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Date of Meeting: May 22, 2001

Armenia: Country Assistance Strategy, Fourth Structural Adjustment Credit and Interim Poverty Reduction Strategy Paper

Introduction  
Support from the Bank, and the Fund, have been essential for Armenia during the first decade of its transition from plan to market. During that period, the country has made major progress, but due to the long-term nature of the transition process and special political and economic challenges facing the country, there is a need for sustained efforts by all parties involved. Therefore, I am grateful that the new Country Assistance Strategy reconfirms the Bank's preparedness to support the Government and the people of Armenia. Yesterday, the IMF Board approved a new PRGF for Armenia.

I would like to underscore a few key points in the CAS, the Interim PRSP and the fourth Structural Adjustment Credit.

Strategic orientation  
The macro-economic performance of Armenia over the past few years has been remarkable, especially if one takes into account the restrictions on access to foreign markets, the economic crisis in Russia and the unstable domestic and external political situation. Evidence of the Government's ability to manage the economy can be found in exchange rate stability, relatively modest external debt and low inflation. It goes without saying that this macro-economic performance will become unsustainable without growing public revenue, better governance of public institutions, a more welcoming business environment and job creation. All this and better basic public services are essential to reduce poverty. With the three pronged strategy presented in the Interim PRSP, the Government recognises the challenges. The Bank subscribes to the focus on a better environment for entrepreneurs, public sector management and reducing corruption and rebuilding human and physical capital. As compared to the previous CAS, the Bank acknowledges the need to reorient its support towards institutional development (paragraph 38).

The Interim PRSP  
We welcome the staff's positive assessment of the I-PRSP as the product of a comprehensive effort and participatory process on the way to a full strategy for poverty reduction. The authorities recognise that in the past too little attention was paid to issues related to poverty. They are ready to take the full ownership of the process with substantial participation from business
and civil society. Donor participants in the Consultative Group meeting in Yerevan, last October, had an opportunity to meet with representatives of local groups and to observe that the Government stands ready to engage in a discussion with them. This will continue in the process leading up to the PRSP. The recent establishment of a business council to work towards taking away barriers to investment is a concrete example of public-private partnership.

By its very nature, the Interim PRSP is incomplete in terms of policy choices, monitoring indicators and data. The Government has a clear time schedule to fill in the "gaps" in order to complete a full PRSP by the end of the year, including a medium-term expenditure framework.

The CAS
Rebuilding human capital requires investments in education as well as health services, for which the Bank is providing and will provide support. Even though the Government and the Joint staffs slightly disagree on the best way to do this, there can hardly be disagreement about the need to ensure access to education and health services for everyone in Armenia, including the poorest (JSA Paragraph 11).

Even more important than the Bank's financial support for social sectors, is the reorientation of the budget towards key sectors and enhancing domestic capacity for public service delivery. The CAS sets out a significant program of Economic and Sector Work as well as program and project lending to address major challenges. The SAC covers measures to enhance the targeting of social security, improve funding of health and education and to improve the tax and customs administration. In addition, the Bank and the Government plan a Public Expenditure Review, a Country Financial Accountability Assessment, a Public Sector Reform Credit and several sector operations to enhance the efficiency of public services.

Rebuilding human capital and strong public management lay the foundations for private sector investment and growth for poverty reduction. The CAS, the fourth SAC and the Interim PRSP reflect a very deliberate effort by the Government to reduce the barriers to investment and to attract foreign investors notwithstanding the difficult external environment. Even though the privatisation of the power distribution companies has not been realised so far, a strong and transparent framework for their privatisation is in place. This should lead to the sale of the companies before the end of the year and also facilitate the preparation of other privatisations.

Many participants at the highly successful Armenian Investor Conference in New York on May 9 and 10 were encouraged by recent improvements in the business environment. A number of them are interested in participating in an IFC venture capital fund. MIGA intends to help strengthen the Armenian Development Agency in order to enable it to assist foreign investors. The SAC, the Interim PRSP and several projects and ESW products in the CAS contain key measures to improve the business environment. Many of these measures flow from the very useful FIAS Barriers to Investment study. The Financial Sector Assessment shows that, while the basic legal framework is in place, banks have serious weaknesses and financial services are relatively underdeveloped. The assessment should help the Government to identify actions to strengthen and develop the financial sector in the same way it has been using advisory work in other sectors.
Conclusion and outlook
The economic prospects for Armenia are closely linked to developments in Nagorno-Karabakh, its relations with Turkey and the role of the Armenian Diaspora. Medium term growth projections of around 6 percent are realistic on the basis of continued strong macro-economic performance, entry into the WTO and proposed measures to enhance institutional and social development. In 2001, growth is expected to be fuelled by a surge in tourism in connection with the celebration of the 1700th anniversary of Christianity in Armenia. Steady private sector growth has become the main driving force and exports also have been growing rapidly since 1998, with the growth rate reaching 16 percent already in 2000 and approaching 30 percent on a year-to-year basis in the first quarter of 2001. The optimistic scenario in the Interim PRSP assumes a settlement in the conflict about Nagorno-Karabakh with concomitant improvements in the external environment and confidence on the side of investors. Armenia is hopeful that this scenario will materialise. In the meantime, I strongly believe that the policy program of the Armenian Government deserves the Bank’s support. My Dutch authorities are convinced that this is the case, as they plan to provide co-financing for the SAC and assistance for the strengthening of the judiciary and public resource management. I trust that the Board will reach the same conclusion.