOF and possible streamlining of other PIUs into line ministries.

Risk Mitigation: Bank-financed projects will follow stand-alone implementation arrangements, including staffing, internal controls, and external audit to minimize risks. Capacity building activities will support newly recruited staff to address potential knowledge and skills gaps. The Bank will also explore the possibility of using APAs that would allow the Bank to rely on the Borrower's procurement rules and procedures for specific projects, thereby expanding the use of country systems.

V. ANNEXES

Annex 1. Armenia CPF Results Matrix

FOCUS AREA 1: Export Enablers and Firm Competitiveness

As the historical drivers of poverty reduction and shared prosperity—remittances, social transfers, and construction sector demand for low-skilled workers—have run their course, Armenia requires a decisive shift toward the tradeable sectors to deliver on the twin goals. Low performance in exporting goods and services is the key development challenge in Armenia’s effort to maintain high growth over the long term, followed by the lack of vibrancy in private sector development and job creation. Three sectors—agriculture, ICT/high tech, and tourism—have shown potential for export growth and are characterized by significant opportunities for new entrants and market contestability. Moreover, they can extend externally oriented growth to those who have been excluded to date, particularly in the regions. To support exports, the WBG will focus on removing barriers to growth in these sectors, as well as economy-wide efforts to attract investment, including FDI, by improving the business environment along pivotal dimensions, notably by improving the foundation for good corporate governance through reliable corporate financial reporting and the insolvency framework, both of which would increase investor confidence and certainty. Support for improving access to and the reliability of infrastructure, particularly through lifeline roads, an expanded electricity network, and digital connectivity complements the emphasis on exports by helping link secondary cities and rural areas to these new sources of growth. Given Armenia’s eroded fiscal space, the WBG will support the government in improving spending efficiency to get the most out of the resources it has, and in mobilizing private finance for additional investments that accelerate development. This policy framework should reduce the cost of exports, reduce uncertainties surrounding investments, and expand opportunities to connect with external markets, helping to secure strong, sustained, and inclusive growth in Armenia.

CPF Objective 1: Improved performance in export-enabling sectors

Intervention Logic: Armenia is less well integrated with global markets than its comparators, and exports lag behind those of peers. This is due in part to external factors, including closed borders with two of its four neighbors, but also to high trade costs driven by deficiencies in hard and soft infrastructure. The tourism industry is dynamic, and the ICT/high-tech sector is increasingly vigorous, while there has been a rapid recent expansion of some agribusiness products. These sectors have great potential for further and more inclusive export growth. They are also closely linked to the plight of the bottom 40 percent, and present significant opportunities for attracting new entrants and FDI.

WBG Support: The WBG’s Local Economy and Infrastructure Development Project is addressing the primary constraints in the tourism sector by supporting urban regeneration in historic hubs and developing tourist circuits and site management plans. This engagement, combined with parallel investments by the government and other partners, is expected to increase the number of tourist arrivals and jobs in the industry, primarily outside the capital where poverty is concentrated. In ICT and high-tech, the World Bank is advising the government on its digital transformation strategy and how to boost exports by further integrating into global value chains. Policy changes informed by this advice, notably on options to improve broadband connectivity and value chain integration, are expected to support ICT and high-tech exports over the medium term and connectivity more broadly. The Bank will continue implementation of the Trade Promotion and Quality Infrastructure Project (TPQI), aimed at strengthening the government's capacity to provide export promotion, investment attraction, and quality management services to firms. TPQI will support the development of an Engineering City, a PPP that will leverage existing foreign private sector investment and localize technology-based firms and research and development institutions in a new competitive export-oriented high-tech cluster of engineering service providers, as well as the provision of needed high-quality infrastructure and matching grants for firm

competitiveness. The ongoing Second Community Agriculture Resource Management and Competitiveness Project will continue to support the development of Armenia’s agro-processing industry by facilitating the integration of about 50 small and medium-sized enterprises into domestic and international value chains. IFC’s Armenia Women Entrepreneurship Project will work to improve the performance of women-run businesses through direct capacity building of beneficiaries as well as intermediaries providing targeted entrepreneurship training programs focused on marketing, networking, and business management. In addition, the WBG may undertake additional deep-dive analysis in sectors with export potential to identify barriers to reaching the next level of export growth. Through the DPO and other instruments, the CPF may also back reform efforts that support a wider number of sectors as opportunities emerge.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>1.1 Increased number of international tourist arrivals Baseline: 1,495,000 (2018) (Arm Stats, 2017) Target: 1,682,000 (2022) (based on estimated 3% growth per year)</p>	<p>Number of LEID-supported tourism facilities constructed or rehabilitated at each cultural heritage site along the tourist circuit included in the project Baseline: 0 (2018) Target: 10 (2022)</p>	<p>Existing program Lending Operations: Local Economy and Infrastructure Development Project Trade Promotion and Quality Infrastructure Project Second Community Agriculture Resource Management and Competitiveness Project Irrigation System Enhancement Project and Additional Financing</p>
<p>1.2 Increased number of jobs for men and women created by activities linked to support for the tourism industry Baseline: 148,000 (2018) (based on World Tourism and Travel Council) Target: 166,575 (2022, based on estimated 3% growth per annum)</p>	<p>Increased number of tourism-related SMEs at LEID project sites (for example, souvenir and handicraft shops, guesthouses, restaurants), disaggregated by the gender of the SME’s owner Baseline: 7800 (2018) Target: 8900 (2022)</p>	<p>ASAs: Agriculture Export Cluster Development Digital Economy EU TF on Broadband Strategy for Eastern Partnership Armenia Women Entrepreneurship Project (IFC) Digital Agriculture and Agriculture Mechanization in the Climate Change Context Realizing Armenia's Technology Potential (value chain analysis)</p>
<p>1.3 Increased value in annual marketed production of milk, meat, fruits, vegetables, fish and fodder production (in AMD millions) Baseline: 2,450 (2018) Target: 3,850 (2022)</p>	<p>Creation of Engineering City Baseline: n/a (2018) Target: Completed (2022)</p>	<p>Proposed program ASAs: Joint Bank-IFC Investment Policy Promotion Project (FCI GP) Agriculture Export Cluster Development Selected Value Chain Analyses</p>
<p>1.4 Increased sales/transaction volumes of Engineering City (EC) resident companies in US\$ millions (disaggregated by domestic/export sales) Baseline (2018): US\$ 0 Target (2023): US\$ 50 million</p>	<p>Number of firms supported by WBG export- and productivity-enhancing programs³⁹ Baseline: 0 (2018) Target: 100 (2022)</p>	<p>Proposed program ASAs: Joint Bank-IFC Investment Policy Promotion Project (FCI GP) Agriculture Export Cluster Development Selected Value Chain Analyses</p>
<p>1.4 Increased sales/transaction volumes of Engineering City (EC) resident companies in US\$ millions (disaggregated by domestic/export sales) Baseline (2018): US\$ 0 Target (2023): US\$ 50 million</p>	<p>Number of women-run businesses supported by IFC’s Women Entrepreneurship Project reporting improved performance</p>	<p>Proposed program ASAs: Joint Bank-IFC Investment Policy Promotion Project (FCI GP) Agriculture Export Cluster Development Selected Value Chain Analyses</p>

³⁹ Programs that will be supported under TPQI: number of firms that locate in the engineering city (40); number of firms benefiting from the matching grants (60); number of companies that use the upgraded quality labs or the new labs (NA) to be assessed by end of April 2019.

	Baseline: 0 (2018) Target: 100 (2022)	
CPF Objective 2: Improved business environment to support investor confidence		
<p>Intervention Logic: Firm productivity growth has been limited since 2010. Gaps in the investment climate are a chief cause of the private sector’s lackluster productivity performance, with improvements required on a number of fronts to increase investment—notably foreign investment—that can inject productive technologies and approaches into the economy. Among the critical weaknesses is a lack of confidence in the security of investments in terms of the rights of creditors should an investment fail, limited transparency and accuracy of corporate financial reporting, and restrictions to the freedom that firms have to compete on a level playing field.</p> <p>WBG Support: The WBG will help the government address these constraints through advisory services on improving the business-enabling environment and improving insolvency and creditors’ rights, as measured notably by the Doing Business indicator on resolving insolvency. TA supporting the establishment of modern and effective public oversight over corporate financial reporting will improve the quality of financial information in the corporate sector. Support for more systematic assessment of the regulatory impact of new policy initiatives will help enhance the quality of policy formulation. The CPF aims to complement this work with joint Bank-IFC advisory services on increasing efficiency-seeking FDI, which will focus on strengthening the legal and institutional framework for FDI, improving investment incentives, and increasing the investment attractiveness of selected promising sectors.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>☆⁴⁰ 2.1 <i>Improved score on the Doing Business report’s Strength of insolvency framework index</i> Baseline: 7.5 out of 16 (2018) Target: 10 out of 16 (2022)</p> <p>☆ 2.2 <i>Improved corporate financial reporting</i> Baseline: No effective public oversight over corporate financial reporting (2018) Target: Public Oversight Board and Chamber of Accountants and Auditors operational (2022)</p> <p>☆ 2.3 <i>FDI Law revised to introduce key investment protection standards and alternative dispute resolution mechanisms</i> Baseline: 1994 FDI Law (2018) Target: New FDI law adopted and effective (2022)</p>	<p>☆ <i>Insolvency law amended</i> Baseline: not amended (2018) Target: amended (2020)</p> <p>☆ <i>New legal framework underpins a modern and effective public oversight over corporate financial reporting</i> Baseline: None (2018) Target: New legal framework adopted by parliament (2019)</p>	<p><i>Existing program</i> ASAs Corporate Financial Reporting Insolvency and Creditors’ Rights (FSAP) Competition ecosystem Joint Bank-IFC Investment Policy Promotion Project (FCI GP)</p> <p><i>Proposed program</i> Lending Operations: DPO ASAs Regulatory Impact Assessment (capacity building) Competition (sectoral focus)</p>
CPF Objective 3: Enhanced connectivity and access to reliable infrastructure (transport, energy, digital)		
<p>Intervention Logic: Exports are hampered by the limited and unreliable access of households and firms to transportation and energy supplies, while better broadband Internet connections could be spread beyond Yerevan. Spotty infrastructure excludes the bottom 40 percent, who are more concentrated in</p>		

⁴⁰ All indicators marked with a yellow star are governance-related.

secondary cities and rural areas. Gaps remain in basic road infrastructure at the local and regional levels, and these constrain “last-mile” access to the broader road network. Significant rehabilitation of power transmission and distribution lines and new efficient generation capacity are needed to ensure reliable and adequate electricity supply. While Armenia’s broadband infrastructure has helped to boost Internet use in the country, connectivity infrastructure for capturing the potential of the digital economy is still lacking outside the capital.

WBG Support: In each of these sectors, the World Bank will continue to focus on areas that support competitiveness while emphasizing spatial equity and inclusion of the bottom 40 percent. On transport, the World Bank will finance secondary “lifeline” roads that provide access to the broader road network and connect tourists to regional destinations. In the electricity sector, the World Bank will continue to finance the rehabilitation of transmission lines and new substations to improve reliability, especially outside Yerevan, while IFC and MIGA will aim to support efficient energy generation and distribution. IFC will also support energy distribution infrastructure. In ICT, the World Bank will support the development and implementation of a national broadband strategy to accelerate broadband deployment throughout the country.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>3.1 Increased share of the rural population with access to an all-season road Baseline: 67.7% (2018) Target: 72% (2022)</p> <p>3.2 Plant and equipment failures in power transmission substations reduced Baseline: 39 (2018) Target: 7 (2022)</p> <p>3.3 Increased share of households with fixed broadband subscriptions (% of households) Baseline: 75.2% (2018) Target: 80% (2023)</p>	<p><i>Roads rehabilitated under LRNIP (kilometers)</i> Baseline: 273 km (2018) Target: 360 km (2020)</p> <p><i>Road asset management system that includes the country’s full road network in place</i> Baseline: No (2018) Target: Yes (2021)</p> <p><i>National broadband strategy adopted</i> Baseline: No (2018) Target: Yes (2020)</p>	<p><i>Existing program:</i> Lending Operations: Electricity Supply Reliability Project Electricity Transmission Network Improvement Project Lifeline Roads Network Improvement Project plus Additional Financing</p> <p>ASAs: EU4 Digital Broadband Strategies in the Eastern Partnership Region Eastern Partnership Transport Panel Greener Transport Connectivity for the Six Eastern Partnership Countries South Caucasus Transit Corridors and Logistics</p> <p><i>Proposed program:</i> Operations: IFC investment ASAs South Caucasus Regional Digital Platforms IFC advisory</p>

CPF Objective 4: Improved public spending efficiency and increased private financing for development

Intervention Logic: Limited fiscal space constrains the high-impact investments that are critical for Armenia’s development. Fiscal constraints make Armenia more vulnerable to shocks and less capable of mitigating their impact on the bottom 40 percent. Therefore, efficiency of public spending needs to be improved and macro-fiscal resilience strengthened. In addition, effective mechanisms need to be put in place to prevent and address instances of corruption.

WBG Support: The WBG will tackle these challenges on two fronts. On the one hand, it will provide support for getting the most out of available resources by improving spending efficiency in public administration through strengthening the Public Investment Management Framework, supporting the rollout of APSAS, establishing an efficient Government Financial Management Information System (GFMIS), promoting strategic procurement, as well as strengthening institutional mechanisms for combating corruption. On the other hand, the WBG will help to mobilize private financing for development. The WBG will support the government in pursuing sources of innovative financing for development such as PPPs. For instance, support will be focused on mobilizing private finance for infrastructure particularly in the energy sector, as well as other sectors as feasible. In addition, the WBG will seek opportunities to support capital market development and long-term finance with a focus on infrastructure, export finance, and exploration of new instruments such as guarantees to leverage private sector resources.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>☆4.1 Upgraded public investment management framework in place Baseline: No effective framework in place (2018) Target: 50% of new investment projects (irrespective of funding source—domestic, donor-financed, or PPP) above an agreed threshold* follow the new public investment budgeting framework (2021)</p> <p>☆4.2 Increased public procurement efficiency following implementation of the new Public Procurement Law Baseline: 10.4% (average savings on total amount under signed public procurement contracts in 2017) Target: 12.5% (2022)</p> <p>☆4.3 Improved institutional framework and capacity to combat corruption, as measured by increased share of income declarations covered by risk analytics Baseline: 0% (2018)</p>	<p>☆ Improved quality of annual financial reporting; APSAS are introduced and used in at least two ministries Baseline: No consolidated APSAS reports prepared (2018) Target: Consolidated financial statements based on APSAS prepared by two ministries (2022)</p> <p>☆ Increased number of participants per bid on average for all tenders (irrespective of procurement method) Baseline: 1.8 (2017) Target: 3 (2021)</p> <p>Regulatory framework for collective investment funds, asset-backed securities, and covered bonds approved and operational Baseline: No (2018) Target: Yes (2022)</p>	<p><i>Existing program:</i> Lending Operations: Third Public Sector Modernization Project (PSMP3) Power Sector Financial Recovery Program ASAs Macro-fiscal Monitoring Fiscal Incidence Analyses Programmatic PFM TA (public investment and internal audit) FIRST TA on Long-Term Finance – Capital Markets Development and Infrastructure Finance</p> <p><i>Proposed program</i> Operations: IFC investment</p> <p>ASAs: Public expenditure notes Fiscal incidence analyses Support of reforms and macroeconomic sustainability through DPOs WBG-EU Armenia TF on Economic Governance</p>

* Threshold to be discussed with MOF during DPO preparation missions.

<p>Target: 100% (2022)</p> <p><i>4.4 Increased volume of private financing mobilized for energy infrastructure with WBG facilitation</i></p> <p>Baseline: 0 (2018)</p> <p>Target: US\$ 110 million (2023)</p>		<p>Supporting Tax Administration and Policy Leadership project (STAPL) supported by GGF BETF</p>
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FOCUS AREA 2: Human Capital Development and Equity

As the Armenian economy transitions to greater export orientation, the workforce needs to transition in tandem to provide the skills necessary for new, externally focused jobs. At the same time, Armenia is undergoing significant demographic changes, with its population aging and shrinking. These changes underlie the rise in the share of the elderly mixed with outmigration of young people seeking better opportunities. There are widespread social challenges, including gender gaps, high unemployment, and low activity rates, particularly among women and youth. Regional disparities constrain inclusive growth and, together with the demographic changes, adversely affect Armenia’s long-term growth prospects. Investing in the skills and human capital of the population is key to addressing these challenges, boosting productivity and growth, and achieving the twin goals. As the single largest component of wealth, investing in human capital is a clear path to ending extreme poverty and boosting shared prosperity in Armenia. Human capital interventions in poor and underserved areas, early childhood development, and access to health care will play a direct role in reducing regional disparities in social and economic opportunities. The CPF aims to support Armenia in enhancing its human capital and improving equity in access to services and economic opportunities.

CPF Objective 5: Enhanced access to good-quality educational services for skills development and employability

Intervention Logic: As the Armenian economy becomes more reliant on technology, innovation, and services, the education system needs to keep pace, and those entering the labor market need modern skills to succeed. At the same time, the aging and shrinking population is affecting the size and age composition of the labor force. Low participation among women, a disproportionate share of whom have high educational attainment, is estimated to cause lower economic output equivalent to 14 percent of GDP. These mismatches in the labor market lead to low labor productivity and diminish economic and social inclusiveness. The skills mismatch is driven by a disconnect between academic programs and the rapidly changing labor market demands. Low participation among women is the product of a complex set of factors, but among these is the limited number of preschools and childcare facilities in rural communities and unbalanced gender representation in school programs, that may negatively influence the perception of women’s roles. Addressing these challenges is a long-term proposition, and so policy action can only make preliminary improvements during the CPF period while laying the foundation for a more prepared labor force in the future.

