



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 06-May-2020 | Report No: PIDC216004



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P173686		Moderate	Armenia Mineral Sector Policy II
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Armenia	06-May-2020	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Finance	Armenian Territorial Development Fund (ATDF)	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	0.30
Total Financing	0.30
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	0.30
Extractives Global Programmatic Support	0.30

B. Introduction and Context

Country Context

Armenia’s economy has been mostly based on industrial development (mainly mining) and agriculture . During the last 10 years structural changes have taken place. Service and trade growth decreased the agricultural sector share in the GDP and mining. After the 2008 and 2012 crisis, in 2017 Armenia finally managed to see 5.2% economic growth and the economy started to stabilize. Despite the steady economic growth, a lack of trust towards the Government persisted, which created political as well as economic instability in the country. In April-May 2018 a ‘Velvet Revolution’ took place in Armenia, which radically



changed the political situation. The increased trust between the government and the population, combined with a significant decrease of corruption had its influence on the economy.

In 2019 Armenia saw 7.6% economic growth, which is the highest since the economic crisis in 2008. The public debt is not growing, it is currently less than 50% of GDP. The poverty rate was 23% in 2019. Unemployment rate also decreased from 18% in 2016 to 16% in 2019. However, there is still macroeconomic instability and need to review the structure of the economy.

Initial projection of economic growth for 2020 from Central Bank of Armenia, as well as from different international financial organizations was around 7%. Due to COVID-19 outbreak the situation is dramatically changed. Based on the latest estimation for Central Bank the growth rate will be close to zero. As the situation is unstable and unpredictable, the estimation can be reviewed and downgraded further. That means that macroeconomic instability will increase.

Going forward the main challenge will be to reinforce macroeconomic stability and uncover new sources of stable and shared growth, anchored in a well-integrated and competitive economy. On the macroeconomic front, imports remain significantly higher than exports, and there is continued reliance on private and official transfers of money from diaspora. Public debt has increased, limiting options in terms of external borrowing for financing growth. The fiscal consolidation in recent years has been marked by large increases in current spending and falling public investment. The primary scope for strengthening public finances is therefore through revenue mobilization. Critical gaps in the business environment such as low incentives for entrepreneurs and high logistics costs, are important constraints on productivity and growth, as is the need for more market sustainability.

Sectoral and Institutional Context

Armenia has an abundance of mineral resources such as copper, gold, silver and zinc, as well as industrial minerals such as diatomite, gypsum, limestone, perlite and rhenium salt. In 2011, it ranked 7th in the world in molybdenum production. From the registered 43 metal mines, currently only 25 have exploitation licenses. With regards to industrial minerals/construction materials, Armenia has high quality perlite and obsidian. Estimated reserves are almost 3 billion cubic meters.

Armenia's economy has undergone major structural changes since independence, changing from an industry-based economy to increasingly becoming an economy based on agriculture and trade. The minerals sector represents one of few industrial sectors that have developed in an economically positive way, and it is seen by the Government as having an important role in further development of the country's economy. The mining sector is one of the largest contributors to industrial sector and exports. In 2018, the mineral industry made up 15.7% of total industrial production and declined by 12% from the previous year due to stop of the operation in Teghut mine, which restarted operation in mid-2019. Mining of metal ores dominated the mineral industry, accounting for around 98% of the production value in this sector. Overall, exports of minerals accounted for 35.9% of the country's export revenue in 2018. In the past 10 years, inflows from sector exports have been around USD 500 million annually, making it Armenia's top sector in terms of export



and inflow of foreign exchange. In 2018, the country's mining sector exports were valued at \$723 million which is 1.5 times higher compared with 2016. Armenia's main export partners are Russia and China and recently Canada. Contribution to employment is less significant, given the capital-intensive nature of the sector (9.7 thous. workers in 2018, or 1 percent of total employment). On a local basis, Mining companies can be significant job providers though, especially as they offer formal jobs in more rural areas where those jobs are rare. "Local Content", the development of upstream and downstream industries around the mining sector, is less developed in Armenia, but there is string government interest to develop this.

