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Report No: 53020-AM

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF $9.0 MILLION

TO THE

REPUBLIC OF ARMENIA

FOR A

SECOND PUBLIC SECTOR MODERNIZATION PROJECT

February 18, 2010

Poverty Reduction and Economic Management Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of December 31, 2009)

Currency Unit = DRAM
US$1.00 = DRAM 377.00

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AC PM	Anti-Corruption Participatory Monitoring	ICT	Information and Communication Technologies
ADB	Asia Development Bank	IDF	Institutional Development Fund
AF	Additional Financing	IEG	Independent Evaluation Group
AMD	Armenian Dram	IFRs	Interim Un-audited Financial Reports
APL	Adaptable Program Lending	IMF	International Monetary Fund
ASRA	Accounting Standards of the Republic of Armenia	IPSAS	International Public Sector Accounting Standards
CFAA	Country Financial Accountability Assessment	ISA	International Standards on Auditing
CIS	Commonwealth of Independent States	ISDS	Integrated Safeguards Data Sheet
COC	Chamber of Control	IT	Information Technology
CPAR	Country Procurement Assessment Report	JIT TA	Just-in-Time Technical Assistance
CPIA	Country Policy and Institutional Assessment	JRP	Judicial Reform Project
CPS	Country Partnership Strategy	MAAC	Mobilizing Action Against Corruption
CQ	Consultants' Qualifications	MGIS	Municipal Government Information System
CSC	Civil Service Council	MIS	Management Information System
DfID	Department for International Development	MOF	Ministry of Finance
DPO	Development Policy Operation	M&E	Monitoring and Evaluation
EaP	Eastern Partnership	MTA	Ministry of Territorial Administration
ECA	Europe and Central Asia	NCB	National Competitive Bidding
EDMS	Electronic Document Management System	NGO	Non Governmental Organization
EMP	Environmental Management Project	OP/BP	Operational Policy/Bank Procedure
FBS	Fixed Budget Selection	OECD	Organization for Economic Co-operation and Development
FFPMC	Foreign Financial Project Management Center	OSCE	Organization for Security and Cooperation in Europe
FM	Financial Management	PAR	Public Administration Reform
FMM	Financial Management Manual	PARS	Public Administration Reform Strategy
GTZ	German Technical Cooperation Agency	PEFA	Public Expenditure & Financial Accountability
HRM	Human Resource Management	PCN	Project Completion Note
HRMIS	Human Resource Management Information System	PCU	Project Coordinating Unit
IBRD	International Bank for Reconstruction and Development	PFM	Public Financial Management
I CB	International Competitive Bidding	PFMCAP	Public Financial Management and Corporate Accounting and Auditing Project

PIC	Public Information Center	SIL	Specific Investment Loan
PID	Project Information Document	SISDG	Support to Information Society and Democratic Governance
PIFC	Public Internal Financial Control	SDP	Sustainable Development Program
PMG	Project Management Group	SOE	Statement of Expenses
POM	Project Operational Manual	SPA	Special Program of Assistance
PPL	Public Procurement Law	SPAP	Social Protection Administration Project
PSMP	Public Sector Modernization Project	TAIEX	Technical Assistance and Information Exchange Instrument
PSRC	Public Sector Reform Commission	TOR	Terms of Reference
QAG	Quality and Assurance Group	UAPS	Union of Armenian Public Servants
QCBS	Quality and Cost Based Selection	UNCAC	United Nations Convention Against Corruption
RVP	Regional Vice-Presidency	UNDP	United Nations Development Program
SBD	Standard Bidding Documents	USAID	United States Agency for International Development
SIGMA	Support for Improvement in Governance and Management	WG	Working Group

Vice President:	Philippe Le Houérou (ECAVP)
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Sector Director:	Luca Barbone (ECSPE)
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ARMENIA
Second Public Sector Modernization Project

CONTENTS

ARMENIA

SECOND PUBLIC SECTOR MODERNIZATION PROJECT

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSPE

Date: January 29, 2010	Team Leader: Kathy Lalazarian
	Co-Team Leader: Davit Melikyan
Country Director: Asad Alam	Sectors: Central government administration
Sector Manager: William L. Dorotinsky	(50%); Public administration- Information and communications (50%)
	Themes: Administrative and civil service reform (38%); Managing for development results (37%); Public expenditure, financial management and procurement (13%); Other accountability/anti-corruption (12%)
Project ID: P117384	Environmental category: C
Lending Instrument: Specific Investment Loan	

Project Financing Data			
[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other: For Loans/Credits/Others: Total Bank financing (US$m.): 9.00 Proposed terms: Variable spread loan with a final maturity of twenty-five (25) years including a grace period of ten (10) years.			