WBG Support: The WBG will help to upgrade the skills of future labor market entrants through the ongoing Education Improvement Project (EIP) by clustering higher education institutions, research centers, industry, and government to create a more effective mechanism for accelerating knowledge creation and innovation, and to enable students to acquire skills that are relevant to employability. The EIP will also support removing barriers to labor market participation, especially for women through enhanced enrollment in early childhood development programs and increased access to preschool education for vulnerable students in rural areas. These efforts will be further supported by ASA on human capital needs assessment as well as a detailed jobs diagnostic. In addition, an EU-funded project implemented by the Bank will aim to develop and pilot modern teaching approaches in one region, with the potential to be scaled up countrywide, as well as to identify cost-efficient interventions to address the key bottlenecks that prevent students from enrolling and performing well in STEM subjects. The World Bank will conduct several ASAs in the space of human capital development to inform government policy and future WBG engagements.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>5.1 Increased share of preschool-aged children enrolled in early childhood education/child care Baseline: 52.4% (2016)⁴¹ Target: 62% (2022)</p> <p>5.2 New cluster of higher education institutions, research centers, industry, and government established Baseline: 0 (2018) Target: 1 (2022)</p>	<p>General curriculum revised to: (i) present balanced image of men’s and women’s social and economic roles; and (ii) provide more guidance on strengthening the use of cognitive, socioemotional, and technical skills in classroom Baseline: Existing curriculum in place (2018) Target: Revised curriculum in place (2022)</p> <p>Launch of MA program in education assessment (under READ 2) with a module on teacher classroom assessment for pre-service teacher training Baseline: 0 (2018) Target: 1 (2020)</p>	<p>Existing program: Lending Operations: Education Improvement Project Trust Fund Operations: READ 2 AAAs: Armenia Higher Education Policy Review Social worker as entry point to promote investments in the early years – Japan Trust Fund</p> <p>Proposed program: Trust Fund Operations: EU4Innovation in Armenia – Enhanced Education focusing on STEM AAAs: Human Capital Needs Assessment Diagnosis of the Education System Using Systems Approach for Better Education Results (SABER) Tools</p>
<p>CPF Objective 6: Improved access to good-quality health care services</p>		
<p>Intervention Logic: While Armenia has made substantial progress in improving health system performance and outcomes, access to primary health services—particularly integrated care for non-communicable diseases and prenatal care—remains uneven. Low public spending on health and high out-of-pocket payments by regional standards presents a considerable challenge in achieving the twin goals. Limited integration between primary and other care, and significant regional disparities in access to high-quality health services, exclude much of the population living outside the capital. Armenia has the potential to improve access to, and the quality of, health care services over the medium term, which will help ensure that Armenia has the healthy workforce it needs to achieve expanded, more inclusive growth.</p> <p>WBG Support: The ongoing Disease Prevention and Control Project focuses on prevention, early detection, and management of selected non-communicable diseases at the primary health care level; the efficiency and quality of selected hospitals in Armenia; and the expansion of and capacity building for performance-based financing for maternal and child health services. The WBG aims to complement this work with a study to identify bottlenecks to effective and inclusive universal health care coverage, followed by TA and deeper analysis on specific issues. A human capital needs assessment and other health sector ASAs will provide evidence on the quality of health care, effective governance of health insurance, and options for improving health service delivery.</p>		

⁴¹ The figure includes children from 3 to 5 years old. If younger age cohorts are included, then the national coverage is much lower - 28.9% for children between 0 to 5 years.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>6.1 Increased percentage of antenatal care attendees screened for glycosuria, hypertension, and proteinuria in at least three antenatal visits Baseline: 68.0% (2018) Target: 85.0% (2022)</p> <p>6.2 Increased percentage of men aged 35-68 screened for hypertension at least once in the last year Baseline: 48.3% (2018) Target: 55.0% (2022)</p> <p>☆ 6.3 New health insurance system operational Baseline: No (2018) Target: Yes (2023)</p>	<p>Increased awareness among adults (male and female) of key NCD risk factors: (a) high blood pressure, and (b) high blood sugar (a) High blood pressure Baseline: 41% (males), 58% (females) (2016)⁴² Target: 43% (males), 60% (females) (2021) (b) High blood sugar Baseline: 26% (males), 43% (females) (2016) Target: 28% (males), 45% (females) (2021)</p> <p>☆ Roadmap for new health insurance system developed Baseline: No (2018) Target: Yes (2020)</p>	<p>Existing Program: Lending Operations: Disease Prevention and Control Project AAAs: Armenia HRITF Impact Evaluation Armenia Health Services Delivery ASA</p> <p>Proposed Program: ASA: Human Capital Needs Assessment Public Finance Management Assessment Strengthening Health Financing</p>
<p>CPF Objective 7: Improved access to social protection services and economic opportunities for poor and vulnerable populations</p>		
<p>Intervention Logic: There is a wide gap between the capital city, Yerevan, and secondary cities and large, mostly rural, hinterland, in accessing high-quality social services and economic opportunities. By improving outreach to poor people and accuracy in targeting of social benefit programs, including reducing errors of exclusion, Armenia could make a major impact in helping to build resilience among the poorest. The country can simultaneously improve efficiency by consolidating services provided by different social protection programs through integrated social protection centers, focusing resources on poor people rather than on administration.</p> <p>WBG Support: Under the ongoing Social Protection and Administration Project (SPAP II), the Bank is financing the creation of integrated service centers and development of M&E systems to administer social protection programs, facilitating access by the poorest and most disconnected and strengthening the capacity of the State Employment Agency to increase employability with a special focus on vulnerable groups, including women, FBP beneficiaries, migrants, and young people. It will also support the development of an electronic monitoring and evaluation system to facilitate program monitoring and evidence-based policy and decision-making. Under the Social Investment and Local Development (SILD) project, the WBG is supporting productive communal investments in newly consolidated community clusters that can support income-generating activities and improve service delivery at the local level. A proposed JSDF grant on Promoting Social Inclusion and Self-Reliant Livelihood Activities, if awarded, is expected to build on the excellent track record of the original JSDF grant, implemented under the previous CPS, by supporting access of the most vulnerable to economic opportunities, with enhanced focus on facilitating female labor participation. Through ASA and policy dialogue on human capital, employment, and regional disparities, the Bank will support Armenia in expanding economic opportunities for poor and vulnerable people. The Bank will also support Armenia in putting in place a stable and fiscally sustainable pension system, while at the same time assessing the poverty and social impacts of ongoing reform programs. Finally, the Bank will build national capacity to assess the poverty and distributional impact of proposed taxes and transfers reforms.</p>		

⁴² The Health System Performance Assessment—the data source for this indicator—is conducted every two years; the most recent survey was conducted in 2016.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>7.1 Increased share of poor people covered by the Family Benefit Program (disaggregated by gender) Baseline: 31% (2018) Target: 38% (2022)</p> <p>7.2 Increased share of beneficiaries in SILD project areas satisfied with community infrastructure (disaggregated by gender) Baseline: 80% (2018) Target: 85% (2023)</p> <p>7.3 Enhanced employment information system that provides public access to a full range of employment services Baseline: Fragmented and outdated information system, with no online tools (2018) Target: Fully operational and integrated employment information system and online platforms (2022)</p> <p>7.4 Increased number of businesses in sustained operation six months after JSDF grant disbursement Baseline: 0 (2019) Target: 200 (2023)</p>	<p>Increased monitoring and evaluation capacity, as evidenced by introduction of an electronic M&E system for SP programs Baseline: No electronic M&E system in place (2018) Target: Electronic M&E system in place and operational (2022)</p> <p>Increased capacity to carry out fiscal incidence (distributional impact) analysis of fiscal policies (revenue and expenditure) reforms. Baseline: No capacity (2018) Target: Relevant MOF department staff trained (2022)</p> <p>Completed roll-out of social inclusion and self-reliant livelihood activities in Armenia (JSDF grant) Baseline: No (2019) Target: Yes (2022)</p>	<p><i>Existing Program:</i> Lending Operations: Social Investment and Local Development Project Social Protection Administration Project AAAs: Pensions TA</p> <p><i>Proposed Program:</i> TF Project Promoting Social Inclusion and Self-Reliant Livelihood Activities in Armenia – JSDF Grant (TBC) Jobs Diagnostics</p>

FOCUS AREA 3: Sustainable Management of Environmental and Natural Resources

Sustainable management of the environment and natural resources is vital for Armenia’s quest to improve poverty reduction and shared prosperity as well as its future economic growth. There is considerable scope to strengthen the governance and sustainable management of the country’s natural assets, including through engagement in agriculture, mining, forestry, disaster risk management, and renewable energy. Under this focus area, the WBG will build on its past and ongoing engagement in these sectors and promote integrated, collaborative, and pro-poor solutions to environmental sustainability and climate resilience. Activities will span operational investments, research, data collection, and TA for capacity building, and will include international, national, regional, and community levels of engagement. Partnerships—including with a wide range of international partners, government actors, private sector, and civil society—will be key to successful implementation. This engagement will have an important impact on poor and vulnerable people in Armenia, who are most affected by climate change, degradation of natural resources, and unsustainable environmental management.

CPF Objective 8: Improved management of natural resources

Intervention Logic: Prudent use of natural resources is a key government priority, but systems for the management of natural resources such as land, water, and minerals need to be strengthened to safeguard Armenia’s natural assets for the benefit of its citizens, now and in the future. The country’s ability to transition further from informal and subsistence agriculture into a dynamic, export-oriented, modern sector with a diversified range of products and markets is constrained by limited arable land, fragmented land ownership, underuse of advanced technologies, and outdated and uneconomical irrigation systems. Female household members, and female-headed households, play a critical role in agriculture, including livestock production, especially with male outmigration. Yet there is a need for more balanced representation of women in Pasture User Associations to ensure women’s equitable access to resources, and representation in decision-making processes that affect their lives. Agriculture is the most climate-sensitive of all economic sectors, yet Armenian farmers are not well adapted to climate-related challenges. Nearly 40 percent of Armenia’s workforce relies on agriculture for a living, and the rural poor are disproportionately affected by the impact of climate change on agriculture because of their greater dependence on the sector, their relatively lower ability to adapt, and the high share of income they spend on food. Those who depend on agriculture also depend on the availability of water. About 80 percent of crops cultivated in Armenia are irrigated, and 96 percent of drinking water is sourced from groundwater. Water availability is expected to decline as a result of climate change and reduced precipitation, placing increasing pressure on water systems and major water bodies such as Lake Sevan, and increasing the burden on farmers. In addition, prolonged unsustainable mining operations and disposal of mining waste have caused degradation of the natural environment. Although environmental laws and regulations have been improved in recent years, they still need significant strengthening, in terms of both regulatory aspects and implementation capacity. Deficiencies in environmental management are also of concern for sectors of particular importance for exports and for the livelihoods of the bottom 40 percent, such as agriculture and tourism.

WBG Support: The WBG will help the government to build an integrated system of agricultural databases to support evidence-based policymaking. In close collaboration with other development partners, the Bank will focus on broad intersectoral planning support that takes into account water, agriculture, energy, and environment linkages. Water users—from agriculture to hydropower plants to industry to households—face similar challenges, and the Bank will continue to strengthen water users’ associations to improve water management through its ongoing irrigation project. Other partners are leading on drinking water and wastewater treatment, while the World Bank is at the forefront and crowding in other partners on irrigation. Finally, the World Bank is using TA and advisory services to help Armenia develop a mining sector policy to improve sector governance and implementation of existing laws and regulations against pollution, as well as to take the next step on transparency to achieve validation as an EITI member.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>8.1 Increased land area under sustainable landscape management practices</i> Baseline: 57,000Ha (2018) Target: 110,000Ha (2022)</p> <p><i>8.2 Increased number of water users provided with new/improved irrigation or drainage services</i> Baseline: 8,286 (2018) Target: 12,336 (2022)</p>	<p>☆ <i>Number of new agricultural databases developed in support of evidence-based agricultural policy making and monitoring</i> Baseline: 0 (2018) Target: 8 (2022)</p> <p><i>Increased share of women in membership of Pasture User Associations</i> Baseline: 23 percent (2018) Target: 28 percent (2022)</p>	<p><i>Existing program</i> Lending Operations: Irrigation System Enhancement Project Second Community Agriculture Resource Management and Competitiveness Project TF Projects: Agriculture Policy Monitoring and Evaluation Capacity Building Project Armenia EITI Support Armenia Mineral Sector Policy</p>

<p>8.3 Completed inventory of abandoned mining sites, ranked by risk to the environment and human health</p> <p>Baseline: No (2018)</p> <p>Target: Yes (2020)</p>	<p>☆ Disclosure of beneficial owners of mining businesses as a result of Armenia’s EITI membership and adoption of mineral sector policy</p> <p>Baseline: Information on beneficial owners of mining businesses is not publicly available (2018)</p> <p>Target: Online register of beneficial owners is operational (2022)</p> <p><i>Mining sector policy and associated work plan developed through a consultative process, adopted, and implemented</i></p> <p>Baseline: No (2018)</p> <p>Target: Yes (2021)</p>	<p><i>Proposed program</i></p> <p>AAA:</p> <p>South Caucasus Irrigation and Drainage Mapping Supporting Sustainable Mining Sector Development in Georgia and Armenia</p>
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CPF Objective 9: Enhanced climate-change resilience, water security, and disaster risk management capacity

Intervention Logic: Forward-looking management of environmental and natural resources—including forests, pasture lands, watersheds, and mineral resources—provides the foundation for sustained inclusive growth through improved performance and citizen engagement in sectors such as agriculture, mining, tourism, and forestry, as well as providing a buffer against climate change and extreme weather events. The natural landscapes and rangeland on which many Armenians depend are being degraded, causing deterioration of environmental assets and natural capital and affecting livelihoods, particularly in the poorest and most remote parts of the country. Armenia is losing forests at an alarming pace, due in part to the population’s heavy dependence on forests for income, fuel wood, and nontimber forest products, as well as for shelter and fodder, but even more so from an inefficient enabling environment and lack of policy incentives for the implementation of sustainable forest management practices and investment in the sector. If this trend continues, it will have a disproportionate impact on the rural poor. The existing network of water infrastructure has limited storage capacity and adaptive capacity to cope with climatic risks and stresses. Finally, despite high disaster risks, Armenia lacks a clear approach for quickly assessing and reporting fiscal impacts after a disaster strikes. Building codes do not reflect variations in seismic risk, creating unnecessary vulnerabilities in risky areas and costs in relatively safe places. Many school facilities do not meet updated seismic resilience standards, for example. Strengthening environmental and disaster risk management will be of particular importance in reducing the potential for major shocks to affect poor and vulnerable people in Armenia, who are most affected by climate change, degradation of natural resources, and unsustainable environmental management.

WBG Support: As the government’s lead partner on disaster risk management, the World Bank will support Armenia in addressing these key elements of resilience. TA and data gathering on forest governance and management will support government decision making in the forest sector, build the capacity of communities to manage forest resources, and strengthen legal forest product trade while reducing illegal trade of forest products. Prior World Bank analytical work identifying schools that are vulnerable to disaster risks has catalyzed partners to finance prioritized school retrofitting alongside the World Bank. ASA will underpin a new building code that uses a digital probabilistic seismic hazard assessment to determine which properties are most at risk to earthquakes, as well as efforts to improve urban planning (and resilience to earthquakes) over the long run. World Bank ASA will also help the country develop a methodology and reporting system for post-disaster damage assessment, a change that could speed recovery response and improve the deployment of critical resources if disaster strikes. An ASA on irrigation development and water security will support evidence-based formulation of a water

management strategy. Building on the Bank’s successful engagement in irrigation and water management, the next generation of irrigation projects is likely to focus on adding storage and improved water management systems to manage upstream water risks and downstream water use. On climate change, the World Bank will seek funding from external sources to provide technical support to translate NDCs under international climate agreements into an actionable implementation strategy. Finally, the WBG will continue to support efforts to strengthen institutional capacity for effective and consolidated management of environmental finances at the national level; preparation of a project pipelines; and monitoring and reporting on results of environmental and climate projects financed from various sources.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>9.1 Increased number of adaptive water systems and institutions providing water-secure services for irrigation and other water uses Baseline (2019): 0 Target (2023): 5</p> <p>9.2 Increased number of communities with improved forest management and/or use practices Baseline (2019): 0 Target (2023): 20</p> <p>9.3 Increased number of high schools retrofitted to meet current building standards⁴³ (of which financed by WBG) Baseline: 5 high schools (2018) Target: 12 high schools (2022)</p>	<p><i>Integrated water systems investment plan developed based on scenario analysis and verified through inclusive stakeholder consultation</i> Baseline: No (2018) Target: Yes (2022)</p> <p><i>National forest finance strategy developed</i> Baseline: No (2018) Target: Yes (2022)</p> <p><i>National, EU-compliant protected areas network (Emerald network) master plan developed</i> Baseline: No (2018) Target: Yes (2022)</p> <p><i>Pipeline of priority environmental projects developed for financing from non-debt-creating innovative financial instruments</i> Baseline: No (2018) Target: Yes (2022)</p> <p><i>Methodology to improve post-disaster damage assessment and reporting developed</i> Baseline: No (2018) Target: Yes (2022)</p>	<p><i>Existing program</i> Lending Operations: Education Improvement Project</p> <p>TF Projects: National Disaster Risk Management Program</p> <p>AAAs: Armenia Forestry-Poverty-Energy Linkages (PROFOR Program on Forests Trust Fund) Digital Agriculture and Agricultural Mechanization in the Climate Change context Irrigation development versus water security</p> <p><i>Proposed program</i> Lending Operations: Irrigation Project</p> <p>AAAs: Innovative Financing Mechanisms for the Environment Support Armenia on Climate Commitments Engaging the Private Sector in Forest Development in the South Caucasus</p> <p>TF Project: ENPI-Forests project</p>

⁴³ Note: ADB is covering rehabilitation/construction of general education schools (grade 1 to 9).

	<p><i>Building code updated using digital probabilistic seismic hazard assessment and maps</i></p> <p>Baseline: No (2018) Target: Yes (2022)</p>	
<p>CPF Objective 10: Enhanced energy sustainability and renewable energy resources</p>		
<p>Intervention Logic: Armenia makes good use of hydropower but has significant scope to expand the use of renewable energy, including with private sector investment, and to improve energy sustainability and efficiency. Environmentally sustainable development of renewable energy resources and scaling-up of energy efficiency measures will be key to addressing energy security.</p> <p>WBG Support: The World Bank Group is helping the government to tackle these issues on multiple fronts. It is supporting the development of one of the first large utility-scale solar PV plants in the region, which is expected to expand generation capacity in the country through competitive selection of an independent power producer. Its success will attract more interest and investment in the future scaling up of solar generation. Through a trust fund, the Bank is helping the Government to develop a new bankable model Power Purchase Agreement (PPA) for small renewable energy projects, which will make such projects attractive to international investors, and is conducting a comparative study to inform the Public Services Regulatory Commission’s (PSRC) thinking on alternatives to feed-in tariffs, including auctions and other competitive solicitation mechanisms, as policy approaches to promoting investment in renewable energy to ensure adequate and affordable supply of electricity. The World Bank will provide TA on mobilizing private finance for future energy projects, and IFC will provide advisory and seek investment opportunities in renewable energy and energy efficiency. Finally, Bank-financed irrigation activities utilizing gravity rather than electricity for distribution are expected to cut back on energy use in agriculture compared to the alternative.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>10.1 Solar PV generation capacity constructed (MW)</i></p> <p>Baseline: 6MW (2018) Target: 61MW (2022)</p> <p><i>10.2 Greenhouse gas emissions reduced as a result of new renewable energy investments</i></p> <p>Baseline: 0 tCO2 (2018) Target: 148,000 tons CO2 (2022)</p> <p><i>10.3 Increased amount of energy saved annually in operating gravity-based irrigation systems (GWh/year)</i></p> <p>Baseline: 16.80 (2018) Target: 36.80 (2023)</p>	<p><i>New model Power-Purchase Agreement for small renewable energy projects developed</i></p> <p>Baseline: 0 (2018) Target: new model PPA recommended to PSRC (2021)</p> <p><i>IFC advisory services provided to support modernization of electricity distribution systems and development of new renewable energy generation</i></p> <p>Baseline: 0 Target: 1 (new advisory engagement with private sector client)</p> <p><i>Installed energy savings capacity for gravity-based irrigation (MW)</i></p> <p>Baseline: 8.5 (2018) Target: 17.0 (2023)</p>	<p><i>Existing program</i></p> <p>Lending Operations: Irrigation System Enhancement Project</p> <p>AAAs: Preparation of Model PPA for Small Renewable Energy Projects in Armenia</p> <p><i>Proposed program</i></p> <p>Lending Operations: IFC investment</p> <p>AAAs: IFC advisory services Bank TA on PPPs in energy</p>

Annex 2. Armenia CPS FY14-FY17 Completion and Learning Review

CPS Board Discussion: October 9, 2013

CPS Progress Learning Review: April 15, 2016

Period covered by the Completion Learning Review: FY14-FY18 (April 15, 2014-November 30, 2017)

I. SUMMARY OF KEY FINDINGS

1. The Completion and Learning Review (CLR) for the Armenia Country Partnership Strategy FY14-FY17 (CPS) is a self-evaluation of the achievement of the program development outcome and World Bank Group (WBG) performance. It evaluates how well the World Bank designed and implemented the program and draws lessons from the implementation experience to inform the design of the new Country Partnership Framework for FY19-FY23 (CPF). Strong growth in the years before the 2009 global crisis and periods of moderate recovery and contraction preceded preparation of the CPS. Poverty rose from 27.6 percent of the population in 2008 to 34.1 percent in 2009 and reached 35 percent in 2011. High unemployment impeded poverty reduction and shared prosperity goals.

2. The CPS supported the Armenia Development Strategy 2025 (ADS), aiming to boost shared prosperity and reduce poverty through accelerated economic growth and job creation. The ADS underpinned the CPS, namely, supporting competitiveness and job creation, improving efficiency and targeting of social services, and crosscutting measures to improve governance and decrease corruption. The program strongly targeted poor people (those in the bottom 40 percent), and each of the three CPS clusters provided a clear line of sight between the WBG program and the twin goals.

3. The overall CPS Development Outcome is rated Moderately Satisfactory. Most results target dates were revised to 2018 during the performance and learning review PLR. The CLR is based on results data available as of November 2017. Six out of eight objectives have been mostly achieved, and two have been partially achieved. Of the 29 outcome indicators, 13 have been met, 10 almost met, three partially met, and three not met.