Mining, although a potential engine for growth, is also a contested subject in Armenia. There is strong suspicion of mining activities by parts of the population, and in particular civil society. This distrust is largely fueled by a lack of information and dialog between stakeholders, existence of radical CSOs that are totally against of any new mining project and the fact that most metallic mines were developed in the Soviet era under weak environmental and social standards.

To address that lack of trust and improve the investment climate, the Armenian Government, supported by the World Bank, has been considering the Extractive Industries Transparency Initiative (EITI) process for several years, and finally joined in 2017. Since joining EITI, and forming the required Multi-Stakeholder group, consisting of representatives of Government, Civil Society and Industry, dialogue among the key stakeholders developed significantly. Through EITI Reports and website huge amount of sectoral information is publicly available. However, still not much progress towards sector's sustainable development.

All the key stakeholders agreed that the mining sector's future development has to be accompanied by a strong, constructive and transparent dialogue on the future of the sector, between the government, the private sector, civil society and the communities affected by mining activities. In 2015-2016, The World Bank, under the Extractive Industries-Transaction Advisory Facility Multi Donor Trust Fund (EI-TAF MDTF), supported the undertaking of a Strategic Mineral Sector Sustainability Assessment[1]. It showed that, whereas mining is important to the Armenian economy, individual operations are not generally contributing sufficiently to the longer-term sustainable development of the nation. This is in spite of a range of past and ongoing initiatives taken by the regulators to reform the sector. It therefore strongly recommended for Armenia to develop a clear vision and long-term strategy on where the country wants to go with its mining sector; in other words, a Mining Sector Policy.

To start Mining Sector Policy development the Government of Armenia formed a working group, which developed Mineral Sector Development Concept Paper of Armenia. The adopted paper identified importance of development of a mineral sector strategy/policy, as well as several studies that will make possible to find out deep problems and formulate recommendations for the mineral sector sustainable development. With this in mind, the government received a 450,000 USD grant from the EGPS Trust Fund. With the Armenia Mineral Sector Policy Grant (P163060), which started in August 31, 2017 and will end April 30, 2020, the Government was able to undertake a number of preparatory studies; it conducted an Economic Assessment and Environmental and Health Assessment of the mining sector, which will be used as a bases for consultations and discussions about the policy.



After the Velvet Revolution in May 2018, and the following Parliamentary elections, the new government announced its intention to sustainably develop the mining sector in Armenia. The government declared its intention to have an environmentally, socially and economically viable mining sector, and, for that, is keen to have a Mineral Sector Policy in place.

Unfortunately, it was not possible to finalize the development of the Policy within the timeframe of the previous grant for several reasons, mostly related to the above-mentioned Velvet revolution. Firstly, as mentioned; during the period of the development of the mining Policy, Armenia went through radical policy changes. An overhaul of the government, followed by Parliamentary Elections in 2018, the government representatives were replaced, to a large extent, with a group of young people including civil society representatives and journalists. Mining being a highly complicated and very sensitive topic in current Armenia; this has been the principal cause for the project delays. Another crucial cause of delays was connected to difficulties to find consultants for analytical works and get reports. As the Trust Fund was closing, the project could not be extended. The current project was put in place to assist the government of Armenia with the finalization and implementation of this important process.

A publicly available stand-alone Mineral sector policy is a useful regulatory tool that serves two important functions:

1. it provides the mineral industry with a clear statement of the government's expectations and intent towards the industry,
2. it provides lawmakers, regulators and other stakeholders with broad guidance; and helps coordinate between different agencies.

The development of a National Mining policy through an inclusive multi-stakeholder process will help establish the appropriate policy framework for mineral sector governance in Armenia, while making sure the sector will develop according to the highest social and environmental standards. With several mining projects in early development stages and an about 50 exploration taking place, now is an excellent time to develop a long-term vision for the sector. The Development of a Mineral Sector Policy will help Armenia determine what it wants the sector to look like in the future, and how to make sure that a mining sector in Armenia will be a) robusting investment climate for the advanced companies; b) operating in environmentally and socially responsible manner; c) managing natural reserves and sharing responsibility for future generations; d) based on strong linkages to local businesses.

