



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT
APPROVED ON DECEMBER 22, 2015
TO
REPUBLIC OF ARMENIA

October 21, 2021

URBAN, RESILIENCE AND LAND

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

AMD	Armenian Dram
ATDF	Armenia Territorial Development Fund
CPF	Country Partnership Framework
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, German Society for International Cooperation
MoESCS	Ministry of Education, Science, Culture and Sports
MoE	Ministry of Economy
MoF	Ministry of Finance
PDO	Project Development Objective
SME	Small and medium-sized enterprises
TC	Tourism Committee under the Ministry of Economy
US\$	United States Dollar



BASIC DATA

Product Information

Project ID P150327	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 22-Dec-2015	Current Closing Date 31-Mar-2023

Organizations

Borrower REPUBLIC OF ARMENIA,Ministry of Economy	Responsible Agency Armenia Territorial Development Fund
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Project Development Objective (PDO)

Original PDO

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to local economy in selected regions of Armenia.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-85720	22-Dec-2015	23-Feb-2016	29-Dec-2016	31-Mar-2023	51.80	13.16	38.64

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. General information

1. An IBRD loan of US\$55 million to the Republic of Armenia for a Local Economy and Infrastructure Development Project (LEIDP) was approved by the World Bank Board of Directors on December 22, 2015. The Loan and Project agreements between the World Bank and Government of the Republic of Armenia were signed on February 23, 2016 and the Project became effective on December 29, 2016. The current loan Closing Date is March 31, 2023.
2. The Project Development Objective (PDO) is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected regions of Armenia. The Project consists of three components: Component 1 - Heritage Hub Regeneration and Tourism Circuit Development (US\$50.41 million); Component 2 - Institutional Development (US\$4.45 million); and Component 3 - Contingent Emergency Response (CERC). Overall, the PDO remains relevant.
3. A first restructuring of the Project was approved on April 24, 2018 to include a new subproject in the City of Gyumri in Shirak region as an eligible investment under the Project. The restructuring did not entail any other changes to the Project.
4. A second restructuring was approved on June 17, 2020, and included: (i) expansion of the Project's geographical scope to include three additional regions (Aragatsotn, Gegharkunik and Tavush); (ii) extension of the loan closing date by 23 months from April 30, 2021 to March 31, 2023; (iii) adjustment of the project institutional arrangements to streamline the roles and responsibilities of the Project stakeholders and speed up the process of investment approval under Component 1 "Heritage Hub Regeneration and Tourism Circuit Development;" and (iv) amendment of the descriptions of the CERC activation process and related implementation arrangements. The LEIDP Results Framework was also revised to realistically capture the expected results from the Project and contribution of the results to achieving the PDO.
5. A third restructuring was approved on August 24, 2020 to undertake a US\$3.2 million partial cancellation of the loan in order to: (i) cover a funding gap under the ongoing Disease Prevention and Control Project (P128442) and (ii) ensure availability of financial resources for the client to complete the construction of Martuni and Vayots Dzor Medical Centers. Additionally, the request from the Ministry of Finance noted that the funding gap was a result of a reallocation of funds under the Disease Prevention and Control Project towards the procurement of medical supplies and equipment in response to the outbreak of COVID-19 in Armenia.

B. Project Status

6. The project is in its 7th year of implementation, and the progress towards meeting the PDO and Implementation Progress both continue to be rated as Moderately Satisfactory. The Project encountered a very slow start which has resulted in a low level of disbursement to date. Since Effectiveness, LEIDP has



disbursed US\$11.68 million (22.5 percent of the Loan). The latest Bank mission noted¹ positive implementation progress across the project components, including through the recent completion of 3 sub-projects, significant physical progress of the ongoing civil works despite challenges from the ongoing COVID-19 pandemic and military conflict, as well as good progress in the preparation of technical documentation and designs for the remaining sub-projects to be tendered under the Loan.