4. World Bank Group performance in the design and implementation of the CPS is rated Good. The program was effective at combining lending operations and knowledge products and leveraged resources from development partners to maximize the effect of the strategy. The World Bank responded promptly and effectively to the client's emerging needs by introducing new, innovative instruments. Synergies between the World Bank and International Finance Corporation (IFC) programs amplified the value of the WBG. International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) delivered US\$650.9 million in operations, in line with government requests and priorities, while IFC provided US\$184 million of long-term financing during the CPS at own account, exceeding the indicative target by 15 percent.

5. Key lessons learned included the importance of adhering to an indicative schedule of lending operations, the need to build in macro resilience in the next CPF through early identification of possible future shocks, the importance of ensuring systematic and robust citizen engagement to enhance development outcomes, the need to better manage the high turnover of fiduciary and key project personnel in implementing agencies to support more efficient project implementation, and more systematic engagement with civil society at earlier stages of project design and implementation to quickly address concerns.

II. CPS DEVELOPMENT OUTCOME

6. **The CPS Development Outcome rating is Moderately Satisfactory.** The program was built on two strategic clusters that were aligned with the government's strategy: supporting competitiveness and job creation and improving efficiency and equity in social services. A crosscutting cluster on improving governance and anticorruption measures in public services buttressed the program's support of the government's objectives. The clusters contained eight objectives after reformulation during the Performance and Learning Review PLR, the achievement of which was measured using 29 outcome indicators.

7. **The program has had a catalytic effect in several areas over the CPS period, as described in detail in Attachment 2.** Agriculture sector productivity improved significantly. Interventions under the two Community Agricultural Resource Management and Competitiveness projects helped 85,000 households to apply modern livestock management practices and increased sales by more than 2.5 times on average. A long-planned, and transparent tax code, expanded the tax base by reducing the list of tax exemptions and harmonized tax rates with regional peers. These efforts closed major loopholes in the existing tax legislation. The E-Society and Innovation for Competitiveness project supported the expansion of information and communications technology sector through centers that benefited more than 100 firms and created a novel venture capital fund and technology labs for innovations. The World Bank helped to eliminate shortcomings in the energy sector regulatory framework and supported capacity building of the regulatory commission, which, in combination with other improvements, led to private sector investment in the energy sector. IFC's mobilization of US\$100 million to finance the 400-MW Vorotan hydropower cascade and Bank assistance with the organization of an auction to select an independent power project developer for a 55-MW solar power plant, the first competitively tendered independent power project in the country and one of the first large scale utility-scale solar plants in the ECA region, led the investment.

8. **However, a change in government in 2014 and the deterioration of regional economic conditions after 2014 affected the pace of reforms and necessitated adjustments to the CPS program.** The original CPS implementation period was maintained but the target date for the achievement of results was extended. The CLR is based on results data obtained in November 2017.

A. Strategic Cluster 1: Supporting Competitiveness and Job Creation

9. **Objective 1.1: Improve the business environment and investment climate, especially for trade - Mostly Achieved:** Two targets have been met, three almost met, and one partially met:

- The target to lower the tax compliance cost has been partially met: The 2013 baseline of 380 hours that firms spent on tax compliance has fallen to 313; the target was 190 hours. The approved tax code which will come into force in January 2018, is expected to improve tax rationalization and compliance by firms. The target to reduce the number of legal acts has been met. The number of legal acts decreased by 2,200 -13 percent fewer - and the number of business processes decreased by 507, or 16 percent against the 15 percent target. Regulatory impact assessment (RIA) technical assistance (TA) supported the government in further preventing the build-up of burdensome regulations on businesses.⁴³ The target for reduction in total costs associated with compliance has almost been met: Compliance time fell by 38 percent and compliance cost by 21 percent, with only the latter so far

⁴³ This TA helped the government to create an evidence-based policy formulation system that requires ministries and agencies to assess the effect of new policies before they will be adopted.

missing the target of a minimum drop of 35 percent in cost and time. With ongoing support from the Investment Climate Reform Advisory project, the pace of progress will be maintained in 2018 through the inter-ministerial working group established in 2017 to monitor the business environment closely and to make doing business easier in the country.

- The target for streamlined export and promoting institutions has been met, and the targets for strengthened export standards and quality infrastructure and for liberalized air services have almost been met. The consolidation of investment and export promotion activities has been met, with the establishment of the Development Fund of Armenia (DFA). One quality infrastructure laboratory with international certification was accredited to international standards in 2016, and another is on its way to being accredited in 2018. The Common Aviation Area Agreement between Armenia and the European Union has been signed and is under ratification by EU member countries.

10. The respective fiscal and trade facilitation and connectivity components of the Development Policy Lending (DPF) series and the Trade Promotion and Quality Investment (TPQI) Project have underpinned the objectives under this result area. Four DPFs supported the unification and rationalization of taxation and thereby higher tax compliance and helped reduce the time and cost of customs clearance, including by introducing electronic declaration and a single window, streamlining customs clearance procedures, and facilitating self-assessment and self-declaration. It also supported the rationalization of inspections to reduce the burden on businesses⁴⁴ and contributed to better air connectivity through liberalization and better governance of the sector. The TPQI supported establishment of the DFA, which consolidated investment and export promotion activities.

11. Significant contributions were made to improve the broader business environment in several areas. Strengthening competitiveness was one of the focus areas of the DPF series, and TA was provided to support development of an export development strategy by the government. Between 2014 and 2017, Armenia rose 65 places in the Doing Business ‘Trading Across Borders’ indicator and is now much closer to the frontier than the ECA average.

12. Various advisory services and analytics (ASAs) underpinned the results achieved. The World Bank’s RIA activity supported the government’s effort in limiting proliferation of burdensome regulations on businesses by creating an institutional system that requires ministries and agencies to conduct cost-benefit analyses before implementation. Significant progress has been made on the business inspection reform supported by the Investment Climate Reform Advisory project. The project helped build implementation capacity for the transition to risk-based auditing and inspections, which significantly reduced the compliance burden on firms, particularly micro, small, and medium enterprises (MSMEs). The share of businesses subject to inspection fell from 68 percent in 2013 to 39 percent in 2017, the number of inspections per business fell from 5.39 in 2013 to 3.84 in 2017, and the number of inspection bodies has been cut from 18 to 14. Armenia has made cumulative improvements over time, enhancing its Doing Business frontier from 68.3 in 2013 to 72.5 today.

13. IFC activities contributed to banking sector resilience and helped maintain on-lending to MSMEs. Domestic credit penetration increased from 43 percent of gross domestic product in 2013 to 54 percent

⁴⁴ According to the 2014 Doing Business Report ‘Trading Across Borders’ indicator for Armenia, 16 days were required for custom clearances for exports, at a cost of US\$1,885, and 18 days were required for custom clearances for imports, at a cost of US\$2,175. Doing Business 2018 reported notable reductions in time and cost for customs clearance. Time to import has been reduced to 41 hours (1.7 days) and the cost for export to US\$250, and an identical reduction was reported for exporting; the time was reduced to 43 hours (1.79 days), and the cost was US\$200, including documentary compliance and border compliance.

in 2016, although given the economic slowdown, at the PLR stage it was decided to refocus WBG interventions in the financial sector on resilience of MSMEs and their access to credit and support for banking sector consolidation triggered by higher capital requirements for banks. In this environment, IFC supported 12 projects in the financial sector, providing US\$115 million in long-term financing to four financial intermediaries. This support included MSME loans, capital injections, interest rate and cross-currency swaps, and a new product to support banks' working capital and short-term trade-related financing. Risk management products, offered in Armenia by IFC only, proved to be particularly important to the client banks to mitigate interest rate and currency risk resulting from their funding models. In 2015-16, as currency volatility exposed vulnerability in the banking sector and the Central Bank of Armenia increased its minimum capital requirements six times, IFC partnered with the European Bank for Reconstruction and Development (EBRD) to reinforce systemically important banks in Armenia. This included the first market-driven consolidation in Armenia's banking sector and re-capitalization of one of the leading banks. Four banks also received advisory support aimed at strengthening their operational capacity (particularly risk management) and developing small and medium enterprises.

14. IFC also continued to promote improvements in deficient corporate governance practices. The IFC Regional Corporate Governance project helped establish the Armenia Institute of Directors and continued to build capacity of the Corporate Governance Center. Several banks and companies benefited from in-depth corporate governance assessments.

15. The E-Society and Innovation for Competitiveness investment project improved the enabling environment for ICT firms, contributing to sector growth. The Gyumri Technology Center, which established more than 100 new enterprises—far above the project target of 50—and is fully occupied, was developed under the project. Along with its sister intervention, the Vanadzor Technology Center, the project has contributed to the more-than-100 percent growth in the ICT sector in recent years. The project installed three key building blocks for further ICT sector growth: training programs for entrepreneurs to build their skills, financial support through seed grants and a venture fund, and outreach and market access via representation in Silicon Valley.

16. Objective 1.2: Increase investment in sectors with job-creating operations in rural and peri-urban areas outside of Yerevan - Partially Achieved. One target has been met, one partially met, and one not met:

- The target for tourist spending was not met. Nevertheless, wider support to government and donor tourism interventions helped the number of tourism-related jobs outside Yerevan rise to 143,500 in 2016 from 133,700 in 2014, thus meeting the target for tourism-related jobs partially
- The target of two investments in manufacturing or industry outside of Yerevan has been met. IFC supported Lydian International in securing funding for construction of its gold mine in Amulsar and Contour Global in purchasing the Vrotan Hydropower Cascade and gaining financing for its modernization.

17. The Local Economy and Infrastructure Development Project (LEIDP) and IFC investments supported the creation of jobs. LEIDP coordinated donor interventions in tourism development into one strategy helping other development partners to strengthen their programs in the sector, including through US\$7 million USAID and US\$3 million UNDP investments. The government established a tourism policy coordination committee, and there is growing interest from private investors in developing tourism assets

in LEIDP areas. IFC supported development of Amulsar⁴⁵ gold mine. The project is expected to bring one of the largest FDI to the country (approximately US\$400 million) and create 1,400 jobs during the construction phase and 700 permanent jobs during operations. The developing company invested more than US\$2 million to finance drinking water upgrades, provide medical equipment, and renovate kindergartens in the local community.

18. Several ASAs reinforced evidence-based reforms. IFC advisory services assisted the government in developing investment promotion materials and investor surveys to assess the perception of investors about FDI legislation and incentives. This promoted evidence-based policy-making in the government and creation of an on-line inventory of incentives for foreign investors, which increased transparency of the system. The WBG leveraged the Investment Climate project to complete sector reviews of cheese production, greenhouse crop production, and aquaculture. The studies analyzed export potential and cost competitiveness and identified barriers to their development. In conjunction, the IFC Food Safety project worked to improve food safety practices of two client companies and raise public awareness. IFC has also partnered with the Armenian Young Women's Association to help improve skills of women entrepreneurs to engage in wild harvesting in rural areas in Armenia with high poverty and migration rates. The Armenia Regional Tourism Potential Economic and Sector Work (ESW) and ECA Capacity Development Trust Fund project informed design of the LEIDP and other donor-financed subprojects. World Bank analytical activities, including through an Institutional Development Fund Grant for the Law on Environmental Impact Assessment, informed regulatory reforms and capacity strengthening to enhance the mining sector's social and environmental sustainability.

19. Objective 1.3 Improve efficiency and sustainability of irrigation and pastureland as key inputs to the rural economy - Mostly Achieved. Two targets have been met, and two have almost been met:

- The target of increasing energy saved annually has almost been met; annual savings of 16.8 million kWh had been achieved by 2017, and the expected final result of 36.8 million kWh will surpass the 2018 target of 20.6 million kWh. The target of annual water savings has been met, with the aim of saving 20 million cubic meters being exceeded, reaching 24 million cubic meters in 2017.
- The target for increasing community revenue from the lease of pastures has almost been met. Baseline revenue was set in 2013 for 175 communities, with a target of 55 percent improvement in revenue by 2018; 81 communities have surpassed their target under CARMAC, and 98 have shown positive results under CARMAC2 ahead of further reporting in early 2018.
- The target for increased milk productivity of livestock has been surpassed. The baseline was set in 2013 for 175 herder communities, with 20 percent improvement among cattle stocks and 15 percent among sheep expected by 2018. The targets have been met in 179 communities with the target for increased milk production being exceeded by more than 25 percent for cattle and 67 percent for sheep.

20. The CARMAC projects and the Irrigation System Enhancement Project were strongly focused on rural poor households. The CARMAC projects improved community-based pasture management and livestock development practices, which can now be expanded across Armenia. Moreover, the project led to changes in national policy and legislation such as the new Law on Pastures of 2012 and the Law on Agricultural Cooperatives of 2015. The Irrigation Enhancement Project targeted areas that were using old

⁴⁵ Since 2007, IFC has supported exploration efforts and subsequent feasibility studies to advance the project to the construction phase, which commenced in 2017. The developer succeeded in raising financing for construction of the mine from private sources without IFC participation, and IFC exited from the company in the second half of the CPS period.

Soviet systems for pumping water, and interventions supported the development of a gravity-based system that improves water management.

21. **Various ASAs** as the Integrated Water Resource Management Study, Environment Sector Policy Note, Climate Change Impact on Agriculture, Modernization and Commercialization of Armenian Agriculture, and ECA Capacity Development TF supporting Eurasian Development Bank (EDB)-financed irrigation project supervision supported the government's agriculture and water management goals and contributed to improved environmental standards. Similarly, ASA on Forest Poverty and Forest Management also supported important learning and data gathering that served as a foundation for forest sustainability and climate change engagement.

22. **Objective 1.4 Improve access, quality, and sustainability of key infrastructure with nationwide scope outcomes - Mostly Achieved.** Two targets have been met, one almost met, and one not met:

- The target of increasing the share of the rural population with access to an all-season road was met. The aim of 66 percent was exceeded with the 2017 achievement of 67.7 percent. The target for safe travel speeds was met on a large section of already rehabilitated lifeline roads. By 2017, 272 km of lifeline roads had been rehabilitated, with average speed increased from 20 km/h to 43 km/h. The Lifeline Roads Network Improvement Project (LRNIP) project is on track to meet the safe travel speed target on 360 km by the end of the project, or 60 km more than the 300-km target. The LRNIP has improved rural roads to the benefit of local economic connectivity and community services. A road assessment and management system has been developed and is on track to be introduced.
- However, the target for reducing plant and equipment failures from the baseline of 25 percent to 10 percent in five power facilities has not been met. Progress toward the target can only be measured after the ongoing rehabilitation work is completed in 2019. The two ongoing energy projects (Electricity Supply Reliability Project (ESRP) and Electricity Transmission Network Improvement Project (ETNIP)) are undertaking the rehabilitation of substations and transmission lines to improve reliability.
- The target of increasing international investment in upgraded or green field sites and increasing renewable power generation has almost been met. Ten potential investors have been prequalified to participate in the bidding for development of a 55-MW solar PV plant through the Utility-Scale Solar Power Project. It will be the first competitively selected independent power producer and is supported by IBRD and Scaling Up Renewable Energy Program (SREP) guarantees. The upgrade of the Vorotan hydropower cascade was completed through its privatization and mobilization of US\$100 million investments

23. **IFC supported privatization of the 400-MW Vorotan hydropower cascade, bringing international investment to a major power generation complex in the country.** IFC participated as a minority equity investor and acted as lead arranger of the financing package. It provided long-term financing of approximately US\$60 million to Vorotan of its own and mobilized approximately US\$100 million from commercial lenders. The client and the government have recognized IFC's role in navigating the legal and technical aspects of the project, as well as its ability to mobilize financial partners.

24. **Knowledge products have informed and supported achievements in the power sector.** The Power Sector Policy Note in 2014 identified challenges and investment needs in the power sector. It drove future engagement in the sector, supporting replacement of approximately 250 km of power transmission lines and rehabilitation of critical substations for greater reliability of electricity supply. Analysis of the financial standing of the power sector in Armenia in 2015 addressed corporate governance challenges and helped

identify the reasons for financial distress of state-owned power sector companies and deficiencies in tariff adjustment mechanisms. This knowledge activity led to preparation of the Power Sector Financial Recovery Program for Results (PforR) operation, which helped state-owned power sector companies achieve sustainable financial footing.

B. Strategic cluster 2: Improving efficiency and equity in social services

25. Objective 2.1 Improve efficiency, equitable access, and quality of health and education services - Mostly Achieved. Three targets have been met, one almost met, and one partially met:

- The target for increasing the rate of cervical cancer screening for women aged 30 to 60 has been partially met. The rate has increased to 35 percent from the 10.2 percent baseline in 2012, a significant achievement but below the ambitious target of 50 percent. The target of decreasing the rate of natal and postnatal complications was met. The 2012 baseline was 86 percent, and the 2018 target was 52 percent. A rate of 49.6 percent has been achieved.
- The target for increasing the use of health services by poor people has almost been met and is on track to be fully met in 2018. The 2011 baseline was 4.7 percent for outpatients and 5.2 percent for inpatients. The 2018 targets were for 6.9 percent for outpatients and 5.7 percent for inpatients. As of 2017, rates of 5.3 percent and 9.7 percent, respectively, had been achieved, and the pace of progress is likely to be maintained in 2018.
- The target of increasing the percentage of students obtaining a pass rate in mathematics in the unified entrance exam has been met. The 2012 baseline was 76 percent of all students, and the 2018 target was 80 percent. A rate of 85.5 percent was achieved in 2017, and results have been consistent since 2015.
- The target of improving Early Development Index scores for new students with access to newly created preschool education is met. Surveys have shown that performance of the treatment group on the Early Development Index is 4.5 times as good as that of the control group. On the basis of this measure, the target is likely to have already been met; this will be confirmed with tests in 2018. The 2012 baseline was no difference in index scores from the control group, and the 2018 target was 50 percent improvement.

26. Interventions on several projects led to achievement of the objectives. The two health projects (Health System Modernization Project and Disease Prevention and Control Project) have been addressing Armenia's health sector challenges, such as non-communicable diseases and child and maternal health. The two education projects (Second Education Quality and Relevance Project and Education Improvement Project (EIP)) have been targeting some of the most remote and hardest-to-reach places for development of preschools in the poorest areas. The lack of preschools in those areas was depriving children of schooling and preventing mothers from working. Preschool restoration has meant physical improvement of buildings, creating a favorable learning environment, and more support from the government for preschools, which has led to substantial gains in pupil performance.

27. Several ASAs have supported achievement of the objectives in health and education. The World Bank undertook an assessment of a tobacco tax for health financing, contributing to the government's ability to finance improvements in the health system. In higher education, the World Bank has supported the government in developing its vision, strengthening the links between tertiary education and economic development goals, and planning for higher education around the skills needs of the labor market and the role that academic and vocational institutions should play in developing them. ASAs are also being used

to support the government in its university consolidation process by providing TA developed from international good practice.

28. Objective 2.2 Improve coverage and targeting of social safety net programs - Partially Achieved.

One target was not met and another has almost been met:

- The target for better targeting of the Family Benefit Program (FBP) was not met. At the 2012 baseline, 73 percent of beneficiary families were poor, and by 2015 the rate had increased to 77 percent, although it fell to 71 percent in 2016. With adjustments that the Bank proposed to the coefficients in the FBP eligibility formula and outreach activities to encourage poor people to register, the proportion of beneficiaries that are poor—those in the bottom 40 percent of the income distribution—would improve in 2018.
- The target of improving FBP coverage of poor households has almost been met. As of the latest data in 2016, coverage had risen to 26 percent from the 2012 baseline of 21 percent. The 2018 target is 27 percent.

29. The Armenia Second Social Protection Administration Project (SPAP2) and Social Investment and Local Development (SILD) Project supported achievement of the objectives. SPAP has been supporting improvements in social protection service delivery and strengthening of the analytical, monitoring, and evaluation functions of the agencies delivering social protection benefits and services. In support of the recently launched Armenia Territorial Reform, SILD has been supporting intragovernmental coordination, local capacity building, and institutional development through improved quality and use of and access to community and intercommunity infrastructure. The World Bank also worked with the government under DPF3 and DPF4 to balance macro-prudential and equity considerations during the government's fiscal consolidation.