Financing Plan (US$m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	1.59	0.95	2.54
International Bank for Reconstruction and Development	6.5	2.5	9.00
Total:	8.09	3.45	11.54

Borrower:
Republic of Armenia

Responsible Agency:
Office of the Government
Republic Square
Government House 1
Yerevan
Armenia 0010
Tel: +374 10 51-57-20(21)
headstaff@gov.am
http://www.gov.am/en/

Estimated disbursements (Bank FY/US$m)									
FY	FY10	FY11	FY12	FY13	FY14	FY15			
Annual	0.05	0.50	1.10	2.00	2.60	2.75			
Cumulative	0.05	0.55	1.65	3.65	6.25	9.00			

Project implementation period: Start July 1, 2010 End: July 31, 2015
Expected effectiveness date: July 1, 2010
Expected closing date: December 30, 2014

Does the project depart from the CAS in content or other significant respects? *Ref. PAD I.C.*	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? *Ref. PAD IV.G.* Have these been approved by Bank management? Is approval for any policy exception sought from the Board?	[ ]Yes [X] No [ ]Yes [ ] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? *Ref. PAD III.E.*	[X]Yes [] No
Does the project meet the Regional criteria for readiness for implementation? *Ref. PAD IV.G.* Systematic Corruption	[X]Yes [ ] No

Project development objective *Ref. PAD II.C., Technical Annex 3*
The project development objective is to enhance performance of public sector management for better service delivery by
(i) strengthening institutional capacity in policy formulation;
(ii) maximizing the efficiency of human resources; and
(iii) developing information systems for internal work flow and external communication.

Project description *[one-sentence summary of each component] Ref. PAD II.D., Technical Annex 4*
The project will finance the following components:
1. **Strengthening Institutional Capacity in Policy Making and Service Delivery** will strengthen policy development, performance management and accountability arrangements.
2. **Maximizing the Efficiency of Human resources in the Public Sector** will support reforms to enhance human resources management in the public service including strengthening public service ethics.
3. **Developing Information Systems for Managing Internal Workflow and External Communication** will improve transparency and efficiency of government operations through enhanced information systems and public access to the government information.
4. **Just-in-Time Technical Assistance (JIT TA)** will provide a means to address immediate, unforeseen needs of the government and   take advantage of opportunities for intervention when they arise.
5. **Project Management and Implementation** will support the administration and coordination of the project as well as the implementation and follow-up of the project's monitoring and evaluation framework.

Which safeguard policies are triggered, if any? *Ref. PAD IV.F., Technical Annex 10*
None

Significant, non-standard conditions, **if any**, for:

Ref. PAD III.F.
Board presentation: None

Loan/credit effectiveness:

The Borrower shall have duly extended the contractual arrangements with the existing Project Management Group under terms and conditions satisfactory to the Bank with terms of reference and qualifications satisfactory to the Bank.
The PSMP II Operations Manual, satisfactory to the Bank, has been adopted.

Covenants applicable to project implementation:

The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

The Borrower shall prepare and furnish to the Bank not later than forty five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in a form and substance satisfactory to the Bank.

The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

The Borrower will provide an annual implementation progress report to the Bank by March 1 of each year throughout the execution of the Project, and an annual work program with updated Procurement Plan. A mid-term review of the Project will be conducted by July 2013.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. Country economic background

1. ***Armenia has sustained economic reforms leading to significant improvements on its income levels over the past decade and a half.*** Growth advanced 12 percent on average between 2001 and mid-2008, driven by an increased inflow of remittances and foreign investments, and high commodity prices. This, and improved social service provision, led to a sharp drop in poverty from over half of the population in 1999 to about 23.5 percent in 2008.