7. *Status of Component 1 (Heritage Hub and Tourism Circuit Development)*: Seven works contracts worth US\$8.74 million have been completed, another three sub-projects worth US\$4.79 million are under implementation, and physical works are progressing well. US\$40.5 million (or 79 percent of the Loan) is fully allocated, out of which approximately US\$24.9 million (48 percent of the Loan) worth of investments (11 sub-projects) are at various stages of preparation and tendering during calendar year 2021. The remaining balance of US\$11.3 million was assessed (at the time of the latest Bank mission in July 2021) as available for pipeline investments under consideration by the Government for preparation and implementation during the remaining Loan period.
8. *Status of Component 2 (Institutional Development)*: The component experienced a slow start and currently have one activity which has already been initiated, with two other priority activities to be procured by the end of 2021. Specifically, the contract for Monitoring and Evaluation was signed in spring of 2021 and the consultancy is underway. Launch of the International Visitor Survey, which was postponed due to the ongoing COVID-19 pandemic, is now expected to commence in January of 2022. Additionally, development of the legal and institutional set up for Destination Management Organizations is under preparation for tender during Fall 2021, together with the preparation of Site Management Plans under one assignment. Finally, the scope of advisory services to Cultural Heritage Sites is under discussion and the consultancy is expected to be procured in 2022.

C. Rationale for restructuring

9. ***Borrower's request.*** The Ministry of Finance (MoF) sent a letter to the World Bank on August 12, 2021 requesting the partial cancellation of US\$9 million from the Loan. According to the request, following the Government initiated process of revision of the existing sectoral programs in response to immediate country needs, the partial cancellation will ensure additional fiscal space and replenish the necessary financial resources for further Government reforms and critical investments.
10. ***In response to the government's request and subsequent discussions with the Ministry of Economy (MoE), this restructuring is to process cancellation of US\$5.7 million from LEIDP Component 1 and US\$3.3 million from Component 2.*** As a result, five investments worth US\$4.87 million will be dropped from Component 1. These investments comprise mostly pipeline investments whose concepts, feasibility studies, detailed architectural-engineering designs had yet to be procured. An additional US\$0.79 million will also be canceled from this Component following revision of the scope and cost estimates of another 2 planned investments. The list of dropped or revised investments under Component 1 are provided in Table 1 below.

¹ July 12-23, 2021



TABLE 1: SUMMARY OF DROPPED AND REVISED PIPELINE PROJECTS UNDER COMPONENT 1 (HERITAGE HUB AND TOURISM CIRCUIT DEVELOPMENT)

Sub- Project	Rationale	Action	Amount cancelled (millions) ^a
Three UNESCO heritage sites, monasteries of Haghpat, Sanahin and Geghardavank	These sites are proposed to be dropped from the scope of the current project due to the following reasons: Procurement of both the designs for the guidelines and the roadmap for conservation works and upgrading of the sites have experienced long delays and have not been initiated so far. Furthermore, if the roadmap of the conservation works is to be procured by the end of CY2021 (or beginning of CY2022), the execution of civil works will go beyond the current loan closing date. Thus, it would not be possible to implement by the project closure. The government will continue to support some smaller scale immediate conservation and maintenance works at the three sites, and the needed funds for these small-scale interventions are being made available on an annual basis and implemented through the state budget.	Dropped	3.4
Rehabilitation of Old Khndzoresk road (3.2km)	Although designs had been procured, this subproject is proposed to be dropped due to the security situation in the area and the potential associated challenges with implementation of the civil works.	Dropped	0.7
Amberd Fortress	Given the structural vulnerability of the two towers located at Amberd Fortress, the required works are expected to be very complex and lengthy. Due the very high likelihood of works going beyond the current loan closing date, this subproject is proposed to be dropped.	Dropped	0.8
Areni Hub Regeneration	The concept and pipeline of investments to be financed as part of this subproject were finalized in late July 2021 and identified 62 infrastructure upgrade investments for short- to long- term implementation (1.5 to 10 years). Since implementation of some of these investments will go beyond the current Project’s loan closing date, the amount allocated for this subproject was reduced by US\$0.7 million. The revised allocation of funds under this subproject will, therefore, amount to US\$2.2 million and will finance the construction of wine museum, rehabilitation of streets to create a wine route itinerary and associated renewal of drainage and sewerage treatment facility.	Revised scope	0.7
Dashtadem fortress rehabilitation	The initial allocation of US\$1.2 million has been reduced by US\$0.1 million. The revised allocation of funds, therefore, will amount to US\$ 1.1 million and will include upgrading of infrastructure leading to the site, renovation and strengthening of some sections of the fortress wall, and recreation of medieval atmosphere to enhance visitor experience.	Revised scope	0.1
			5.7

^a Note: Cancelled amounts from the dropped subprojects include all estimated costs for preparing, implementing, and supervising the civil works (i.e., also includes the costs for technical designs, technical and author supervision, etc.).