30. The World Bank has supported widespread use of data and distributional impact analysis by policy-makers, improving interventions most central to cutting poverty, such as the FBP. The World Bank has helped the Ministry of Finance and other arms of the government through TA to improve their policy design with better analysis of their welfare effects and assisted the statistics service to increase the use of data and boost evidence-based policy-making. This has, for example, helped Armenia to develop the FBP with more awareness of how changes to targeting and coverage will affect poverty.

31. ASA supported achievement of the objectives in several areas. The multidimensional poverty index developed for seven ministries, helped them to better design policies. Support to the statistics service has been effective in spreading evidence-based policy-making. The World Bank has also helped to improve the ability of the National Statistical Service to communicate its work to policy-makers while also developing capacity in ministries to be able to use the high-quality data available to them.

C. Crosscutting cluster: Improving governance and anticorruption measures in public services

32. Objective 3.1 Improved framework for fighting corruption in public services - Mostly Achieved. One target has been met, and another has almost been met:

- The target of improving the Global Competitiveness Indicators on favoritism and decisions of government officials has almost been met. The 2013 baseline was a score of 2.99. After the achievement of a 2017-18 rating of 3.4 coupled with the government's plan to roll out a proposed methodology and set of institutional arrangements for strategic planning, adoption of recommendations and good practices for a new RIA system, including support for recommendations

on public servant ethics and the functions of the new corruption prevention entity, the 3.5 target is on track to be met next year.⁴⁶

- The target of the government agreeing to, and actively engaging with, the Extractive Industries Transparency Initiative (EITI) has been met. In 2013, the government had no plan for committing to the initiative, and in 2017 it joined EITI.⁴⁷ The first report under the initiative is expected in 2018, and the government has also committed to creating a website with open data that will allow the public to monitor the sector.

33. E-government initiatives supported by the first and second Public Sector Modernization projects— have led to improvements in access and efficiency of public services and contributed to lessening the risk of corruption. A vehicle registration system in the police service has been automated. An ‘e-health’ system has been established with all medical service providers that receive public funds and licenses and is promoting more transparent financial management in the sector. A study on e-government has led to work on an interoperability platform for service automation and a citizen portal.

34. Several ASAs have supported the objective. The just-in-time TA on anti-corruption contributed to the institutional arrangements of the Corruption Prevention Commission, created on the base of the Ethics Commission for High Ranking Officials. The TA on RIA led Armenia in the direction of creating an evidence-based policy formulation system in line with modern practice and requires state entities initiating policy to be responsible for conducting RIA. The new strategic planning framework strengthens the links between strategy and budgeting and was proposed under World Bank TA and adopted in October 2017.

35. Objective 3.2 Strengthen the management of public resources - Mostly Achieved. Two targets have been met, and one has almost been met.

- The target for external scrutiny has almost been met. The 2013 baseline was D+ on a four-point rating scale from A to D, and a 2014 Public Expenditure and Financial Accountability (PEFA) showed improvement to C. Sufficient progress has been made with financial and compliance methodology and commensurate staff training since then for the internal audit (PI-26) 2018 target rating of B to have been achieved.⁴⁸ The target for effectiveness of internal audit has been met. The 2013 baseline for the internal audit functions necessary for the predictability of in-year resource allocation (PI-21) was D+, with the 2014 PEFA also showing advancement to C+. In the ensuing period, a clear legal and regulatory base for internal audit has been established and a manual developed with international standards with guidance from the Public Expenditure Management Peer-Assisted Learning network and Internal Audit Community of Practice. Sufficient progress has been made for achievement of the 2018 target of B.
- The target for adoption of the tax code has been met. The code has amalgamated all tax legislation and aims to expand the tax base by reducing the list of tax exemptions and expanding the tax net, harmonizing tax rates with regional peers, and closing major loopholes in the existing tax legislation.

36. The World Bank-financed Capacity Building on Public Sector Auditing project supported improvement in the quality of Chamber of Control capacity and its audit methodology. Advice was provided on amendments to the constitution for further independence of the Chamber of Control, in line

⁴⁶ The Ethics Commission for High Ranking Officials (ECHRO) collects and reviews income declarations from high-ranking officials and advises on public ethics.

⁴⁷ EITI is a global standard that promotes open, accountable management of oil, gas, and natural resources. It requires countries and companies to disclose information on how they manage oil, gas, and mining revenues by showing the contracts and licenses, production systems, revenue collection, revenue allocation, and social and economic spending involved.

⁴⁸ The next PEFA will be conducted in 2018.

with the Lima Declaration of Guidelines on Auditing Precepts and International Standards of Supreme Audit Institutions principles. These changes have been part of the operationalization of internal audit functions, with units having been established in more than 100 public sector organizations, including in all ministries and government agencies. Further transparency of taxation is expected after enactment of the Unified Tax Code, adopted in 2016 with the help of the DPF4 operation with support from the Investment Climate Reform Advisory project.

37. Improvement of institutional capacity and financial management processes increased long-term stability. By helping the government to improve its internal and external audit standards and increase transparency in the public procurement system, the World Bank has increased Armenia’s ability to manage fiscal policy.

III. WORLD BANK GROUP PERFORMANCE

38. The CPS objectives were relevant to ADS 2025 and to government programs adopted in the CPS period. The assessment is based on (i) effective and proactive portfolio management in close cooperation with government to mitigate the adverse impact of emerging challenges related to fiscal consolidation, project implementation unit (PIU) reorganization and other crosscutting and project-specific complex issues; (ii) robust development partner coordination to enhance development impact through leveraging knowledge and resources; (iii) close coordination among the WB and IFC that helped identify and facilitate synergies for generating strong outcomes; and (iv) greater focus on corporate requirements including gender and enhanced citizen and beneficiary engagement.

Design

39. CPS objectives were well aligned with the government’s priorities and were adjusted by the PLR to align them with changed circumstances. The CPS objectives were well aligned with the ADS 2025 and stayed relevant with the follow-up government programs that were adopted in the CPS period. Mid-course corrections were needed in the results matrix to adjust the objectives to changing circumstances and address delays in implementation. Therefore, the PLR reformulated some of the objectives, adjusted outcome indicators to realign them with the ongoing program, and set 2018 as the year by which results would be fully achieved.

40. The CPS results matrix set objectives that were aligned with program outcomes, but some indicators could have been set using more appropriate measurement tools. The indicators for objective 1.1 on the business environment were intended to measure improvements in the business environment and investment climate—changes that would encompass many complex factors—but focused only on tax and regulatory compliance. It might have been more appropriate to use measures from Doing Business, Enterprise Surveys, and the Global Competitiveness Index (GCI), subject to data being available. The use of the GCI indicator on favoritism in decisions by government officials was better able to capture the many elements of change but could have used a distance-to-frontier measure rather than a point target to track progress more accurately.

41. The CPS design benefited from integration of lessons learned from the previous CPS and identification of areas for improvement. These lessons included the need for a country strategy to be flexible to changing circumstances, as shown by the consequences of the financial crisis, the importance of well-focused projects in lessening coordination problems between government ministries, envisioning

more active citizen engagement and promoting gender agenda, and the value of capacity building to strengthen partnerships with the government.

Implementation

42. CPS IBRD/IDA lending reached US\$650.9 million and was undertaken with a range of tools. The indicative lending portfolio for FY14-FY17 was US\$683.5 million, of which US\$599 million was from IBRD and US\$84.5million from IDA. US\$650.9 million was delivered, of which US\$564 million was IBRD and US\$86.9 million IDA. There were 17 operations, including nine investment financings, three additional financings to ongoing investment project financing (IPF), four DPF series, and a US\$30 million PforR operation. The latter, that was not originally anticipated in the CPS indicative lending program was approved to support reliable electricity supply by improving the financial standing of the power generation and power distribution companies.

43. The lending portfolio was frontloaded and suffered from delays in implementation. The government requested accelerated delivery of projects that might boost economic growth and fast-disbursing loans for expected instant effect on areas such as energy, roads, and trade. This led to a US\$100 million over delivery of the lending portfolio in FY15 and a US\$51 million - in FY16. Frontloading caused effectiveness and implementation delays and IBRD/IDA portfolio performance slowed in FY15. Exits from quick-disbursing projects and entry of new projects in FY14 (TPQI, SPAP2, EIP) mostly caused the slow pace of implementation. Various factors led to the delay, including poor stakeholder coordination (TPQI), complexity of emerging project-specific challenges (SPAP2, ESRP), and lengthy procurement of large civil works contracts (ESRP and EIP).

44. The IFC investment program exceeded the indicative targets in the CPS. Despite a challenging external and internal operating environment due to the economic slowdown and exchange rate volatility, IFC committed 18 new investment projects (table 3) in the financial, hydropower, mining, and real estate sectors. US\$184 million of long-term finance at own account exceeded by 15 percent the US\$160 million indicative target set. IFC also mobilized US\$109 million from other commercial lenders and international financial institutions (IFIs) that significantly exceeded expectations, considering the near absence of third-party resource mobilization in Armenia. In addition, IFC continued to facilitate export–import operations through its Global Trade Finance Program, supporting a total transaction volume of approximately US\$33 million.

45. IFC’s investment portfolio and share of real sector projects has grown during the CPS period. IFC’s committed investment portfolio expanded by approximately 9 percent and, at the end of the CPS period, totaled US\$160 million, almost all disbursed. IFC’s outstanding portfolio has grown by approximately 22 percent. During the CPS period, the share of real sector projects in the total portfolio has increased from approximately 15 percent to approximately 50 percent, driven by investments in the power sector.

46. A lack of private sector players that can meet IFC’s financial reporting and corporate governance requirements remained an obstacle to expanding IFC’s real sector portfolio. Supporting entry of major international companies in key economic sectors—such as extractives and hydropower—helps IFC maintain strategic relevance, but IFC faced a challenge in investing outside the financial and infrastructure sector because most large companies do not comply with corporate governance and integrity requirements.

47. The Multilateral Investment Guarantee Agency (MIGA) had one guarantee operation in the financial sector in Armenia during the CPS period and is considering supporting a natural gas power project outside Yerevan. MIGA issued a guarantee to ProCredit Holding AG for its subsidiary ProCredit CJSC in FY2011. MIGA's cover under the guarantee focused on supporting the subsidiary through MIGA's capital optimization product, which covers the risk of expropriation of funds for mandatory reserves that the subsidiary in the central bank holds, thereby supporting local lending. ProCredit cancelled the guarantee contract in March 2016 after its divestment from the subsidiary. MIGA is currently looking to support a greenfield investment in the power sector through political risk insurance guarantees, for which IFC is providing financing. MIGA does not have any outstanding exposure in Armenia.

Table 2.1. IBRD/IDA Portfolio Performance for Armenia (FY14-FY17)

	FY14	FY15	FY16	FY17	FY18 (as of Nov)
Number of Active Projects	16	18	18	16	16
IDA/IBRD Approved projects	4	4	4	1	1
Net Commitments (US\$ million)	427.6	524.9	646.7	621.4	621.4
Projects at Risk	0%	6%	17%	6%	6%
Commitments at Risk (%)	0%	15%	24%	8%	8%
Problem Projects (number)	0	1	3	1	1
Proactivity			100%	100%	67%
Disbursed in FY	57	42	109	141	25
Disbursed in FY (IPF)	57	42	59	65	25
Disbursement Ratio (IPF)	25%	18%	16%	16%	7%

48. Proactive measures taken by World Bank staff led to better portfolio performance in FY16-FY17. The CMU undertook a country portfolio performance review (CPPR) in mid-2014 and concluded with a joint World Bank-government workshop held in February 2015. The CPPR was a participatory review of crosscutting factors that included a survey of implementing partners, joint discussions with project teams and government ministry counterparts, disbursement deep dives, and agreed actions for joint follow-up. It was followed by a quarterly portfolio disbursement analysis. This enabled regular engagement with the government on crosscutting and project-specific concerns. It also reinforced projects teams' ability to review implementation plans and disbursement projections, to identify emerging problems and risks, and to follow up effectively with counterparts. This significantly enhanced disbursements, with an increase in disbursements of 57 percent between FY15 and FY17, and resulted in tangible results in agriculture, education, health, social, irrigation, and roads projects.

49. Rigorous project preparation and implementation frameworks opened a path for other IFIs and partners to provide financing in response to the government's emerging needs. The government requested World Bank support to leverage other partners' resources to address emerging needs in certain areas and to assist with budget shortfalls. In 2016, overall IFI budget support was approximately US\$260 million, of which the French Development Agency (AFD) provided EUR40 million against the prior actions of DPF4. The Asian Development Bank (ADB) and Eurasian Development Bank (EDB) were in close consultation with the World Bank for leveraging knowledge and operations.

50. Donor coordination was strong during the CPS period, and the World Bank played an active role in establishing and running a well-functioning platform and a database for improving coordination. In 2015, a coordination platform between the government and development partners was created to serve as a discussion and joint advocacy forum for Armenia's development priorities and to better leverage

resources for enhanced effects of development. A database was created for the donor platform that collected information on projects that development partners financed. As a result, cooperation was established with the ADB on school rehabilitation with greater focus on seismic resilience; with GIZ on energy and Public Financial Management (PFM) reforms; with USAID on regional development and tax reforms; with the EBRD on energy sector and private sector development; with UNICEF on social protection and the gender agenda; with the European Union on education and regional development, and with the IMF, AFD, and ADB on policy reforms.

51. The World Bank responded to clients' emerging needs by producing and disseminating high-quality knowledge products in priority areas. The analytical work program was well diversified and allowed the World Bank to provide knowledge and policy advice to address new concerns. The ASAs in the power sector identified challenges and investment needs and drove future engagement in the sector, explored sources of renewable energy, helped the power sector regulator to re-estimate electricity distribution tariff margins, and informed government thinking on options available for mitigation of social effects of tariff increases. Knowledge products for economic development and better tax reporting included poverty analysis and the implications of several sector reforms on poverty; macroeconomic analyses and the study of challenges and opportunities driven by the new priorities of the government; support for automation of tax administration; TA for capital and financial market development and supporting pension reforms; and technical notes for modernization and commercialization of agriculture. The Disaster Risk Management TA has improved disaster preparedness across Armenia and helped the government to leverage a US\$88 million loan from the ADB to improve seismic safety.

52. Advisory work has complemented IFC investment services. IFC advisory services supported investment climate reforms, agribusiness development, expanding access to finance for MSMEs, strengthening risk management capacity in the banking sector, and improving corporate governance standards and practices. Many IFC advisory projects enjoyed high client ownership, as demonstrated by their willingness to contribute financially to the cost of services. For example, the government covered approximately 10 percent of the expenditures that the Investment Climate project incurred. Furthermore, the government and World Bank agreed to launch a new project in this area that will continue to support investment promotion and agribusiness sector competitiveness.

53. World Bank-IFC collaboration created synergies in several areas, such as mining and energy, aimed at enhancing the effect of development and demonstrating the cascade approach. The World Bank has been pursuing an integrated approach to the mining sector in Armenia, which holds significant economic potential but needs to be developed in a more environmentally and socially responsible manner. The World Bank helped the government to prepare a new mining code—aligned with the waste law—and further improve regulatory reforms to enhance the mining sector's social and environmental sustainability. IFC complemented the Bank's efforts by supporting the development of Armenia's largest gold mine. The Bank's support of energy sector reforms resulted in significant improvements in sector sustainability and opened space for IFC to support private sector investment.

54. Safeguard and fiduciary arrangements were properly managed and implemented in line with World Bank policies for all projects at all stages through risk-based on-site and off-site implementation support and proactive capacity building measures. The average FM rating for active projects is 'satisfactory'—89 percent of the active projects are rated satisfactory, and 11 percent are rated moderately satisfactory. Procurement is rated satisfactory for 36 percent of projects and moderately satisfactory for 57 percent. Safeguard compliance is rated satisfactory for 58 percent of projects and moderately satisfactory for 33 percent. Complaints filed with the Inspection Panel are discussed in Attachment 1.

55. During the CPS period, the Bank substantiated three INT cases in Armenia related to the water, health, and transport sectors, and some risk-mitigation measures were pursued. All of these cases related to attempts by companies to circumvent procurement controls. The risk-mitigation measures included, among others, recommendations to implementing agencies and project teams such as using due diligence when accepting supplied goods and equipment and verifying the authenticity and validity of documents.

56. Progress has been made in advancing the use of procurement and financial management country systems through improving alignment with government counterparts and other development partners. Since May 2017, all implementing agencies under World Bank-funded projects have been using the e-Procurement system for all procurement except international competitive bidding. The World Bank and development partners supported the government in developing the new Law on Public Procurement, aiming to meet government procurement agreement through certain principles and in line with the World Bank's current Procurement Guidelines and New Procurement Framework. Transparency and service delivery improvements were enabled through various electronic government systems, including the Armenian electronic procurement system, which was developed and installed with World Bank TA. Since its introduction, the average number of bidders per bid has increased from 3.7 (2016) to 4.2 (first half of 2017), with tangible cost savings. In addition, the World Bank's efforts helped the government to strengthen its PFM system. The country treasury system was fully used for maintaining projects' designated accounts and flow of funds. The government is committed to the rollout and implementation of Armenian Public Sector Accounting Standards (APSAS), which were developed with World Bank assistance on International Public Sector Accounting Standards (IPSAS).

57. The PLR found that gender equality challenges in Armenia remain substantial, and in response, the World Bank team identified opportunities to raise the profile of gender issues and approach them in a sustainable manner. Key challenges include women's lower labor participation and earnings, women's low representation in decision-making bodies, and skewed sex ratio. During the CPS period, a strong emphasis was placed on analytical work on gender, including through country gender assessments conducted from 2014 to 2016, a study of gender dynamics in science, technology, engineering, and math (STEM) fields, a report on missing girls that highlighted a skewed sex ratio at birth, a regional gender program aimed at enhancing the government's and World Bank's knowledge and capacity for designing gender-informed policies, and development of the Armenia Country Gender Action Plan for 2017-2019 (CGAP).

58. The Armenia CGAP delivered in FY17 will support a more sustainable and operational gender focus in the new CPF. The CGAP was developed as one of the two pilots in ECA as a part of the Regional Gender Action Plan 2017-2020. It builds on the ongoing CPS that has emphasized promoting women's economic and public participation. The CGAP, complemented by SCD findings, will support a more operational gender focus in the new CPF through, for example, a more equal presentation of gender in school curricula and textbooks, promoting enhanced female engagement in STEM fields of study and occupation, boosting women's participation and inclusion in economic activities and decision-making, reinforcing gender mainstreaming into operations.

Risks and New Implementation Challenges

59. Materialization of several risks, the range of which was identified during program design and mitigated by preventive measures as described in this section, affected development and

implementation outcomes. Worse external circumstances and delayed second-generation domestic structural reforms affected growth, poverty reduction, and shared prosperity, and higher public debt left the country with less fiscal space, which had an adverse effect on portfolio performance, posing continuing challenges for individual operations. To mitigate these risks, the World Bank intensified reform dialogue with government stakeholders and development partners using the donor coordination platform, increased attention on relationships with civil society, and conducted portfolio deep dives.

60. External communication has been a priority during the CPS cycle, and the PLR highlighted it as an effective way of addressing stakeholder risk. Continued intensive outreach to diverse stakeholders was a key measure in mitigating stakeholder risk. The country office pioneered the use of social media channels, including development of a World Bank Armenia Facebook page. Facebook, Twitter, and ECA regional channels have been leveraged to disseminate World Bank Armenia knowledge products, share key findings and messages, and engage with the public. There has also been successful collaboration with the media in disseminating knowledge products.

61. The World Bank continued to monitor changing country circumstances, including fiscal consolidation and PIU reorganization, and proactively supported the government in addressing these emerging challenges. In November 2016, in response to a large fiscal deficit and after triggering the fiscal rule, the government undertook fiscal consolidation and PIU reorganization, suspending new procurements under donor-financed projects through April 2017. The CMU closely engaged with the government and the Ministry of Finance in developing criteria for the prioritization of capital expenditures and a framework for PIU consolidation.