2. ***The global financial crisis hit Armenia severely despite swift government response.*** Preliminary assessments for 2009 indicates that the economy contracted by 14.4 percent while poverty rose by nearly 3 percentage points and the fiscal deficit increased to 7 percent of GDP. The economic contraction was due to fall in remittances (by about 35 percent), decline in exports (by about 34 percent) and the collapse in commodity prices. Construction activity – a key engine of growth of the past several years – fell significantly leading to significant job losses. The authorities responded with a stimulus package focused on safeguarding key social programs, increasing public investments with a view to short-term job creation, and providing credit and guarantee facilities for private enterprises.

3. ***The medium term outlook remains uncertain but steps have been taken aimed to restore growth, consolidate the fiscal position and advance structural reforms.*** The authorities expect a modest recovery over the medium term -- starting with a 2 percent growth this year. Reactivation of remittances and trade could accelerate the overall pace of recovery, but the authorities are aware of the need to advance a comprehensive structural agenda which includes consolidating the fiscal position and securing new sources of growth.

4. ***Improving public sector efficiency and public sector performance is a strong foundation for further development.*** Armenia is making significant efforts to continue its public administration reforms - targeting improved revenue administration and public expenditure management; developing a better motivated and more productive public service; increasing government accountability; and fostering a more participatory policy formulation processes. To achieve these objectives, the government seeks support under the Public Sector Modernization Project (PSMP) II in the FY 2009-2012 Country Partnership Strategy. The proposed PSMP II is seen as a catalyst for the country's public administration reforms and is complemented by the Development Policy Operation series and financial management activities supported by the Bank.

2. Public Sector Management Issues

5. During the last decade the Republic of Armenia has made significant progress in reforming its public sector management by: (i) rationalizing the organization of government; (ii) revising the functions of ministries; and (iii) establishing a formal civil service system. Public administration efficiency has also been improved by partial automation of government

operations, including the introduction of an electronic document management system. A budget reform process has also been launched with the introduction of program budgeting.

6.   The current Government Program, adopted in 2008, provides for public administration reform through: (i) an increase in the transparency of government and greater civil society participation; (ii) the development of a public service culture of strategic programming; (iii) the introduction of a public sector code of conduct with clearer disciplinary and accountability arrangements and better management of public officials' conflicts of interest; (iv) outcome assessment and performance-based incentives for public entities; (v) quality of public employment and wages competitive with those of the private sector; and (vi) e-government systems covering at least 50 percent of services. The Program also lays out the government's plans for further anti-corruption efforts, decentralization, and capacity building at the regional and local levels. These priorities were outlined as well in the Sustainable Development Program (SDP) approved in fall 2008. The global economic crisis also prompted certain changes in the government's mid-term priorities, and the most urgent public administration reforms were reconfirmed through the approval of the Republic of Armenia Public Administration Reform Strategy (PARS) by government decree on September 10, 2009.

7.   The Government of Armenia (GoA) has announced the need to continue the reforms underway in public administration and the PARS specifically cites two strategic directions for the reforms:

   a. **Improving economic and social decision-making institutions and processes** to support better and higher-quality decisions which will benefit all policy areas, from public finance to health and education, both at the center of government and in each ministry; and
   b. **Increasing operational efficiency and service delivery** to ensure better quality, more transparent and more efficient implementation of those decisions, particularly with improvements in public service delivery performance management systems.

8.   In addition to furthering reforms supported in the PSMP I, this project will support key elements of the government's PARS.

9.   The PARS also indicates the need to improve the capacities and roles of the GoA itself in ensuring coherent policy decision-making across the sectors. This Government priority is also reflected in the structure and design of the PSMP-II. The areas of reforms identified in the PARS are based on previous technical assistance and capacity building efforts supported by different partners. PARS represent the Government synthesis of existing advice and diagnostics with their own priorities for reform. PSMP-II is based on the Government strategy, and also builds on existing diagnostics and technical assistance advisory work, targeted at selective elements of the strategy considered most important for progress. The table below provides a detailed comparison of how the proposed PSMP II project aligns with various GoA PARS priorities.