11. Under Component 2, three consultancy activities worth US\$1.8 million will be dropped. An additional US\$1.61 million will also be canceled from this Component owing to the realized cost-savings following the tender of one consultancy contract, as well as revision of the scope and cost estimates of an additional three consultancy activities (see Table 2 below for more details).



TABLE 2: SUMMARY OF DROPPED AND REVISED ACTIVITIES UNDER COMPONENT 2 (INSTITUTIONAL DEVELOPMENT)

Activity	Rationale	Action	Amount cancelled (millions)
Establishment of Destination Managements Organizations (DMO)	The initial estimated allocation of US\$0.8 million for this activity is now reduced to US\$0.14 million, as originally planned physical works will be dropped. The Tourism Committee under the Ministry of Economy has recently signed a Memorandum of Cooperation with the Armenia Postal Service and based on the agreement, the regional post offices will provide part of their premises for DMO and/or information centers. The remaining DMOs-related budget under Component 2 will be directed towards refurbishment and purchase of equipment and tourism promotion materials for these DMOs. The DMOs would further support the awareness, functionality, and quality enhancement of selected sites in the destination.	Revised scope	0.6
Training for work force development	This activity was aimed at providing demand-driven capacity-building to various groups of beneficiaries, producing an integrated workforce development program around the skills needed in tourism-related businesses in the selected regions. These activities are proposed to be dropped from the project scope and will be partially financed by the Government through the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) grant to promote Armenian touristic destinations.	Dropped	0.4
Tourism promotion workshops	Proposed to be dropped from the Project and will be partially financed by the Government through a GIZ grant to promote Armenian touristic destinations.	Dropped	0.6
Advisory Services to SME Development	This activity was originally aimed at providing business advisory services for SME development (e.g., to guesthouses, restaurants, handicraft workshops, organic food, and beverage firms) so that they can access micro-credit financing resources available at the MoE. Currently various funds under the MoE are providing similar services and, thus, the activity is proposed to be dropped from the project scope.	Dropped	0.8
Preparation of site management plans	The allocation has been reduced to US\$0.3 million, from an initial estimate of US\$0.8 million. The revised activity will focus on the development of a typology of site management plans (instead of specific plans for every site under the Project). The typologies will subsequently be used by the various entities at each site, such as the Church, Ministry of Environment, and others, to guide development of their individual plans using State or other available funding.	Revised scope	0.5
Marketing and Promotion technical assistance	The allocation has been reduced by US\$0.2 million, from an initial cost estimation of US\$1.0 million, following market research by ATDF, and is now estimated at US\$0.8 million.	Revised scope	0.2
Monitoring and Evaluation	Cost savings of US\$0.2 million have been realized following the award of the contract.	Cost savings	0.2
			3.3

12. Despite the partial cancellation, the PDO remains relevant and achievable with the remaining loan funds.

The current project investment pipeline (PIP) has been revised and agreed with the Borrower and has a fully allocated pipeline of 17 subprojects which are currently under preparation with the estimated duration of the implementation over the next 18 months (see Annex 1). Completion of these planned investments remains



critical for the achievement of the project's development objective and will support the short- and medium-term COVID-19 recovery of Armenia's tourism sector. For example, Areni and Goris are central hubs of the southern tourism corridor and natural stops for visitors in the direction from Yerevan to Meghri (most southeastern point of Armenia). Further, the urban regeneration of Areni Wine Village, Goris and Gyumri cities downtowns will provide diversification of tourism offerings and contribute to local economy development and job creation through extended overnight stays in these areas. The project has gained a positive momentum over the past 12 months since the last restructuring, and progress in the preparation of the above-mentioned pipeline of remaining sub-projects is satisfactory. Additionally, the revised PIP which has been developed by the Borrower and agreed with the Bank, is assessed as achievable, and will be monitored closely to ensure key milestones are met thereby enabling the project to complete all sub-projects within the current closing date.

13. The Project remains fully aligned with the Government's Tourism vision and will contribute towards rebuilding Armenia's tourism sector through resilient, inclusive, and sustainable recovery following the COVID-19 pandemic and recent military conflict. The investments in the PIP will support both Pillars 3 (Ensuring Sustainable Business Growth & Job Creation) and Pillar 4 (Strengthening Policies, Institutions and Investments for Rebuilding Better) of the World Bank Group COVID-19 Response Approach Paper² including through the generation of employment and income in local economies. And is in line with Armenian's CPF's Focus Area 1: Export Enablers and Firm Competitiveness and supporting Objective 1: Improved performance in export-enabling sectors.
14. **Restructuring conditions.** The Project restructuring meets the following requirements of Bank policies: (i) the Project objectives continue to be achievable; (ii) the performance of the Borrower is satisfactory; (iii) the actions to be undertaken by the Borrower to complete the Project remain valid as agreed during the last mission and documented in the mission aide memoire¹; and (iv) the financial management arrangements under the Project are satisfactory and there are no overdue audits under the Project. Both procurement and safeguards compliance are satisfactory, and no significant safeguards-related issues have been reported. Finally, the Borrower continues to demonstrate strong commitment to the successful implementation of the Project.