62. In response to the new challenges, a rapid portfolio review was conducted from February to June 2017 to assess their effect on implementation and to inform the development of immediate mitigating measures. The review was undertaken in parallel with government efforts to prioritize capital expenditures and was used to assess the short- and mid-term effects of fiscal consolidation on individual projects, identify actions to align disbursement projections and procurement plans with limited state budget allocations, and address gaps in engagement with counterparts.

63. The learning and adjustment feedback cycle resulted in several immediate actions. Restructuring of three projects was immediately initiated to reflect changed implementation arrangements, disbursement projections were revised for almost all active projects, and the CMU and respective task teams analyzed project challenges and identified concrete actions to reinforce client engagement and proactivity under four projects that had shown little progress since effectiveness—ESRP, TPQI, LEIDP, SPAP2.

IV. ALIGNMENT WITH CORPORATE GOALS

64. The CPS program was well aligned with corporate goals and was further adjusted during the CPS period toward supporting poverty reduction and boosting shared prosperity. The majority of investment operations directly targeted the bottom 40 percent of the population in Armenia, such as the lifeline roads, agriculture, irrigation, social investment and social protection projects; IFC investment and advisory services in the financial sector prioritized expanding access to finance for MSMEs; and IFC's engagement in the mining sector promoted its development in a socially sustainable way. ASA was used to support policy development and capacity building in several pro-poor areas, such as agricultural labor productivity, targeting and coverage of social assistance programs, and the focus of investment operations on poverty.

65. The program linked activities to the twin goals and sustainability through select objectives and indicators. Ending extreme poverty was targeted through increasing the productivity and sustainability of livestock management and pasture leasing, raising incomes in some of the poorest areas in the country, and increasing coverage of the FBP. Shared prosperity was pursued using a range of interventions, such as aiming for a better business environment; more investment in power generation and better results in high schools.

66. The program complied with corporate requirements for mainstreaming citizen engagement in operations aimed at enhancing participation in decision-making and strengthening national feedback systems. All IPFs approved after FY14 had a citizen-centric design, and 86 percent included at least one citizen engagement indicator in the results framework. Moreover, a citizen engagement roadmap was undertaken during FY17 to identify additional innovative opportunities to expand citizen engagement in the portfolio.

V. MAIN LESSONS LEARNED

67. Building durability into the next CPF through early identification of possible future shocks will be critical to mitigating their adverse effect on program implementation. The 2016 budget revealed a large fiscal deficit, triggering the fiscal rule and inducing the government to pursue fiscal consolidation. This involved PIU reorganization, which significantly slowed portfolio performance and disbursement. Portfolio management could have benefitted from earlier risk-based assessments of the government's fiscal position, which had been deteriorating for many years and was confined by known public spending rules.

68. Engaging steadily with development partners in investment operations, supported by analytical work and policy dialogue, can help leverage significant resources from other partners. The World Bank established strong partnerships with several donors, mobilizing and leveraging resources in support of policy reforms with Asian Development Fund, ADB, EDB, and the IMF; school rehabilitation with greater focus on seismic resilience with ADB and UNICEF; advancing PFM reforms with GIZ; regional development to address territorial disparities with USAID, European Union, and SDC; and energy sector and private sector development with EBRD and ADB. A new education partnership framework with the EU is being discussed to pilot a project for improving teaching quality and schools in one of Armenia's poorest regions.

69. High turnover of fiduciary and project personnel in implementing agencies should be closely monitored to address the knowledge and skills gaps of newly recruited staff quickly. The level of fiduciary staff turnover is high, leading to lack of knowledge of World Bank policies, and is worsened by the national law on Remuneration of Persons Holding Public Positions. The law was enacted in 2015 and equalizes remuneration of PIU staff with those in public service, leading to lower salaries for new staff. In addition to regular procurement training—as agreed on in the FY15 country portfolio performance review—the CMU should continue to host regular procurement clinics for PIU fiduciary and project staff using problem-based diagnostic approaches for faster learning of Bank rules and procedures.

70. Ensuring systematic and robust citizen engagement based on the citizen engagement Roadmap would prevent delays in project implementation and ensure higher beneficiary satisfaction rates. Although the World Bank program under the CPS complied with corporate requirements for mainstreaming citizen engagement in operations, three complaints related to the ongoing irrigation and education projects were filed with the World Bank Inspection Panel. In all three cases, the inspection panel did not recommend investigation, and the panel's recommendations were fully addressed, but the

complaints could have been prevented if more systematic, effective engagement with civil society had taken place at earlier stages of project design and implementation. Therefore, the CPF should diversify its citizen engagement approach where possible and engage citizens more systematically ex-ante and throughout implementation.

71. Given the government's limited borrowing capacity in the coming two years, preparation of the new CPF should involve intensive consultations about future ASAs with all stakeholders, especially government, to enhance the relevance and effect of World Bank knowledge products. More attention should be paid at the planning stage to dissemination and communication. Dissemination should be organized early and properly implemented, allowing for better partnership on data sharing and diagnostics, wider outreach, and feedback.

72. Piloting new approaches through non-governmental organizations (NGOs) allows learning that can, in turn, inform policy. This was an important finding of the Japan Social Development Fund (JSDF)-funded project on Strengthening the Livelihood and Voice of Poor and Vulnerable People in Armenia, in which coordination and financing of social services was delegated to NGOs. The JSDF pilot encouraged policy discussion of active labor market programs and sensitized the government to innovative employment approaches targeted at extremely poor people and those with disabilities. These were successful in helping beneficiaries move away from social assistance by giving them access to economic and self-employment opportunities through business training and start-up grant funding.

73. WBG effort to promote greater uptake of good corporate governance practices will enable IFC to expand investments in the real sector and increase the investment attractiveness of the country. Progress in corporate governance and reporting should help attract more private investors, increase efficiency, and enable greater access of Armenian companies to diversify sources of financing, although given the systemic nature of the problem, it should also include policy and regulatory level work aimed at strengthening financial reporting standards and introducing regulatory incentives for better corporate governance.

74. The 'one WBG' approach can generate strong synergies and substantial outcomes in critical sectors of the economy, with the IBRD setting the stage through upstream policy support and allowing IFC and MIGA to crowd in private sector investments. The World Bank's engagement in energy and extractives provided tangible examples of how these synergies can generate significant outcomes and have a catalytic effect. The government prioritized the energy sector during the CPS period, and the World Bank's robust engagement through investment lending and analytical and advisory work helped to build private sector interest in the sector. The World Bank's proactive support helped to restore the normal financial standing of the energy sector by eliminating shortcomings in the regulatory framework, advising on flexible tariff setting methodologies, identifying renewable energy technologies with the greatest expansion potential, and introducing new approaches to energy efficiency. This resulted in significant increases in sector sustainability and opened space for IFC to support private sector investment, including post-privatization investment in the Vorotan hydropower cascade and several other opportunities that could materialize in the next strategy cycle. The other example is from mining sector. The World Bank supported regulatory reforms and capacity strengthening to enhance the mining sector's social and environmental sustainability and supported Armenia's commitment to joining EITI. IFC complemented the Bank's efforts by supporting development of Amulsar, Armenia's largest gold mine.

Table 2.2. Country Partnership Strategy (CPS) Results Framework FY14-FY17

CLUSTER I. SUPPORTING COMPETITIVENESS AND JOB CREATION		MOSTLY ACHIEVED
Objective 1.1: Improve the business environment and investment climate, especially for trade		Mostly Achieved
WBG Outcome Indicators:	Progress to Date:	
<p>Armenian businesses face lower ‘cost and time’ barriers to profitable operations, as measured by:</p> <p><i>Outcome 1:</i> Lower tax compliance cost</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013):</i> 380 hours (Doing Business, 2013) ○ <i>Target (2018):</i> 190 hours (OECD average, 2012) 	<p>Partially Met. Actual Current: 313 (Doing Business, 2018). The 2013 baseline of 380 hours that firms spent on tax compliance has fallen to 313. By January 2018, the government will have implemented a new unified tax code achieved under DPF4 that rationalizes tax legislation and makes compliance easier for firms.</p>	<p>IBRD/IDA Financing</p> <ul style="list-style-type: none"> • DPL series: four DPOs, FY14-FY15-FY16, FY17 • Tax Administration Management Project • Public Sector Modernization Project II (PSMP-2) • Public Sector Modernization Project III (PSMP-3) • E-Society Innovation and Competitiveness Project • Trade Promotion and Quality Infrastructure Project <p>IFC Financing</p> <ul style="list-style-type: none"> • Investments in Inecobank and Ameriabank to support bank consolidation • Credit lines for working capital trade finance to Unibank, Inecobank, and ACBA-Credit Agricole Bank • MSME loans, including for agribusiness, to Unibank and FINCA Armenia • Interest and exchange rate swaps to ACBA-Credit Agricole Bank, Ameriabank, and FINCA Armenia • Trade finance guarantees to Inecobank and Ameriabank • Potential IFC investments in financial intermediaries <p>ASAs and IFC Advisory</p> <ul style="list-style-type: none"> • FIRST TA on CPFL, capital markets, pension, insurance • IDF grants: Regulatory guillotine, financial reporting • Annual country economic memorandum • Public expenditure review • TA for strengthened consumer protection • TA for export development strategy
<p><i>Outcome 2:</i> Fewer legal norms affecting businesses and citizens</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013):</i> 2,546 legal acts and 604 business processes ○ <i>Target (2018):</i> reduction of at least 15% 	<p>Met. Actual Current: Legal acts—2,200 (13% reduction). Business processes—507 (16% reduction). Regulatory Impact Assessments TA supported the government to create a policy formulation system to prevent further introduction of burdensome regulations on business and create an evidence-based policy formulation system that requires ministries and agencies to assess the effect of new policies before they are adopted.</p>	
<p><i>Outcome 3:</i> Reduction in total costs associated with compliance</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013):</i> regulatory burden = 13,731 days and AMD204.5 million ○ <i>Target (2018):</i> minimum drop of 35% in both cost and time 	<p>Mostly Met. Actual Current: Regulatory burden (time)—8,500 days (38% drop). Regulatory burden (cost)—AMD 161.5 million (21% reduction). The 2013 baseline compliance costs of 13,731 days and AMD204.5 have fallen by 38% and 21%, respectively, with only the latter so far missing the target 35% fall in both. The pace of change will be maintained in 2018 with support from the Investment Climate Reform Advisory project.</p>	
<p>Institutional framework for export development improved as measured by:</p> <p><i>Outcome 4:</i> Streamlined export and investment promotion institutions</p>	<p>Met. RA Government Decision N 1523-N of December 18, 2014 established Development Foundation of Armenia, a disbursement-linked indicator under Trade Promotion and Quality Infrastructure. The foundation is fully operational</p>	

<ul style="list-style-type: none"> ○ <i>Baseline (2013)</i>: Fragmented activities on export and investment promotion ○ <i>Target (2018)</i>: Export and investment promotion activities consolidated under one government agency. 	<p>and has consolidated investment and export promotion activities.</p>	<ul style="list-style-type: none"> ● Support to Armenia’s Eurasian Economic Union integration ● Analytical support to competitiveness reforms ● TA for financial sector advisor ● TA for regulatory impact assessment
<p>Outcome 5: Strengthened export standards and quality infrastructure</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013)</i>: zero quality infrastructure (QI) laboratories with international certification/accreditation ○ <i>Target (2018)</i>: a minimum of two QA labs upgraded to internationally recognized standards 	<p>Mostly Met. Tonus Les/FDA Lab was upgraded to internationally recognized standards in 2016. The accreditation of Standard Dialogue Lab will be completed by 2018; the accreditation process has already started.</p>	<ul style="list-style-type: none"> ● IFC investment climate (I and II) ● IFC Food Safety Project ● IFC Sustainable Energy Finance Project ● IFC: SME banking ● IFC: Financial Markets Risk Management Project ● IFC: Inaugural Sevan Bond, the first local currency bond issuance by nonresident ● IFC: Regional corporate governance project
<p>Outcome 6: Liberalized air services (through ‘open skies’ policy reform) leads to more diversified regional air connections</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013)</i>: zero participation in regional aviation zones/agreements ○ <i>Target (2018)</i>: adoption of a Common Aviation Area (CAA) agreement with the European Union 	<p>Mostly Met. The common aviation agreement between Armenia and the European Union has been signed, and European Union member countries are now ratifying it.</p>	
<p>Objective 1.2: Increase investment in sectors with job-creating operations in rural and peri-urban areas outside of Yerevan</p>		<p>Partially Achieved</p>
<p>WBG Outcome Indicators:</p>	<p>Progress to Date:</p>	<p>IBRD/IDA and IFC Financing:</p>
<p>Expansion of tourism activities as measured by:</p> <p><i>Outcome 1:</i> Average spending per tourist trip</p> <ul style="list-style-type: none"> ○ <i>Baseline (2013)</i>: US\$749.50 ○ <i>Target: (2018)</i> US \$862.00 	<p>Not Met. The government’s unexpected fiscal consolidation delayed the implementation of LEIDP and related targets are on track to be met over a longer period.</p>	<ul style="list-style-type: none"> ● Local Economy and Infrastructure Development Project ● IFC equity investments in Lydian mining exploration ● IFC post-privatization equity investment and a loan in rehabilitation of Vorotan hydropower cascade
<p><i>Outcome 2:</i> Tourism-related jobs in target regions outside of Yerevan:</p> <ul style="list-style-type: none"> ○ <i>Baseline (2014)</i>: 133,700 	<p>Partially Met. Actual current—143,500 jobs (Source: World Travel and Tourism Council, Travel & Tourism Economic Impact 2017, Armenia). Wider support to government and donor tourism</p>	<ul style="list-style-type: none"> ● IFC real estate finance

<ul style="list-style-type: none"> ○ <i>Target (2018): 147,070 (10% increase) * jobs data will be sex-disaggregated</i> 	<p>interventions have helped the number of tourism-related jobs outside Yerevan rise to 143,500 in 2016 from the 133,700 baseline in 2014. During the CPS period, the Bank project played an important role of convener by bringing together many donor partners and leading the donor coordination effort in the tourism sector, resulting in establishment of a tourism committee to lead the reform agenda.</p>	<p>ASAs and IFC Advisory</p> <ul style="list-style-type: none"> • ESW on Armenia regional tourism potential • LEIDP project preparation grant, ECAPDEV • Mining sector assessment, extractive industries technical advisory facility mining sector support
<p>New large-scale investors in industry based outside of Yerevan as measured by:</p> <p><i>Outcome 1: International firms making first-ever Armenia investment in manufacturing or industry, location outside of Yerevan</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target: minimum of 2</i> 	<p>Met. The target of two investments in manufacturing or industry outside of Yerevan has been met. IFC supported Lydian International in securing funding for construction of its gold mine in Amulsar and to Contour Global in its purchase of the Vorotan Hydropower Cascade and gaining financing for modernization and rehabilitation</p>	
<p>Objective 1.3: Improve efficiency and sustainability of irrigation and pasture-land as key inputs to rural economy</p>		<p>Mostly achieved</p>
<p>WBG Outcome Indicators:</p>	<p>Progress to Date:</p>	
<p>More efficient irrigation network as a result of targeted investments and informed decision making as measured by:</p> <p><i>Outcome 1: Energy saved annually, in kilowatt-hours</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 20.6million</i> 	<p>Mostly Met. Actual current: 16.6 million kWh. Target will be exceeded, achieving 36.8 million kWh after completion of two new gravity schemes in 2018.</p>	<p>IBRD/IDA Financing</p> <ul style="list-style-type: none"> • Irrigation system enhancement project • Policy reform under DPL series • Community Agriculture Resource Management and Competitiveness Project (CARMAC) • CARMAC-2 • Final phase of policy reform under DPO-4 • Irrigation System Enhancement Project additional financing (Meghri Lot 3)
<p><i>Outcome 2: Water saved annually, in cubic-meters</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 20 million</i> 	<p>Met. Actual Current: 24 million. The target of annual water savings has been surpassed through rehabilitation of 14 diversion canals.</p>	
<p>Improved productivity, and sustainability of land and pasture use:</p> <p><i>Outcome 1: Increased community revenues from lease of pastures across all 175 target communities</i></p>	<p>Mostly Met. 57% has been achieved from 81 communities under CARMAC, and the target is therefore on track to be met across 175 communities because the remaining 94 communities have shown positive results ahead of</p>	<p>ASAs and IFC Advisory</p> <ul style="list-style-type: none"> • Integrated water resource management study • Environment sector policy note • IDF on food safety capacity building • ESW on climate change impact on agriculture

<ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 55%</i> 	<p>further reporting in early 2018. Baseline productivity was set in 2013 for 175 communities, with a target of 55% improvement in productivity by 2018.</p>	<ul style="list-style-type: none"> ● TA in forest law and economic government, Forest law enforcement and governance (FLEG-II, Armenia subactivity in regional project) ● RAS: TA supporting Eurasian Development Bank (EADB) co-financing in irrigation
<p><i>Outcome 2: Improved milk productivity of livestock averaged across target herder communities</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 20% (cattle) and 15% (sheep) across total of 175 communities</i> 	<p>Met. Actual Current: 37.4% (cattle) and 28.7% (sheep). The targets were met in 179 communities—81 in CARMAC and 98 in CARMAC 2—with the target for improved milk production being exceeded by more than 25% over the target for cattle and 67% over the target for sheep.</p>	
<p>Objective 1.4: Improve access, quality and sustainability of key infrastructure with nationwide scope</p>		<p>Mostly Achieved</p>
<p>WBG Outcome Indicators:</p>	<p>Progress to Date:</p>	<p>IBRD/IDA and IFC Financing</p>
<p>Increased adequacy and reliability of transmission network, as measured by</p> <p><i>Outcome 1: Plant and equipment failures reduced in five target* facilities</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 25%</i> ○ <i>Target (2018): 10%</i> <p><i>* four substations reach 22% of the nation’s end-users, and one has nation-wide reach</i></p>	<p>Not met (on track to be met in 2018/2019). Activities under two energy infrastructure projects are on track, and therefore the baseline of 25% failure in five facilities—with a target of 10% in 2018—will be met in late 2018 or early 2019. Key to this achievement will be the replacement of the Hrazda-Shinuhayr transmission line and rehabilitation of the four out of five substations, which are on track to be completed in 2018.</p>	<ul style="list-style-type: none"> ● Electricity Supply Reliability Project and additional financing ● Electricity Transmission Network Improvement Project ● GEF-leveraged Energy Efficiency Project ● renewable: geothermal exploratory drilling and utility-scale solar power ● Lifeline Road Network Improvement Project and additional financing ● Policy reform under DPL series ● Follow-on investments in SREP geothermal or solar ● Power sector financial recovery ● Financial sustainability policy reform under DPO ● IFC green building loan to Prodeco ● IFC post-privatization equity investment and a loan in rehabilitation of Vorotan hydropower cascade
<p><i>Outcome 2: Increase in international private companies investing in upgraded or greenfield power generation facilities, of which a minimum of 50% are exploiting renewable resources</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 2</i> 	<p>Mostly Met. 10 potential investors have been prequalified to participate in the bidding for development of a 55-MW solar photovoltaic plant through the Utility-Scale Solar Power Project. The upgrade of 400-MW Vorotan hydropower cascade is completed through its privatization and mobilizing US\$100 million from commercial lenders.</p>	
<p>Selected rural roads improved as part of a wider strategy to improve both domestic and external connectivity:</p> <p><i>Outcome 3: Share of rural population with access to an all-season road</i></p>	<p>Met. The share of the rural population with access to an all-season road has increased. The aim of 66% was exceeded with the 2017 recording of 67.68%.</p>	<p>ASAs and IFC Advisory</p> <ul style="list-style-type: none"> ● Power sector policy note ● Energy sector financial recovery analysis ● Technical analysis of Nairit financial operating prospects