11

Table 1: A comparison of PSMP II and the PARS

PSMP-II component to address		GoA PAR Strategy
Component 4 - Just-in-Time Technical Assistance	**Component 1 - Strengthening Institutional Capacity in Policy Making and Service Delivery**	
	Subcomponent 1.1 – Review and Re-engineering Institutions and Business Processes	• strategic planning and policy formulation; • regulatory impact assessment; • assessing institutional performance; • improvement of internal control mechanisms; • functional reviews
	Subcomponent 1.2 – Policy Analysis, Formulation and Monitoring	
	Subcomponent 1.3 – Strengthening Organizational Capacity for the Policy Driven Performance Planning and Management Processes	
	Component 2 – Maximizing the Efficiency of Human Resources in the Public Sector	
	Subcomponent 2.1 – Harmonization of Public Service and Introducing Performance Pay	• functional reviews; • improvement of performance management and attestation for public servants; • conflict of interest and ethics
	Subcomponent 2.2 – Public Service Ethics and Code of Conduct	
	Subcomponent 2.3 – Capacity Building/ Training	
	Component 3 - Development of Information Systems for Managing Internal Workflow and External Communication	
	Subcomponent 3.1 - Improved Management Information Systems	• electronic government and one-stop shops for service delivery
	Subcomponent 3.2 – Information Systems Development to Enhance Public Access and Information	
	Subcomponent 3.3 - Management of a Government ICT System	

10.   Public sector reform enjoys virtually unanimous support at the highest political levels. It is also backed by civil society and the international community which have pushed for better governance. With the onset of the fiscal crisis, the government's policy agenda has become clearer with public administration reform growing in prominence as the economic downturn has made the efficiency of public expenditures and a more targeted approach to improving public services a necessity. Therefore, the government is intensifying efforts to get more from less by paying closer attention to outputs and socio-economic impact. Ensuring that public service provisions do not decline at a time of tightening fiscal constraints has added impetus to efforts to strengthen the performance management system.

B. Rationale for Bank involvement

11.   Based on the objectives described above, in May 2008 the Prime Minister formally requested the World Bank to support public sector reform in the following areas: (i) public service and performance management,; (ii) public service personnel, including individual civil/public servant performance and performance-based pay; (iii) a code of conduct for public servants and for managing conflicts of interest; and (iv) service quality and electronic service delivery.

12.   A technical assistance operation is considered essential for building capacity to (i) sustain the achievements under the ongoing PSMP I; and (ii) meet the challenges of the Sustainable Development Program (SDP). Though limited technical assistance is available to the government from donors–in many cases streamlined around the EU Eastern Partnership Program, a significant motivator for public administration reform in the country—the World Bank has provided the largest share of support for public sector reform. Although the Bank has been coordinating with other donors for possible co-financing support, the government notes that the Bank has been— and continues to be— the leading institution in the area of public sector governance in Armenia.

13.   The Country Partnership Strategy (CPS) for FY09–12 is directly aligned with Armenia's SDP. The CPS includes improvements in public sector efficiency among the priorities for Bank support. While some improvements have been made in the area of governance and anti-corruption, progress has been mixed. The CPS notes that fundamental political economy difficulties, including the enforcement of conflict of interest legislation pertaining to public officials, need to be addressed. This analysis is reflected in the several Development Policy Operation (DPO) policy actions regarding codes of conduct and remuneration for public officials for which this project provides the required technical assistance.

14.   The PSMP I is scheduled to close in June 2010. It is currently rated satisfactory both on implementation progress and achievement of development objectives.

C. Higher level objectives to which the project contributes

15.   The PSMP II will support the implementation of the SDP, adopted by the government in 2008 as Armenia's Poverty Reduction Strategy Paper (PRSP II) for the period 2009–2021. Among other measures the SDP proposes addressing development challenges through reforms in public administration -- particularly by i) improving governance standards and the efficiency of revenue-raising institutions; ii) enhancing performance management; iii) further developing and rolling out e-government systems; and iv) introducing conflict of interest rules for public servants.