II. DESCRIPTION OF PROPOSED CHANGES

15. In light of the Borrower's request, the proposed restructuring seeks to cancel US\$9.0 million (17.4%) of the current Loan amount of US\$51.8 million and accordingly adjust the: (i) disbursement estimates, (ii) component costs, and (iii) disbursement category amounts.

² <https://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>



- 16. **Change in disbursement estimates.** The disbursement estimates have been adjusted to reflect the reduction in expected disbursements in FY23 by US\$9.0 million. There are no changes to the project implementation schedule.
- 17. **Change in component costs.** The allocations for Component 1 - Heritage Hub Regeneration and Tourism Circuit Development will be decreased by US\$5.66 million. The allocations for Component 2 - Institutional Development will be decreased by US\$3.41 million. Allocations for Component 3 - Contingent Emergency Response (US\$0) remains unchanged. The composition of the components will remain the same.
- 18. **Change in disbursement categories.** While there are no reallocations between disbursement categories, the allocation to disbursement *Category (1) Goods, works, non-consulting services, consultants’ services, and/or Training under Parts 1 and 2 of the Project* will be reduced by US\$9.0 million. The revised allocation under Category 1 will, therefore, amount to US\$41,762,500 with the Loan Agreement amended accordingly. This reduction reflects the adjustments to Component 1 costs described above.
- 19. **Change in Results Framework.** The target value of the intermediate indicator “Number of museum/art galleries refurbished” has been revised from 2 to 1.
- 20. **Safeguards.** The proposed restructuring does not change the Project’s environmental classification nor trigger the application of any new policies or exceptions to any Bank safeguard policies.
- 21. **Financial and Economic Analysis.** The proposed changes will not entail a need to change the original economic, financial, technical, institutional, or social aspects of the Project as Appraised.
- 22. **Technical and Social Analysis.** The proposed changes will not entail a need to change the original technical or social aspects of the Project as appraised.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementing Agency		✓



DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Loan Closing Date(s)		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Heritage Hub and Tourism Circuit Development	47.30	Revised	Heritage Hub and Tourism Circuit Development	41.65
Institutional Development	4.45	Revised	Institutional Development	1.15
Contingent Emergency Response	0.00	No Change	Contingent Emergency Response	0.00
TOTAL	51.75			42.80



CANCELLATIONS

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-85720-001	Disbursing	USD	51,800,000.00	9,000,000.00	12-Aug-2021	42,800,000.00	BORROWER'S REQUEST FOR COUNTRY REASONS

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IBRD-85720-001 Currency: USD					
iLap Category Sequence No: 1		Current Expenditure Category: GD, CW, Non-CS, CS, TR for Part 1&2			
	50,762,500.00	9,608,965.55	41,762,500.00	80.00	80.00
iLap Category Sequence No: 2		Current Expenditure Category: IOC			
	900,000.00	231,706.66	900,000.00	80.00	80.00
iLap Category Sequence No: 4		Current Expenditure Category: GD, CW, Non-CS, CS for Part 3			
	0.00	0.00	0.00	100.00	100.00
Total	51,662,500.00	9,840,672.21	42,662,500.00		

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
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The World Bank

Local Economy and Infrastructure Development Project (P150327)

2016	0.00	0.00
2017	100,000.00	100,000.00
2018	348,687.10	348,687.10
2019	2,913,925.71	2,913,925.71
2020	3,411,484.51	3,411,484.51
2021	3,300,000.00	5,809,110.37
2022	22,778,000.00	13,778,000.00
2023	18,947,902.00	16,438,792.31



Results framework

COUNTRY: Armenia

Local Economy and Infrastructure Development Project

Project Development Objectives(s)