<ul style="list-style-type: none"> ○ <i>Baseline (2013): 51%</i> ○ <i>Target (2018): 66%</i> 		<ul style="list-style-type: none"> ● Sector coordination for partner roundtable on M6 ● Impact of roads on poverty and access to services
<p><i>Outcome 4: Safe travel speed increased from 20 km/h to 40 km/h on sizeable section of rehabilitated lifeline roads</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 0</i> ○ <i>Target (2018): 300 km</i> 	<p>Met. By November 2017, 272 km of lifeline roads had been rehabilitated, with the average speed improved from 20 km/h to 43 km/h on 272 km of lifeline roads. The project is on track to meet the safe travel speed target of 20 to 40 km/h on 360 km by the end of the project, or 60 km more than the 300-km target.</p>	
Cluster II. IMPROVING EFFICIENCY AND EQUITY IN SOCIAL SERVICES		MOSTLY ACHIEVED
Objective 2.1: Improve efficiency, equitable access, and quality of health and education services		Mostly Achieved
WBG Outcome Indicators:	Progress to Date:	IBRD/IDA Financing
<p>Improved quality of care in MCH and NCD as measured by:</p> <p><i>Outcome 1: Percentage of women aged 30-60 screened for cervical cancer at least once in last 3 years</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2012): 10.2%</i> ○ <i>Target (2018): 50%</i> 	<p>Partially Met. Actual Current 35% as of November 2017. The rate has been increased to 35% from the 10.2% baseline in 2012, a significant achievement but below the ambitious target of 50%.</p>	<ul style="list-style-type: none"> ● Disease Prevention and Control Project ● Health Systems Modernization Project (APL2) ● Education Quality and Relevance Project 2 ● Education Improvement Project
<p><i>Outcome 2: Rate of natal and post-natal complications</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2012): 86%</i> ○ <i>Target (2018): 52%</i> 	<p>Met. Actual Current—49.6% (source, Yearbook 2017). The 2012 baseline was 86% and the 2018 target was 52%. A rate of 49.6% has been achieved.</p>	<p>ASAs</p> <ul style="list-style-type: none"> ● Assessment of tobacco tax for health financing ● Vulnerability assessment of school infrastructure ● South Caucasus ESW on skills and jobs ● Gender analysis of selected curriculum and textbook elements ● ESW and TA on health financing ● ESW on embedding nutrition in social protection ● ESW on gender streaming in educational choice
<p>Utilization of state guaranteed health services by poor population expanded as measured by:</p> <p><i>Outcome 3: Rate of utilization of health services by bottom 40% of population (poorest two quintiles)</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2011): 4.7% outpatient, 5.2% inpatient services</i> ○ <i>Target (2018): 6.9% outpatient, 5.7% inpatient</i> <p><i>* utilization will be sex-disaggregated</i></p>	<p>Mostly Met. As of November 2017, rates of 5.3% and for outpatients and 9.7% for inpatients had been achieved, and the pace of progress will be maintained in 2018.</p>	
<p>Teaching and learning environment in high schools is enhanced as measured by:</p>	<p>Met. Actual Current: 85.5% (total passing rate); 82.3% (male); 90.8% (female). A rate of 85.5% was</p>	

<p><i>Outcome 4:</i> Percentage of students obtaining a passing rate in mathematics in the unified entrance exam</p> <ul style="list-style-type: none"> ○ <i>Baseline (2012):</i> 76% (both genders) <i>Target (2018):</i> 80%* <p>* exam data will be sex-disaggregated</p>	<p>achieved in 2017, and results have been consistent since 2015.</p>	
<p>Improved school readiness among those having access to newly created preschool education as measured by:</p> <p><i>Outcome 5:</i> Early Educational Development Index scores of students enrolled in new preschools (compared to control group)</p> <ul style="list-style-type: none"> ○ <i>Baseline (2012):</i> No difference ○ <i>Target (2018):</i> 50% differential* <p>*scores will be sex-disaggregated</p>	<p>Met. Results are higher than 50% in all learning domains based on 2016 survey. Surveys have shown that performance in the treatment group on the Early Development Index is 4.5 times as good as in the control group.</p>	
<p>Objective 2.2: Improve coverage and targeting of social safety net programs</p>		<p>Partially Achieved</p>
<p>WBG Outcome Indicators:</p>	<p>Progress to Date:</p>	<p>IBRD/IDA Financing</p> <ul style="list-style-type: none"> • Armenia Social Protection II Project • Social inclusion and activation TA • Promoting social inclusion and self-reliant livelihood activities in Armenia • Social Protection Administration Project II • DPL series: two of four DPOs, FY15-FY16 <p>ASA:</p> <ul style="list-style-type: none"> • Strengthening the Livelihoods and Voice of Vulnerable and Disabled Persons • TA for pension reform
<p>Further improvement of targeting and coverage of social assistance programs as measured by:</p> <p><i>Outcome 1:</i> Improved accuracy of targeting formula for Family Benefit Program (FBP), increasing proportion of beneficiary families that are poor:</p> <ul style="list-style-type: none"> ○ <i>Baseline (2012):</i> 73% ○ <i>Target (2018):</i> 85% 	<p>Not Met. Target for better targeting of FBP was not met. At the 2012 baseline 73% of beneficiary families were poor, and by 2015, the rate had increased to 77%, although it fell to 71% in 2016. With adjustments that the Bank has proposed to the coefficients in the FBP eligibility formula and outreach activities to encourage poor people to register, the proportion of beneficiaries who are poor—those in the bottom 40% of the income distribution—would improve in 2018.</p>	

<p><i>Outcome 2: Improved coverage of poor households by the FBP</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2012): 21%</i> ○ <i>Target (2018): 27% *</i> <p>* disaggregated to women-headed households (increase from 27% to 30%) and men-headed (from 18% to 22%)</p>	<p>Mostly Met. FBP coverage of poor people increased from 21% in 2012 to 27% in 2015 and 26% in 2016 based on Integrated Living Conditions Survey data.</p> <p>FBP coverage of poor women-headed families increased from 27% in 2012 to 33% in 2015, and coverage of poor men-headed households increased from 18% to 24% during the same period.</p>	<ul style="list-style-type: none"> ● Distributional impacts of tariffs on the poor ● Armenia Silk Road Social Protection TA ● Labor activation policy note ● ESW on embedding nutrition in social protection
CROSS-CUTTING CLUSTER: IMPROVING GOVERNANCE AND ANTI-CORRUPTION MEASURES IN PUBLIC SERVICES		MOSTLY ACHIEVED
Objective 3.1: Improve the framework for fighting corruption in public services		Mostly Achieved
WBG Outcome Indicators:	Progress to Date:	IBRD/IDA Financing
<p>Institutional framework for fight against corruption and conflict of interest improved, as measured by:</p> <p><i>Outcome 1: Global Competitiveness Indicators (GCI) on Favoritism in decisions of government officials (EU27):</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): 2.99</i> ○ <i>Target (2018): 3.5</i> 	<p>Mostly Met. Actual current: 3.4. Following the achievement of a 2017-2018 rating of 3.4 and the government’s plan to introduce a proposed methodology and set of institutional arrangements for strategic planning, adoption of recommendations and good practices for a new regulatory impact assessment system, and support for recommendations on public servant ethics and the functions of the new corruption prevention entity, the 3.5 target is on track to be met. This will also be supported by TA on anti-corruption, strategic planning and regulatory impact assessment, and the PSMP3 project.</p>	<ul style="list-style-type: none"> ● DPL series: first three of four DPOs, FY14-FY16 ● Public Sector Modernization Projects (PSMP-2 and 3) ● Tax Administration Management Project ● DPL series: last of four DPOs, FY17 <p>ASAs</p> <ul style="list-style-type: none"> ● ESW on social accountability for rural services ● IDF grants: Chamber of Control; Public Sector Audit Accounting; Strengthening School of Advocates ● TA for strategic planning ● TA for anti-corruption ● TA regulatory impact assessment ● TA supporting Armenia access to EITI and extractive industries technical advisory facility
<p><i>Outcome 2: Formal Government of Armenia engagement in Extractive Industries Transparency Initiative</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013): no commitment</i> ○ <i>Target (2018): Active EITI Candidate</i> 	<p>Met. In 2013, the government had no plans for committing to the initiative, and in 2017 it joined. The first report under the initiative is expected in 2018, and the government has committed to creating a website with open data that will allow the public to monitor the sector.</p>	

Objective 3.2: Strengthen the management of public resources		Mostly Achieved
WBG Outcome Indicators:	Progress to Date:	IBRD/IDA Financing
<p>Significant strengthening of internal control systems in government as measured by:</p> <p><i>Outcome 1: External Scrutiny and Audit (PEFA PI-26):</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013):</i> D+ ○ <i>Target (2018):</i> B 	<p>Mostly Met and well on track. Sufficient progress has been made with financial and compliance methodology and commensurate staff training for the PI-26 2018 target rating of B to have already been achieved. No PEFA assessment has been undertaken since 2013; according to the standards, the next PEFA will be conducted in 2018.</p> <p>A number of pilots were conducted to validate applicability of the audit methodology and provide hands on training. The Chamber of Control has applied the audit methodology for a number of audits, including donor-funded projects and a complete ministry. The Chamber of Control plans to use it more regularly, commencing with complete audit of donor-funded project audits. The audit based on International Organisation of Supreme Audit Institutions Standards is stipulated in the Chamber of Control Strategic Development Plan.</p>	<ul style="list-style-type: none"> ● Tax Administration Management Project ● DPL series: two of four DPOs, FY15-FY16 ● PSMP-3 <p>ASA and IFC Advisory</p> <ul style="list-style-type: none"> ● Programmatic PEFA assessment ● Programmatic public expenditure analyses ● IDF on Chamber of Control, public sector audit and accounting, and mining taxation ● Public expenditure review ● TA on tax policy development ● PEFA on subnational level; programmatic fiscal work ● IFC investment climate advisory services
<p><i>Outcome 2: Effectiveness of internal audit (PEFA PI-21):</i></p> <ul style="list-style-type: none"> ○ <i>Baseline (2013):</i> D+ ○ <i>Target (2018):</i> B 	<p>Met. No PEFA assessment has been undertaken since 2013 because of lack of funds, but the internal audit functions necessary for the PI-21 2018 target of B have been achieved. Internal audit is functional in the public sector; a clear legal and regulatory base has been established, and a manual is in place and was developed based on international standards and Public Expenditure Management Peer Assisted Learning (PEMPAL) network Internal Audit Community of Practice good practice documents.</p>	

<p>Increased efficiency and coherence of tax administration as measured by:</p> <p><i>Outcome 3:</i> Strategic and transparent framework for taxation outlined in new comprehensive tax code</p> <ul style="list-style-type: none"> ○ <i>Baseline (2012):</i> none ○ <i>Target (2017):</i> Tax code adopted and implemented 	<p>Met. The Parliament of Armenia approved the Unified Tax Code in October 2016. The Excise Tax part became effective in January 2017, with the rest to enter into force in January 2018 after all implementing regulations are in place. Further transparency of taxation is expected after enactment of the Unified Tax Code. The code has amalgamated all tax legislation and aims to expand the tax base and close major loopholes in the existing tax legislation. The new code includes administrative stipulations and is expected to improve transparency, facilitate supervision, and support effective enforcement.</p>	
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Notes: ASA, advisory services and analytics; DPL, development policy loan; DPO, development policy operation; ESW, economic and sector work; EITI, Extractive Industries Transparency Initiative; FBP, Family Benefit Program; IBRD, International Bank of Reconstruction and Development; IDA, International Development Agency; IDF, Institutional Development Fund; IFC, International Finance Corporation; LEIDP, Local Economy and Infrastructure Development Project; PEFA, Public Expenditure and Financial Accountability; PSMP, Public Sector Modernization Project; TA, technical assistance; WBG, World Bank Group.

Table 2.3. CPS Period IBRD/IDA Lending Approvals

	CPS FY14-17 Planned:	Planned IBRD US\$ million	Planned IDA US\$ million		CPS FY14-17 Actual:	Actual IBRD US\$ million	Actual IDA US\$ million
FY14	Development Policy Lending	31	41	FY14	Development Policy Operation 1 (DPO Series)	31	41
	Agriculture Resources & Supply Chain	23	7		Second Community Agriculture Resource Management and Competitiveness Project	23	9.7
	Long Term Export Finance	20			Education Improvement Project	15	15
	Electricity Supply Reliability AF	30			Social Protection Administration Project 2	-	21.2
	Trade Promotion and Quality Infrastructure	40					
	Education Quality and Relevance 2	15	15				
	Social Protection Administration 2	-	21.5				
	<i>Subtotal</i>	<i>159</i>	<i>84.5</i>		<i>Subtotal</i>	<i>69</i>	<i>86.9</i>
FY15	Development Policy Lending	50		FY15	Development Policy Operations 2	75	
	Electricity Supply Reliability AF	50			Electricity Supply Reliability Project AF	40	
	Social Investment Fund 2	30			Trade Promotion and Quality Infrastructure Project	50	
	Public Sector Modernization	20			Electricity Transmission Network Improvement Project	52	
					Social Investment and Local Development Project	30	
	<i>Subtotal</i>	<i>150</i>			<i>Subtotal</i>	<i>247</i>	
FY16	Development Policy Lending	50		FY16	Development Policy Operations 3	50	
	Tourism Economy & Infrastructure Development	55			Local Economy & Infrastructure Development Project	55	
	Road Network Improvement AF	40			Lifeline Road Network Improvement AF Project	40	
					Public Sector Modernization Project II	21	
					Power Sector Financial Recovery Plan (P4R)	30	
	<i>Subtotal</i>	<i>145</i>			<i>Subtotal</i>	<i>196</i>	
FY17	Development Policy Lending	60		FY17	Development Policy Financing 4	50	
	Agriculture Resources & Supply Chain	45					
	Disease Prevention and Control 2	40					
	<i>Subtotal</i>	<i>145</i>			<i>Subtotal</i>	<i>50</i>	
FY18			FY18	Irrigation System Enhancement Project AF	2		
	Total Planned	599	84.5		Total Actual	564	86.9
	Total Planned (IBRD and IDA)	683.5			Total Actual (IBRD and IDA)	650.9	

Table 2.4. CPS Period: IFC Long Term Commitments during FY14-FY17

Fiscal Year	Industry Group	Project ID and Name	Original Commitment Activity, US\$ million		
			Own Account	Mobilization	Total
2014	FIG	35024-ACBA Swap3	2.5	-	2.5
		33625-Finca Armenia	4.0	-	4.0
		33521-WCSS Unibank	5.0	-	5.0
		33518-WCSS ACBA	15.0	-	15.0
		33031-Unibank SME	5.0	5.0	10.0
	MAS	32970-Prodeco	9.0	9.0	18.0
	INR	34881-Lybian RI III	1.6	-	1.6
2015	FIG	35794-FINCA Arm Swap	0.3	-	0.3
		35418-FINCA Armenia 2	3.0	-	3.0
		33520-WCSS Inecobank	5.0	-	5.0
	INR	36555-Lybian RI - 2015	1.3	-	1.3
2016	FIG	37697-Ameria Swap4	0.2	-	0.2
		37540-ACBA SWAP IV	0.3	-	0.3
		37259-Ameria SubL II	50.0	-	50.0
		37196-Ineco SME 2015	20.0	-	20.0
	INR	33450-Vorotan Hydros	13.5	-	13.5
2017	FIG	38349-ACBA SWAP V	0.3	-	0.3
	INR	37652-Vorotan Debt	47.9	95.0	142.9
		Total	183.9	109.0	292.9

FIG, Financial Institutions Group; MAS, Manufacturing, Agribusiness, and Services; INR, Infrastructure and Natural Resources

Table 2.5. CPS Period IBRD/IDA Nonlending Deliveries

FY	Product Line	Project Name
FY14	EW	Armenia MTDS Baseline
	EW	Armenia: PEFA Assessment (Sub-National)
	TA	Social Accountability Rural Services
	TA	Armenia: Strengthening Consumer Protection
	KP	Fiduciary Strengthening & CPAR Follow-up
	TA	Armenia: Supporting Capital Market Development
	TA	Update Note on Armenia Integrated Water Resource Management
	TA	Armenia Environment Sector Note
	EW	Programmatic Fiscal Work FY13
	TA	Corp Insolvency and Restructuring TA
FY15	EW	Armenia Policy Notes for Accelerating Growth and Job Creation (2013-2017)
	TA	Armenia: Enhancing Corporate Financial Reporting
	EW	Armenia Power Sector Policy Note
	TA	Armenia: Regulatory and Supervisory Framework for Funded Pensions and Life Insurance
	TA	Armenia: Financial Strengthening of Operating Water Concessions
	TA	Armenia Mining Support Development
	TA	Export-led Industrial Development Strategy Implementation Support
	EW	Programmatic Growth CEM
	TA	ECU Challenges and Opportunities
	TA	Water Resources Management
FY16	EW	Power Sector Financial Recovery Plan
	TA	Silk Road TA Armenia
	EW	Armenia South Corridor Tourism Development
	TA	Armenia Regional Development Analysis
	KP	Sector Coordination in Water and Irrigation
	EW	Modernization and Commercialization of Armenian Agriculture
	TA	EI-TAF Mining Sector Support
	EW	Programmatic Fiscal Work
	TA	Armenia Pensions
	TA	Armenia Trade Competitiveness and EEU Integration
TA	Armenia Tax Code and Policy Reform TA	
FY17	TA	Implementing Anti-Corruption Strategy
	TA	Armenia National Disaster Risk Management Program
	TA	Vulnerability Assessment
	TA	Strengthening Disaster Resilient Urban Planning for Yerevan
	TA	Support to School Safety Program
	EW	Gender dynamics in STEM fields of study and occupations
	TA	Ensuring effective and inclusive UHC in Armenia
	TA	Support to Armenia's Second Generation Water PPPs

FY	Product Line	Project Name
	TA	Armenia Financial Advisory TA
	TA	Armenia Environmental Governance in Mining Sector
	AA	Tax Reform Support Technical Assistance project for Armenia
	AA	Armenia Pensions Advisory Services and Analytics
	AA	Armenia Education Analyses and Technical Assistance
	AA	Armenia Capacity support for EITI Candidacy

Attachment 1. Complaints and Investigations During Country Partnership Strategy (CPS) Period

This attachment summarizes the three complaints that were brought to the Inspection Panel during the CPS Period and details their resolution.

- a) **Local non-governmental organizations and communities brought the first complaint, related to the World Bank's Education sector engagement, to the Inspection Panel on June 5, 2014.** The request alleged that two Bank-financed operations—the Education Improvement Project and the Second Education Quality and Relevance Project—failed to address what the requesters viewed as critical concerns in the higher education system in Armenia and systemic problems in general education. The panel did not recommend investigation because it was unable to establish that the concerns that the requestors raised, albeit legitimate, could be considered instances of material harm that may have resulted from a failure of the Bank to follow its Operational Policies and Procedures with respect to the design, appraisal, and implementation of the projects that the Bank financed. The Bank has followed up with the Ministry of Education and Science on one of the concerns raised, namely, equal gender representation and gender equality in the school curriculum.
- b) **Communities filed the second complaint related to the Irrigation System Enhancement Project with to the Inspection Panel in spring 2016.** The requests for inspection were related to alleged potential environmental and social damages from infrastructure rehabilitation to be undertaken under the project and alleged inadequate consultation and participation processes. The World Bank's non-compliance with required procedures and the existence of the alleged harms were ruled out, although weaknesses in communications with stakeholders, conflicting interests of affected and benefiting communities, and a general lack of public buy-in regarding the project design were apparent.
- c) **Although the panel did not recommend investigation, the World Bank worked closely with the borrower to address the concerns.** Responses included an awareness-raising campaign, enhanced community monitoring of project implementation, and integration of additional safeguards into infrastructure design to increase public confidence in the project. Because of these efforts, project implementation resumed after a halt, to the satisfaction of stakeholders, and is progressing toward achievement of the project development objective in a fully satisfactory manner.

Attachment 2. Further information on effect of the Country Partnership Strategy (CPS)

This attachment highlights engagement under this CPS that the World Bank team believes has been transformative.