An effective sector policy will frame broad based reforms in the mining sector in Armenia; the policy will include an action plan for legislative and institutional reforms in line with the policy. Reforms based on the Policy will allow the Government to have sustainably developing mining sector in Armenia.

[1] <http://documents.worldbank.org/curated/en/289051468186845846/Armenia-Strategic-mineral-sector-sustainability-assessment>



Relationship to CPF

The Project is aligned with the 2018-2022 Country Partnership Strategy, which places good governance to support a rebalancing of the economy toward a new growth model as a center of its Strategy, focusing on i) boosting export enablers and firm competitiveness and ii) sustainably managing environmental and natural resources, with “Improving management of natural resources, with a specific focus on the impacts on gender”.

C. Project Development Objective(s)

Proposed Development Objective(s)

To support the development of a Mineral Sector Policy and associated action plan for Armenia that focuses on strengthening the contribution of the mining sector to sustainable economic growth.

Key Results

- Mineral Sector Policy with Strategic action plan is approved by the Government
- At least 5-7 major amendments are done in the Mining Code and related legislation to strengthen the environmental and social aspects of the mining sector in line with the Mineral Sector Policy
- 30% of the Government mining institutions staff, of which at least 30% women, are trained in modern mineral sector governance standards and practices, in line with the new Policy.

D. Preliminary Description

Activities/Components

The project ensures development of a mineral sector strategy/policy which will be the basis for the Government activities concerning to the sector. The activities of the Project will be concentrated on a) finalization of the development of the Mining Sector Strategy/Policy; b) a legal review to assure that the existing legislation is brought in line with the priorities and objectives outlined in the Mining Sector Strategy/Policy; c) capacity building activities for the line ministries’ staff and d), dissemination of information on the Policy for local communities, industry sector and public servants. The Grant to the consist of the following components:

Component 1: Strategy/Policy development, outreach and consultation: The policy will be based on literature review and international best practices, the studies undertaken under the Mineral Sector Policy Grant I, and the results of stakeholder consultations. This policy will provide clear guidance towards the development of a sound, sustainable and feasible mining sector. The policy would set objectives for the minerals sector laying out the appropriate guiding principles across the legal, contractual, institutional, fiscal, environmental and socio-economic dimensions.



Policy discussions should be based on multi-stakeholder dialog and consultations with government representatives, mining companies, CSOs, affected communities, educational institutions, etc., emphasizing the participation of women and vulnerable groups. The objective of these consultations will be to develop a shared vision of the future of the mining sector in Armenia, which will feed into in the policy. The EITI MSG will be actively involved in these processes.

Based on the policy, Action Plan will be developed. The Action Plan will be part of the policy which will lead to reforms. It will define a timeline with associated priorities and responsibilities.

Component 2: Policy Implementation and legal review: Based on the Policy and Action Plan, which will identify key reform areas, a legal review will be undertaken to ensure coherence between the newly adopted mining policy and the legal framework. The Government of Armenia will prioritize legal reforms and go through development, consultations and adoption of legal acts.

Component 3: Awareness raising and capacity building: Awareness raising, and capacity building activities will be crucial for the effective implementation of the Policy. Training and seminars focusing on environmental and social sustainability of the sector organized for the relevant line ministries, in particular for MTAI, MoEv, MES, inspectoral body and other key stakeholders, will insure successful development and implementation of the Policy. Awareness rising events will assist to disseminate Policy priorities with the key stakeholders, including government agencies, CSOs, businesses and affected communities.

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Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant



ESS 9	Financial Intermediaries	Not Currently Relevant
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Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
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Projects on International Waterways OP 7.50

No

Projects in Disputed Areas OP 7.60

No

Summary of Screening of Environmental and Social Risks and Impacts

The activity does not entail civil works or any physical footprint therefore does not present direct environmental and social risks. However, environmental and social risks are inherent in the nature of the activity itself, i.e., the development of Armenia's mineral sector policy and action plan, in a transparent and consultative manner. Project activities will emphasize broad-based consultations (Component 1), and inclusion of priority environmental and social policy recommendations in the strategy's action plan and capacity-building plan (Component 2).

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