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to local economy in selected regions of Armenia.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Project Development Objective Indicators								
Improved access roads to selected tourism attraction sites (Kilometers)		0.00	0.50	1.50	10.80	15.80	30.00	40.00
Increased tourism spending (Amount(USD))		749.50	749.50	772.00	795.00	819.00	856.00	862.00
Number of jobs created by activities linked to the project investments (gender disaggregated) (Number)		0.00	0.00	60.00	200.00	300.00	350.00	350.00
Number of destination management offices established and operational to ensure sustainability. (Number)		0.00	0.00	0.00	0.00	1.00	2.00	2.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Heritage Hub and Tourism Circuit Development								
Percentage of beneficiaries who report that citizen engagement processes are effective (Percentage)		0.00	100.00	100.00	100.00	100.00	100.00	100.00
Grievances registered, responded to and/or addressed within one month of being filed (Percentage)		0.00	100.00	100.00	100.00	100.00	100.00	100.00
Piped household water connections that are benefiting from rehabilitation works undertaken by the project (Number)		0.00	0.00	80.00	150.00	200.00	300.00	350.00
Number of old houses restored (Number)		0.00	0.00	0.00	10.00	20.00	30.00	30.00
Number of street lighting posts and bulbs replaced/installed (Number)		0.00	0.00	435.00	584.00	784.00	900.00	900.00
Number of Parks upgraded (Number)		0.00	0.00	1.00	0.00	0.00	1.00	2.00



The World Bank

Local Economy and Infrastructure Development Project (P150327)

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Action: This indicator has been Revised								
Project beneficiaries (Number)		0.00	0.00	50.00	337,470.00	1,322,400.00	1,500,000.00	1,700,000.00
Of which female (beneficiaries) (Number)		0.00	0.00	134,988.00	339,326.00	928,961.00	1,000,000.00	1,100,000.00
Number of tourism facilities constructed/improved (Number)		0.00	1.00	2.00	6.00	8.00	9.00	10.00
Number of museum/art galleries refurbished (Number)		0.00	0.00	0.00	1.00	0.00	0.00	1.00
Action: This indicator has been Revised								
Institutional Development								
Number of Public Awareness and Marketing Campaigns launched (Number)		0.00	0.00	0.00	4.00	6.00	8.00	10.00
Preparation of Site Management Plans for key touristic sites (Number)		0.00	0.00	1.00	2.00	3.00	4.00	4.00
Ministry of Economy, through its Tourism Committee, has improved capacity to regularly report		No updated tourism statistics collected and published	No updated tourism statistics collected and published	No updated tourism statistics collected and published	Tourism statistics collected and published			



ANNEX 1: SUMMARY OF CONFIRMED PIPELINE PROJECTS

Sub-project	Expected Start	Expected End	Amnt (US\$, mln.)	Status as of October 2021
1. Improvement of Zorats Qarer monument	2021	2022	0.22	On track
2. Areni Hub Regeneration	2021	2022-23	2.20	On track
3. Gyumri city urban rehabilitation (6 lots)	2021	2022-23	6.7	On track
4. Jermuk town urban regeneration (7 lots)	2021	2022-23	4.61	On track
5. "Rehabilitation of Goris community heritage center" Lot 2. Restoration of the historical and cultural environment of the central part of Goris	2021	2022	2.23	On track
6. Improvement of the area around Garni temple	2021	2022	0.9	On track
7. Reconstruction of the road leading to Tatev Monastery (a new by-pass road construction)	2021	2022	0.97	Detailed Designs under preparation
8. Marmashen site rehabilitation subproject	2021	2022	0.97	Detailed Designs under preparation
9. Rehabilitation of the road leading to the Garni section of the Khosrov forest state reserve	2021	2022	0.35	On track
10. Improvement of Dvin area, construction of a parking and information center (phase 2)	2021	2023	0.62	On track
11. Restoration of Khor Virap Monastery Area and Construction of Tourist (phase 2)	2021	2022	0.11	Detailed Designs under preparation
12. Yenokavan hiking trail development	2022	2023	0.81	Preliminary SAR under preparation.
13. Tsaghkunk village center rehabilitation, Gegharkunik region	2022	2023	0.47	Preliminary SAR under preparation.
14. Meghri Poqr Tagh district urban upgrading, Syunik region	2022	2023	0.97	Preliminary SAR under preparation.
15. Dashtadem Fortress rehabilitation	2022	2023	0.96	Preliminary SAR under preparation.
16. Sevanavank rehabilitation	2022	2023	0.32	Preliminary SAR under preparation.
17. Noratus site rehabilitation	2022	2023	0.45	Preliminary SAR under preparation.
			23.86	