- a) **The agriculture sector accounts for 20 percent of Armenia’s gross domestic product, and increasing its productivity has been central to the development aims of Armenia and the Community Agricultural Resource Management and Competitiveness Project (CARMAC) and Irrigation Enhancement projects.** Since 2011, CARMAC and CARMAC 2 have helped 85,000 families managing livestock in rural communities to apply modern practices and increase their product sales by more than 2.5 times on average. The projects have also helped the government to establish a solid foundation for the sector by supporting development of the Law on Pastures (passed in 2012) and the Law on Agricultural Cooperatives (passed in 2015). In addition to helping the 35 percent of Armenia’s workforce that is in the agriculture sector to increase their incomes, greater sector productivity will support gradual reallocation of labor to sectors that have more potential to sustainably raise Armenia’s income levels. The Irrigation Enhancement Project has modernized irrigation systems while cutting their energy use. Both sets of interventions have helped the agriculture sector to make a decisive break from inefficient practices, moving the sector into a position from which it can better contribute to future growth.
- b) **The SCD identified the information and communications technology (ICT) sector as one of Armenia’s ‘pockets of productivity,’ and its future growth will benefit from the strong foundations that the World Bank has laid in partnership with the government.** A strong ICT sector gives a landlocked country such as Armenia an opportunity to boost its trade connections with other countries, not least when it has the advantage of a highly educated workforce and diaspora support. To help Armenia capitalize on these strengths and opportunities, the E-Society and Innovation for Competitiveness project developed centers for the growth of hundreds of new ICT firms. The project installed three key building blocks for further ICT sector growth: training programs for entrepreneurs to build their skills, financial support through seed grants and a venture fund, and outreach and market access through representation in Silicon Valley.
- c) **A clear, consolidated tax code is fundamental to dynamism and growth across economic sectors, and World Bank support during this CPS assisted Armenia in developing its new code.** The Unified Tax Code was developed under the development policy lending (DPF)4 project (the last of the four DPF projects undertaken during this CPS) and amalgamates all tax legislation. It aims to expand the tax base by reducing the list of tax exemptions and expanding the tax net, harmonizing tax rates with those of regional peers, and closing major loopholes in the existing tax legislation. This will benefit firms in many areas while increasing tax collection capacity and contributing to future fiscal stability.
- d) **The World Bank has helped the government to develop more evidence-based policy-making and to account for equity considerations.** Activities under DPF3 and DPF4 have helped the Ministry of Finance and other arms of the government to improve their policy design through better analysis of their welfare effects, assisted the statistics service in increasing the use of data in government programs, and boosted evidence-based policy-making. This has helped Armenia to adopt better informed interventions, such as improved targeting and coverage of the Family Benefit Program—Armenia’s most important social assistance program
- e) **The government has adopted a strategic planning framework that was proposed in the strategic planning technical assistance in 2017.** The framework strengthens the link between development strategies and budgeting and will support better evidence-based policy-making. This framework will

also support growing reform momentum under the current government, which has established the Center for Strategic Initiatives and tasked it with fostering public-private partnerships, attracting FDI, and aligning development goals of investors and line ministries

- f) **The government prioritized the energy sector during the CPS period, and the World Bank's robust engagement through investment lending and analytical work helped to build private sector interest in the sector.** The World Bank's proactive support of the government in eliminating shortcomings in the energy sector regulatory framework, identifying renewable energy technologies with the greatest expansion potential in the country, providing policy advice to and capacity-building of the regulatory commission, and introducing new approaches to energy efficiency have already increased private sector interest in the sector and could contribute to sizable new investments. In FY16-FY17, the IFC successfully supported post-privatization investment to finance acquisition by a foreign investor of the 400-MW Vorotan cascade of hydropower plants. It also launched preparation of two new sizable projects in the energy sector. The World Bank organized an auction to select an independent power project developer for a 50-MW solar power plant that will be the first competitively tendered independent power project in the country and one of the first large utility-scale solar plants in the ECA.

Annex 3. Armenia's "Multi-Membership" in Trade

- 1. Armenia - a World Trade Organization (WTO) member country since 2003 - has recently improved its partnerships with two large trade areas: the EAEU and the EU.** Armenia joined the EAEU in 2015, strengthening its ties to the other countries in the bloc: Belarus, Kazakhstan, Kyrgyzstan, and Russia. After working toward an Association Agreement with the EU that was called off in 2013, Armenia signed the CEPA with the EU in November 2017.
- 2. EAEU membership gives Armenia better trade access to EAEU neighboring economies, with significant potential benefits from reduced nontariff barriers.**⁴⁹ The union seeks free movement of goods, services, capital, and labor among its members and is the latest—and most successful—of several attempts since the end of the Soviet Union to improve regional economic integration. In becoming a member, Armenia agreed to increase its tariffs with non-EAEU countries gradually until 2022. Armenia's strongest EAEU trade ties are with Russia, amounting to about 26 percent of Armenia's total trade turnover in 2018. Exports by Armenia to Russia grew from US\$ 308 million in 2014 to US\$ 667 million in 2018. Alcoholic beverages are its biggest export, at 36 percent, and gas and petrol its biggest import, at about 43 percent.⁵⁰
- 3. Armenia benefits from advantageous access to the European market.** The European Commission's Sustainable Development and Good Governance Generalized Scheme of Preferences (GSP+) provides zero tariffs on Armenia's exports in 66 percent of EU tariff lines. The GSP+ gives developing countries preferential access to EU product markets if they need economic diversification and comply with international conventions on human rights, labor rights, governance, and environmental protection. The EU receives 28 percent of Armenia's trade, importing ores and other minerals, non-ferrous metals, manufactured goods (such as iron and steel), and clothing, and sending machinery and transport equipment, chemicals, agricultural products, and manufactured goods. Armenia has benefitted from a significant rise in exports to the EU from US\$ 465 million in 2014 to US\$ 684 million in 2018.⁵¹ However, Armenia might not benefit any more from GSP+ preferential access to the EU market in the coming years, as the country income per capita increases and remain in the upper-middle-income country for three consecutive years, per the GSP+ graduation rule.
- 4. Armenia is expected to benefit from the CEPA, which entered into force in June 2018.** The agreement establishes a solid basis for strengthening political dialogue, broadening the scope of economic and sectoral cooperation (for example, in energy, transport, and the environment), creating a framework for new trade and investment opportunities, and harmonizing Armenian regulations with those of the EU (such as business regulation, technical barriers to trade, agriculture, transport, environment and climate change, energy, consumer protection, statistics, information society and electronic communication, social policy, and public services). Requirements on competition, state aid, and public procurement may help Armenia to diversify some of the market-concentrated ownership that stifles dynamism in core sectors of its economy. Stipulations on intellectual property rights have encouraged reform as well. The trade-in-services chapter is one of the CEPA's largest; it seeks mutual market access for EU and Armenian service providers and will involve transposing significant EU legislation into Armenia.

⁴⁹ Alexander Knobel, Andrei Lipin, Andrey Malokostov, and Natalia Turdyeva. 2016. "Non-tariff barriers and trade integration in the EAEU."

⁵⁰ Source: [Statistical Committee of the Republic of Armenia](#).

⁵¹ See https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_armenia_en.pdf.

5. **Finally, Armenia can seek further bilateral trade agreements, as long as they are agreed with EAEU members.** Armenia currently has six bilateral trade agreements (that predate its EAEU membership), with Georgia, Tajikistan, Moldova, Turkmenistan, Uzbekistan, and Ukraine, and the Government Program envisions expanding Armenia's trade relations to other countries such as Iran, China, Serbia, Singapore, Egypt, and Israel.

6. **Armenia's trade "multi-membership" presents a solid opportunity to grow exports and FDI and connect to regional value chains.** First, free trade within the EAEU benefits Armenia directly through imports and exports. It also has indirect positive effects, potentially attracting non-EAEU investors who may be interested in locating in Armenia as a springboard for trade and investment within the EAEU. This effect could be reinforced by a further reduction in non-tariff barriers within the EAEU. Second, the CEPA could serve as a roadmap for improving regulatory quality and international standards for trade and beyond. Overall, while leveraging these two partnerships could help Armenia expand exports successfully and sustainably, more detailed analysis would need to be done to fully assess their combined net benefits.

Annex 4. Improving Productivity and Consumer Welfare through Competition

- 1. As described in the SCD, Armenia suffers from a lack of productivity-improving and export-boosting market competition.** Although entry has been observed in the import and production of some key commodities, many Armenian markets have few participants and are highly concentrated. While a new EBRD-World Bank Business Environment and Enterprise Performance Survey is under way, the previous survey, from 2013, indicated that 83 percent of all manufacturing markets in Armenia were monopolies, duopolies, or oligopolies. Subsectors in manufacturing and services appear to have become increasingly concentrated over time. High concentration can raise the risk of anticompetitive practices such as abuse of dominance or collusion, thereby raising the cost of inputs for businesses and of essential goods and services for households.
- 2. Making markets more contestable will promote the entry and expansion of productive firms in tradeable sectors and productive non-tradeable input sectors, thereby boosting exports.** Following the global financial crisis, the job expansion rate of small firms in Armenia decelerated notably. Firm-level productivity growth across firms of all sizes has been limited compared to peer countries. Armenia also has a relatively high share of low-productivity firms. This suggests that a lack of contestability and competition in markets may have hindered the process of reallocating resources toward higher-productivity firms and sectors.
- 3. Government interventions have often restricted entry and created an uneven playing field.** For example, a significant proportion of Armenia's economic activity has historically been thought to be underreported, which affects public finances and provides some players with a strong competitive advantage that is not based on merit. Meanwhile, government interventions that are put in place with legitimate objectives can restrict competition when not properly designed. These include, for example, sector regulations that are not conducive to entry and rivalry, tax incentives that aim to incentivize production but instead create an unlevel playing field, or public procurement frameworks that limit the type of players that can participate in tenders.
- 4. Boosting competition in key sectors for Armenia's connectivity—such as transport and ICT—could contribute significantly to the country's economic growth.** In telecommunications, for example, outcomes in mobile broadband could be boosted through pro-competition spectrum auctions and infrastructure sharing rules. In air transport, the government concluded negotiations on the Armenia-EU Common Aviation Area Agreement at the end of 2017.⁵² Ensuring implementation of this agreement could help provide incentives for European low-cost carriers to enter the Armenian market. Moreover, the relatively high cost of landing, handling, and fueling at Yerevan Zvartnots Airport appears to have been an issue for the profitability of international airlines flying to Armenia and may have contributed to a number of airlines exiting the market in recent years. In the rail sector, strengthening regulation, including on tariffs and performance, could help to improve rail services and reduce costs for downstream tradeable industries. The Government of Armenia may benefit by assessing whether effective regulatory oversight is in place and defining measures that can be taken to reach this balance under the existing legal framework and railway concession.

⁵² See <http://www.gov.am/files/docs/2219.pdf>. To increase the number of transit flights through Armenian airspace, the government also aims to introduce the Free Route Airspace Policy of Armenia and further expand it under the Armenia-Georgia Free Airspace format.

5. Finally, weak competition can raise consumer prices that affect households, and pro-competition reforms in these markets have a direct impact on poverty and the distribution of welfare. Prices of certain essential food products, such as milk, eggs, bread, and butter, were found to be at least 23 percent higher in Armenia than in other countries in the Commonwealth of Independent States, even after controlling for proxies of market size and transportation costs.⁵³ Assuming these prices represent overcharges due to weak competition, savings to the bottom decile from boosting competition would be double or triple the relative savings for the top consumption decile.

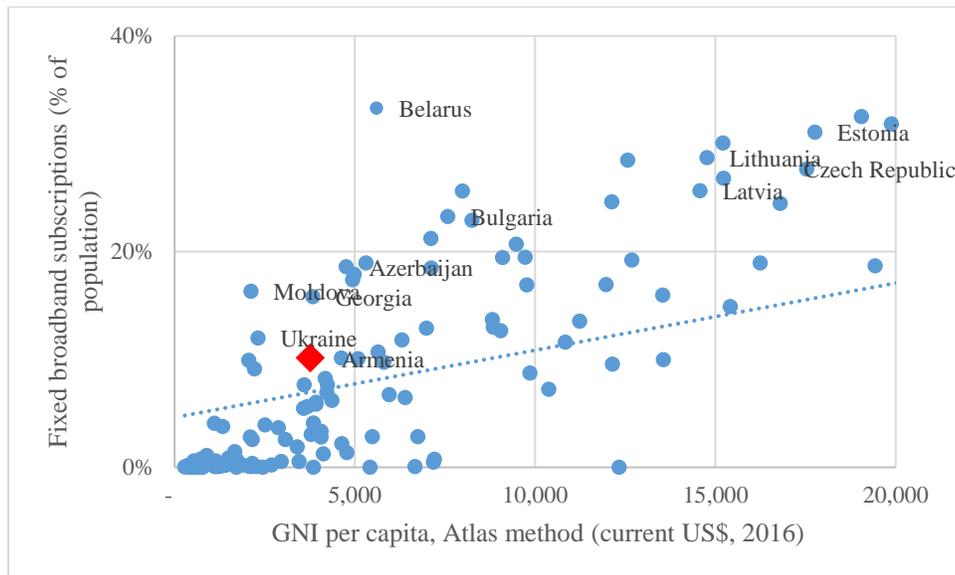
⁵³ Based on an analysis of food prices in Commonwealth of Independent States countries from 2005 to 2010, sourced from the Interstate Statistical Committee of the Commonwealth of Independent States. Although this dataset has been discontinued, annual prices for 2011–17 collected by county statistical offices in Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan (where annual product-level prices were available) indicate that prices of various staple food products are higher, on average, in Armenia (based on a simple comparison before controlling for other factors). For example, between 2011 and 2017, prices in Armenia were, on average, 37 percent higher for bread, 46 percent higher for butter, and 26 percent higher for eggs.

Annex 5. Can Armenia Leverage Digital Opportunities?

- 1. Armenia is using its ICT infrastructure to take advantage of digital opportunities.** Most Armenians are online and taking advantage of digital services, and the country is positioned to pursue digital opportunities while increasing connectivity, so that the country can share the benefits of growth from its competitive ICT sector. Yet Armenia could do more to position its businesses, households, and individuals to integrate into and benefit from the opportunities created by the global digital economy.
- 2. Connectivity consists of several parts, of which “last-mile” broadband is particularly important.** Fixed-line broadband gives users access to high and reliable speeds at low cost, enabling them to use all of the digital services in the new economy, whereas mobile connections are slower and less reliable.
- 3. Armenia performs better on broadband connectivity than its level of economic development would suggest.** The country’s fixed broadband penetration per capita is around 10 percent, as compared to 25 percent in Singapore and 31 percent in Estonia—world leaders in digital development. As shown by Figure 5.1 (a), where Armenia is depicted by a diamond, the country is above the trendline for broadband connections per 100 people at its level of per-capita gross national income (GNI). Armenia also has high penetration of household broadband connectivity, even compared to some of the EU member countries shown in Figure 5.1 (b).

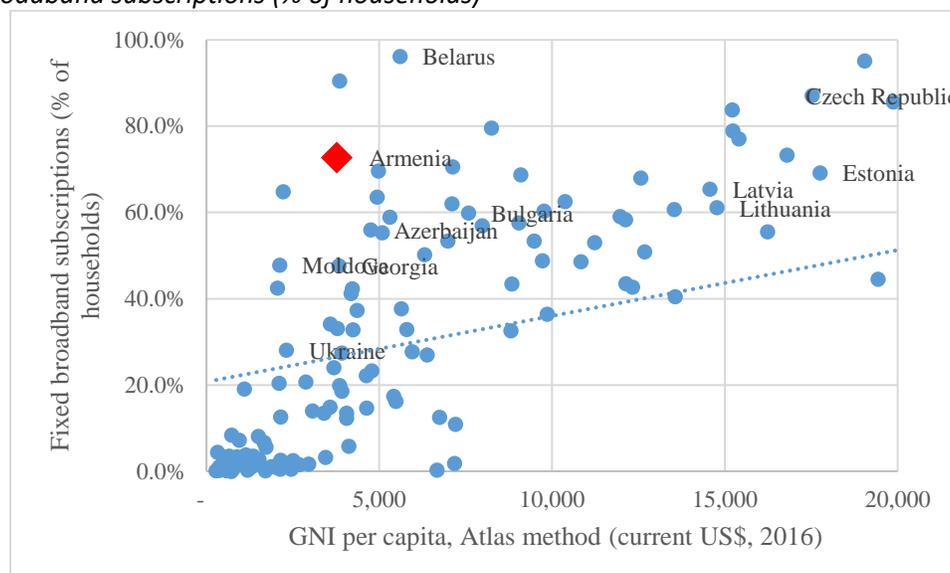
Figure 5.1. Broadband Connectivity and GNI per Capita

(a) Fixed broadband subscriptions per 100 people



Source: TeleGeography, GlobalComms database, 2017.

(b) Fixed broadband subscriptions (% of households)



Source: TeleGeography, GlobalComms database, 2017.

4. **Owing to growing coverage of broadband infrastructure, Internet use in the country has continued to rise.** As the mobile network grows, Internet coverage has continued to expand in 2016 and 2017, with the number of users exceeding 2.2 million at a coverage rate of 70 percent, on par with Italy. Table 5.1 shows that Armenia is performing well in mobile connectivity—an important part of allowing the creation of new business models and services—relative to its neighbors, but that it can do more to boost the adoption of mobile broadband (especially high-speed 4G) services. The next stage of network development will also need to focus on closing the rural-urban digital divide in fixed broadband services, which will deliver ultrafast broadband (speeds over 100 Mbps) to businesses and households.

Table 5.1. Adoption of mobile services, select countries (per 100 people)

Country Name	Mobile cellular subscriptions	3G mobile broadband subscriptions	4G mobile broadband subscriptions
Armenia	117.8%	55%	18%
Azerbaijan	113.7%	77%	19%
Belarus	123.9%	39%	12%
Bulgaria	139.1%	79%	46%
Georgia	149.7%	54%	38%
Lithuania	142.1%	67%	68%
Moldova	132.4%	52%	25%
Romania	134.5%	46%	49%
Ukraine	132.0%	69%	12%
World	103.9%	28%	44%

Source: TeleGeography, GlobalComms data, September 2018

5. **High-quality and affordable broadband infrastructure and more Internet users create opportunities for online commerce.** With the ability to connect with customers more easily, a wider range of business-to-customer services—such as ride sharing, delivery services, and digital marketing—become

commercially viable. In public administration, there is greater scope to create and deliver e-government services.

6. How Armenia uses its existing ICT infrastructure to respond to opportunities in the digital economy will determine whether its economy will leapfrog or lag behind. The digital economy is a key driver of growth, development, and innovation, and the Internet is changing trade, firm productivity, demand for skills, labor market arrangements, and how services are delivered to firms and citizens in Armenia and across the world.

7. Digital infrastructure and services have particular potential to boost Armenia's export enablers and competitiveness. The digital economy could improve competitiveness across all sectors, create new opportunities for business and entrepreneurial activity, and provide new avenues for accessing overseas markets and participating in global e-value chains. Digital improvements hold the potential to enhance investor and consumer trust, increase trade, and foster more transparent competition, greater integration into global value chains, diversification, and innovative entrepreneurship.

8. Armenia's ICT sector is growing fast. The driving factor behind Armenia's competitiveness in ICT and high technology is the availability of educated human resources, together with support from the diaspora, although Armenian firms at the technological frontier report growing difficulties in finding the skills they need.

9. Armenia ranked 78th out of 144 economies in the B2C E-Commerce Index 2017. This is lower than neighboring countries, such as Georgia (70th). E-commerce has room for improvement to boost user confidence, including consumer protection, privacy and data protection, and cybercrime. The main constraint is the limited use of financial services in the country, including credit cards and international payment systems. Despite a relatively supportive legal framework, the use of e-commerce transactions, while growing, is still low.

10. Armenia's agriculture sector is a good example of the potential benefits of digital services and solutions. Business research firms such as BI Intelligence predict that the use of Internet-connected devices in agriculture around the world will increase from 30 million in 2015 to 75 million in 2020. For Armenian agribusinesses and agricultural retailers, these changes will mean dramatically altering their business models and structures to become more competitive participants in the global market.

11. The World Bank has also served as a long-term partner in supporting the e-government agenda. This collaboration has included supporting government information and management systems, their interoperability, their transparency, and access via the e-government platform, citizen feedback platform, and online access to key services.

12. Armenia has started to go beyond service delivery into public sector innovation by using digital initiatives. UNDP's Kolba Lab runs competitions for new ideas on how to develop Yerevan, improve the education system, and increase the focus on users in the health care system. The EU has funded research into barriers to the development of social entrepreneurship in Armenia. The American University of Armenia and Impact Hub Yerevan support students at the university to create and scale solutions to social issues. Together, these initiatives suggest a degree of interest in new ways to further Armenia's development.

13. Government transparency has improved through the use of digital tools. For example, "e-gov.am" has an interactive budget that publicizes budget allocations and shows spending progress. On its website,

the Ministry of Territorial Administration and Development live-streams the council meetings of over 40 communities.

14. Armenia's active membership in the international Open Government Partnership supports the country's use of digital solutions in public service delivery. Armenia joined the initiative in 2011 and in November 2018 launched its Fourth Action Plan highlighting a range of reforms to increase transparency in 11 areas. Among these planned reforms are efforts to improve the transparency of beneficiary ownership, water resource management, land cadaster management, education, and health.

15. The World Bank will support the government in developing a broadband strategy and in harmonizing its digital environment, together with the EU and other Eastern Partnership countries. This activity is expected to assist Armenia in enhancing competition—and extending the full frontier of commercial viability—in broadband connectivity, which is in turn expected to attract greater private participation and investment in broadband connectivity. This would help accelerate broadband deployment throughout the country and enable improvements in access to digital infrastructure and connectivity, notably for rural and remote areas. It will also help to create an enabling environment for additional investment and job creation in the ICT sector.

16. Digital solutions could improve Armenia's environmental sustainability and natural resource management. Applying digital tools to this area could lower costs and increase the accuracy of data for risk protection and management of environmental and natural resources. For example, Armenia could employ drones, sensors, and geo-data, along with apps for water and energy management and for climate-smart agriculture.

17. Ideas challenges for spreading digital solutions to new areas could take citizen engagement to a new level. Many of the aforementioned digitally driven advancements in Armenia's public service delivery have taken place through the application of known solutions. But Armenia faces unique problems, for which specific solutions tailored to its particular circumstances need to be found. The issues to be addressed by searching for new digital applications are varied and could include running ideas challenges for improving agricultural productivity, education delivery, poverty analysis using satellite mapping, and transport development. Demonstrating the vitality of potential digital solutions in these areas could lead to incubation, crowd sourcing, impact investing, and design-led activities for supporting and scaling up the most promising ideas and prototypes.

Annex 6. Highlights from the WBG's CPF Consultations in Armenia

The World Bank's Armenia country team held a series of stakeholder consultations around the CPF from December 2017 to December 2018 with representatives of the government, private sector, donor community, and civil society organizations. The consultations highlighted citizen demand for change with common themes and priorities emerging as follows:

- Focusing more on the structure of growth than on its percentage and improving firm competitiveness and productivity through scaling small and medium enterprises.
- Focusing on reducing the shadow economy, improving the business climate, and boosting competition, especially in the commodities market.
- Rebuilding trust between society and government by demonstrating political will to improve governance in all sectors and at local and national levels—taking effective anticorruption measures; separating public office from business interests; improving public administration and the legal, judicial, and tax systems; and strengthening the rule of law to ensure that the law applies equally to all.
- Stepping up efforts to improve corporate governance.
- Unlocking the export potential of many small businesses, such as in agriculture and tourism, notably through improving access to finance.
- Addressing spatial disparities and decentralizing growth and resources.
- Fostering human capital development to enhance the relevance of education to job market requirements and thereby overcoming the skills mismatch, including by providing lifelong learning and re-skilling opportunities and upgrading vocational and tertiary education systems.
- Ensuring equal access to good-quality education services for all.
- Analyzing the factors behind outmigration, zooming in on those that could trigger return migration to Armenia.
- Attracting WBG support for public sector innovations, including through digital solutions—for example, to improve the quality and transparency of health and social protection services.
- Looking at “digital” as an accelerator of development, private sector innovation, service delivery, and transparency, helping to scale up currently small, stand-alone projects and initiatives, especially in the private sector.
- Balancing the World Bank's economic support with support for improving governance.
- Supporting Armenia's energy efficiency, independence, and renewables agendas, and attracting private sector investments and PPPs in energy infrastructure.
- Leveraging the WBG's convening power, expertise, and analytical capabilities to maximize finance for development.
- Consolidating donors' efforts and improving collaboration among them.
- Prioritizing disaster risk management, including with regard to manmade disasters and occupational safety.
- Expanding public oversight of WBG's Armenia program.

Annex 7. Armenia Country Opinion Survey, January 2018: Summary of Key Findings

- 1. In December 2017, 170 stakeholders of WBG interventions in Armenia took part in a Country Opinion Survey.** This survey aims to help the WBG gain a better understanding of how stakeholders in Armenia perceive the WBG and its work in the country. Three themes emerging from the survey results helped guide the development of the CPF: country context and the WBG's role, how the WBG operates, and areas for improvement and future engagement.
- 2. The WBG's engagement in Armenia continues to be highly regarded.** The WBG is viewed as a respectful, effective, and accessible long-term partner. It has solid relationships with opinion leaders, and those who collaborate with the WBG are particularly positive about its work. As reported across the globe, perceptions of the WBG's flexibility, speed, and collaboration with civil society and the private sector are rated relatively lower.
- 3. Over two-thirds (68 percent) of respondents believed that Armenia was heading in the right direction.** Private sector growth was recognized as key to the development of the country, but inadequate government capacity, ineffective governance, and corruption were concerns for many respondents. Economic growth was considered the top development priority, followed by education.
- 4. Job creation and employment were considered by 44 percent of respondents as most likely to reduce poverty in Armenia.** Other areas considered important were anticorruption (28 percent) and private sector development (27 percent). With regard to promoting shared prosperity, 39 percent of stakeholders believed that education and training for better job opportunities was the most important factor, while 34 percent indicated that more entrepreneurial opportunities were the key.
- 5. The WBG received an average score of 7.6 out of 10 for its effectiveness in Armenia.** Respondents believed that the WBG had a role to play in all the areas considered important to the future of the country. When considering the sectors in which the WBG could provide the most valuable support, nearly one-third of respondents pointed to growth and jobs, while one-quarter suggested education and poverty, followed by agriculture and anticorruption.
- 6. Stakeholders had a positive view of how the WBG operates.** Respondents expressed confidence in the WBG's disbursement and speed of decision making. The WBG received particularly positive views for its role as a long-term partner (an average score of 8.8 out of 10), collaboration with the government (8.4 out of 10), and honesty (8.2 out of 10). The WBG received a relatively lower average score (7 out of 10) on collaborating with groups outside government. Nearly half of respondents reported that the private sector should be the most important group for WBG outreach beyond the national government, which aligns with the WBG's increasing focus on maximizing finance for development and leveraging the private sector.
- 7. One-third of respondents saw the WBG's financial resources as its most valuable offering.** This is down from 72 percent and 63 percent in the FY13 and FY16 surveys, respectively. A little less than one-third of respondents believed that the WBG's support to capacity building was its first or second most valuable role, and about the same proportion saw TA as having similar value.
- 8. Four out of ten respondents suggested that the WBG increase support for capacity development.** Other popular suggestions included focusing resources on economic growth (31 percent), job creation and employment (30 percent), and poverty reduction (25 percent). Support for agricultural and rural development was suggested by 22 percent of respondents.

Annex 8. Armenia's Key Gender Gaps

1. **Armenia fares relatively well on the Gender Inequality Index, ranking 55th among 189 countries.**⁵⁴ Armenia has improved its ranking on the World Economic Forum's Global Gender Gap Index, moving from 105th out of 145 countries in 2015 to 98th out of 149 countries in 2018.⁵⁵ Nonetheless, it remains one of the lowest-ranking countries in the ECA region.

2. **The 2016 Armenia Country Gender Assessment found that, while gender equality outcomes in Armenia are broadly comparable with regional and income comparator groups, there remain specific areas in which gender inequalities persist and concerted policy efforts are required.**⁵⁶ Political empowerment, low labor market participation, earnings gap, and a skewed sex ratio at birth are Armenia's biggest gender challenges. These are described in more detail below.

Human endowments

3. **Although the education system in Armenia provides equal opportunities for both sexes, its outcomes could be more equitable to better support women's economic opportunities and voice.** There is "gender streaming" in the choice of subjects at the tertiary level: young women choose social sciences, education, and services, often self-selecting out of STEM fields, while young men choose mechanical and electrical engineering, construction, architecture, informatics, and computing. Women are overrepresented as teachers and underrepresented in managerial positions in tertiary institutions. Men are still significantly better represented in texts and illustrations. Women are presented in stereotypical ways that normalize discrimination and bias.⁵⁷

4. **Demographic problems are caused by the skewed sex ratio at birth, low fertility, poor life expectancy, and high mortality and outmigration, especially among men.** These trends are exacerbated by a population that grows slowly and sometimes contracts, posing consequences for fiscal sustainability. In 2017, 110 boys were born for every 100 girls⁵⁸ (an improvement from 114 boys to 100 girls in 2013). This skewed sex ratio at birth is driven by a strong preference for sons and pervasive patriarchal norms. Men's life expectancy is low and has not improved significantly over time; owing to men's higher risk of mortality, caused mostly by non-communicable diseases, over 62 percent of those aged 65 and older are female. The high sex imbalance among the older age cohort is also caused by high levels of male outmigration.

Economic opportunities and participation

5. **While legislation provides for equal economic opportunities among men and women, economic outcomes tell a different story.** Only 60 percent of women participate in the labor force, exacerbating the demographic impact on labor markets. There are 1.5 women for every man enrolled in tertiary education, yet almost half the women with intermediate education and more than one-third of women with advanced education do not participate in the labor market. Women's childcare and elderly care responsibilities constrain their labor force participation. Women's disadvantages also include an earnings

⁵⁴ UNDP. 2018. *Human Development Indices and Indicators: 2018 Statistical Update*. New York: UNDP. Available at: http://www.hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf.

⁵⁵ World Economic Forum. 2018. *The Global Gender Gap Report 2018*. Geneva: WEF. Available at: http://www3.weforum.org/docs/WEF_GGGR_2018.pdf.

⁵⁶ World Bank. 2017. *Armenia Country Gender Assessment 2016: The State of Gender Equality in Armenia*. Washington DC: World Bank. Available at: <https://openknowledge.worldbank.org/handle/10986/26267>.

⁵⁷ Gender Analysis of Armenian Curriculum and Textbooks, Policy Brief (2016).

⁵⁸ National Statistical Service of the Republic of Armenia. 2018. *Press Release* (February 2018). Available at: <http://armstat.am/file/doc/99506943.pdf>.

gap averaging 33 percent, low representation as employers, and a significantly lower presence in top managerial positions. Women's lagging participation in employment represents a misallocation of Armenia's human resources potential, and these gaps result in a loss of economic output equivalent to 14 percent of GDP.

6. **Entrepreneurship among women is limited as well.** Firms with women in top management positions are underrepresented in many sectors and are concentrated in certain markets, such as the textiles and garment industries, and hospitality services, where 35 percent of firms have women in top management positions.

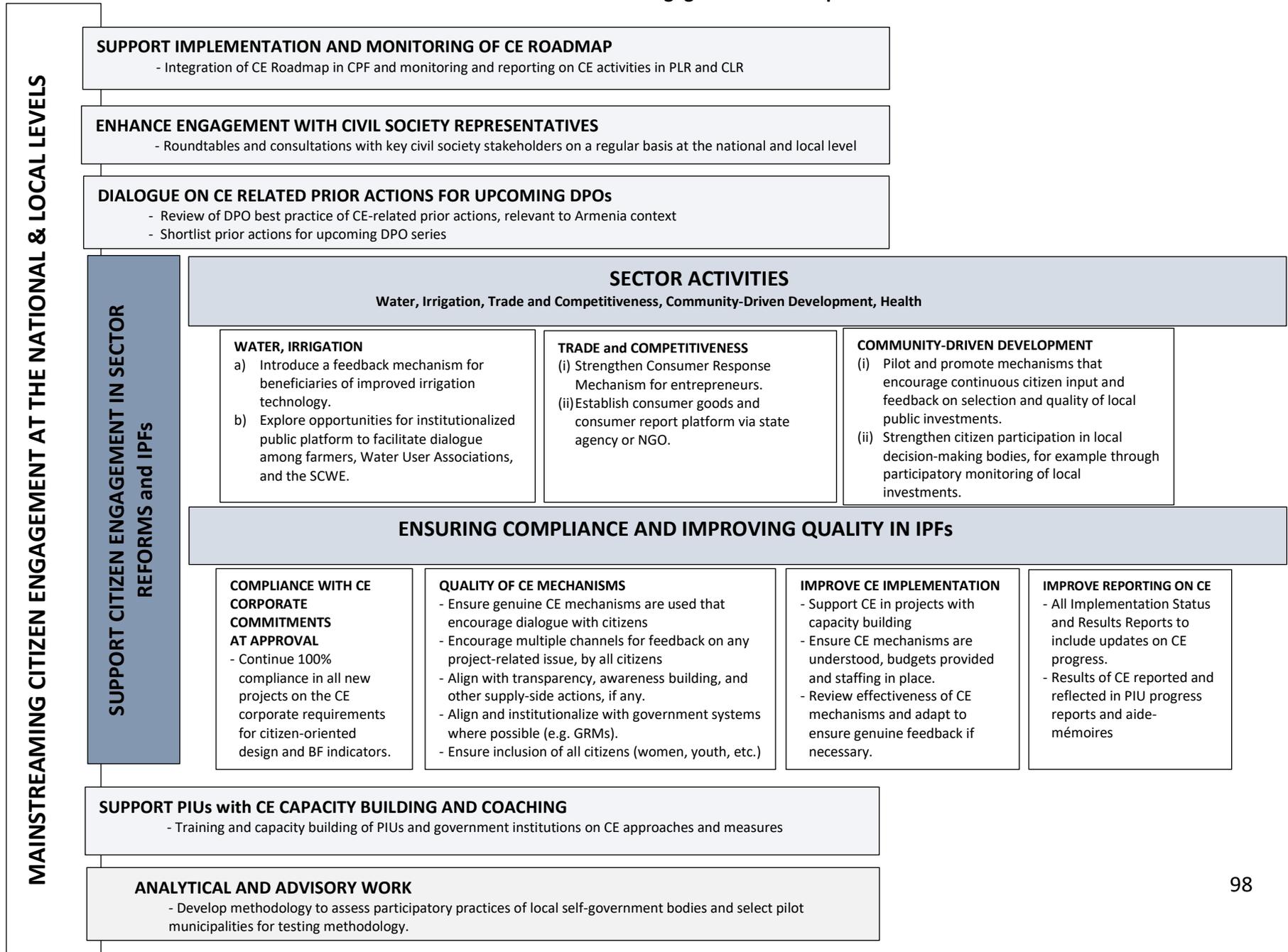
7. **To capture the ways in which Armenia sets additional hurdles for women entrepreneurs, *Doing Business 2018* considers a gender dimension in four of the 11 topics.** While the law treats men and women equally in starting a business, registering a property, and enforcing contracts, there remains room for improvement in ensuring equal remuneration for work of equal value and nondiscrimination in hiring.

8. **Similarly, although legislation provides equal opportunities for opening and owning a business, in practice land and property ownership among women is low.** Despite equal inheritance rights for sons and daughters, local custom often results in sons inheriting property and money, thus limiting women's land, business, and capital ownership.

Voice and agency

9. **The Election Code establishes that women must constitute 15 percent of candidates on every party's election list.** At present, women fill 24 percent of parliamentary positions, up from 19 percent in the previous parliament. Their representation in the executive branch is more limited, and they currently occupy only one of 17 ministerial posts. Representation in local self-governance bodies and community councils is low, and in 2015, women made up less than 10 percent of members of community councils.

Annex 9. Armenia Citizen Engagement Roadmap



Annex 10. Selected Indicators of World Bank Portfolio Performance and Management
As of 02/26/2019

Indicator *	FY16	FY17	FY18	FY19
Portfolio Assessment				
Number of Projects Under Implementation ^a	17.0	15.0	14.0	13.0
Average Implementation Period (years) ^b	2.6	3.1	4.2	4.8
Percent of Problem Projects by Number ^{a,c}	17.6	6.7	7.1	23.1
Percent of Problem Projects by Amount ^{a,c}	23.9	8.2	8.9	23.0
Percent of Projects at Risk by Number ^{a,d}	17.6	6.7	7.1	23.1
Percent of Projects at Risk by Amount ^{a,d}	23.9	8.2	8.9	23.0
Disbursement Ratio (%) ^e	19.6	15.2	16.1	14.4
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Projects Evaluated by IEG by Number	59	7
Projects Evaluated by IEG by Amount (US\$ millions)	1,579.3	172.1
% of IEG Projects Rated U or HU by Number	5.1	0.0
% of IEG Projects Rated U or HU by Amount	6.4	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year; investment projects only.

* All indicators are for projects active in the portfolio, with the exception of disbursement ratio, which includes all active projects as well as projects that exited during the fiscal year.

Annex 11. Operations Portfolio (IBRD/IDA and Grants)
As of 01/31/2019

Closed Projects 75

IBRD/IDA*

Total Disbursed (Active)	292.12
of which has been repaid(1)	1.06
Total Disbursed (Closed)	1,846.28
of which has been repaid	293.90
Total Disbursed (Active + Closed)	2,138.40
of which has been repaid	294.96
Total Undisbursed (Active)	249.85
Total Undisbursed (Closed)	0.08
Total Undisbursed (Active + Closed)	249.9251239

Active Projects

Project ID	Project Name	Last PSR			Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements ^a		
		Develop ment	Implementation Progress			IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P133705	CARMAC2	S	MS	✓	2014	23.0	9.7		0.0	14.9	12.2	-6.1
P128442	DISEASE PREVENTION & CTRL	MS	S	✓	2013	0.0	35.0		0.0	4.9	5.3	1.1
P130182	Education Improvement Project	S	MS	✓	2014	15.0	15.0		0.0	15.1	13.5	2.5
P116748	ELECTRICITY SUPPLY RELIABILITY	MS	MS	✓	2011	79.0	0.0		2.5	32.5	-5.0	25.5
P127759	IRRIGATION SYSTEM ENHANCEMENT PROJEC	S	S	✓	2013	32.0	0.0		0.0	0.5	-1.5	0.3
P126782	LIFELINE ROAD NETWORK IMPROVEMENT PRC	S	S	✓	2013	85.0	0.0		0.0	14.0	-26.0	-4.2
P150327	Local Economy and Infrastructure Develop	MU	MS	✓	2016	55.0	0.0		0.0	52.8	36.8	1.8
P157571	Power Sector Financial Recovery Program	HS	HS	✓	2016	30.0	0.0		0.0	3.1	0.0	0.0
P146199	Power Transmission Improvement Project	S	S	✓	2015	52.0	0.0		1.5	27.1	26.4	12.4
P149913	Public Sector Modernization Project III	MU	MU	✓	2016	21.0	0.0		0.0	17.8	5.3	4.0
P148836	Social Investment and Local Development	MS	MS	✓	2015	30.0	0.0		0.0	12.4	7.6	2.2
P146318	Social Protection Administration II	MS	MS	✓	2014	0.0	21.2		0.0	13.1	14.9	14.9
P146994	Trade Promotion and Quality Infrastr	MU	MU	✓	2015	50.0	0.0		0.0	41.9	37.2	12.2
Overall Result						472.0	80.9		4.0	249.8	126.7	66.5

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 12. Statement of IFC's Committed and Disbursed Outstanding Investment Portfolio
As of 01/31/2019
(In US\$ Millions)

Committed and Outstanding (31.01.19)		Committed				Outstanding				
Institution	Loan	Quasi Equity	Guarantee	Risk Management	Total-IFC	Loan	Quasi Equity	Guarantee	Risk Management	Total-IFC
Financial Institution	11.4			0.3	11.7	11.4				11.4
Financial Institution		50.0	19.6	0.2	69.8		50.0	19.6	0.2	69.8
Real Sector Company	1.7				1.7	1.7				1.7
Financial Institution	0.4				0.4	0.4				0.4
Financial Institution				0.8	0.8				0.4	0.4
Financial Institution	1.0			0.2	1.2	1.0				1.0
Infrastructure Company	43.5			4.6	48.0	43.5			3.5	47.0
Grand Total:	57.9	50.0	19.6	6.1	133.6	57.9	50.0	19.6	4.1	131.6