16.   In addition, the project will contribute to *"Strengthening governance with resulting rise in public sector efficiency"* under the second strategic objective of 2009-2012 Country Partnership Strategy on "Strengthening Competitiveness for Post-Crisis Growth".

13

17.   Finally, the project will support implementation of the Republic of Armenia's Concept for Public Sector Governance and Administrative Reform which emphasizes the major role of the government in ensuring proper functioning of the state institutions and providing services to the citizens and organizations.

II.   PROJECT DESCRIPTION

A. Lending instrument

18.   The PSMP II will be financed by a Specific Investment Loan (SIL) in the amount of US$9.0 million IBRD funds with project implementation over a 5-year period. The project will continue the innovations in the central public administration system and in addition will support the roll out of innovations previously piloted with PSMP support. The operation is linked to the DPO series, which will support the government in achieving future benchmarks related to improvements in the performance and accountability of government.

B. Project development objective and key indicators

19.   The development objective is to enhance the performance of public sector management for better service delivery by: (i) strengthening institutional capacity in policy formulation; (ii) maximizing the efficiency of human resources; and (iii) developing information systems for internal work flow and external communication.

20.   The project's main project indicators are:

- Improved policy coordination and responsiveness functions
- Improved service delivery and operational efficiency
- Improved access to public information.

C. Project components

21.   The project has five components. The first three components cover organizational, human resource, and information systems dimensions, each of which contribute to enhancing the public sector's performance—the central theme for the project development objective. A special component has been developed to allow for just-in-time technical assistance. The final component supports project management, and monitoring and evaluation (M&E).

Component 1: Strengthening Institutional Capacity in Policy Making and Service Delivery (US$ 2.675 million)

22.   This project component will address organizational weaknesses and strengthen systems for policy development, performance management and accountability for results. Under *Sub-component 1.1 organizational reviews and re-engineering of business processes*, pilot institutions will be selected to: (i) determine appropriate organizational structures; and (ii) improve the management of business processes by streamlining and coordinating functions. The information gathered through the reviews will also help clarify the role of political leadership in

defining policy goals; approving strategies; assuring the monitoring of results that institutions agreed to deliver; and defining the managerial responsibility of the chiefs of staff. Finally the reviews will serve as the basis for defining the approach, scope and content of further investments in capacity building and development.

23.   The objective of *Subcomponent 1.2* is to strengthen the Office of Government ability to analyze policy options and formulate policy actions. Senior officials and administrators lack the skills required to utilize modern policy analytical tools used in many settings, e.g., work planning and performance management, strategic planning, and budgeting. In order to address these deficiencies, the Office of Government needs to set clear standards for what is expected at different levels of government. The PSMP II will assist the Office of Government in producing standards as well as model processes for policy formulation, consultation, communication and adoption, which will then be incorporated into ministerial business processes. The project will also assist the government in introducing relevant guidelines, methods, templates and other toolkits required for formulating policy. In addition, the project will assist the government in establishing a high-level Policy and Performance Monitoring Unit that will help create demand for the planned policy analyses within the government. The placement of that unit will be determined after an analysis has been conducted during project implementation.

24.   Recognizing the primary role of elected officials in policy formulation, the project will extend relevant support for building policy analysis and public consultation mechanisms and capacity at the National Assembly.

Sub-component 1.3 will support strengthening organizational capacity for policy driven performance planning and management processes.
25.   It will improve linkages between inputs and activities of executive authorities and thus the quality of public services. It will help raise standards of policy development and ultimately public service delivery. The project will develop formats for *performance reviews* and *audits of services (programs)* and *compliance audits.*

Component 2: Maximizing the Efficiency of Human Resources in the Public Sector
(US$1.145 million)

26.   This component will enhance the efficiency of human resources in Armenia's public sector. Since 2001, Armenia has made significant progress in the establishment of a career civil service organization. At present 43 different ministries, commissions, and other government bodies have units within them which administer the policies set by the Civil Service Council. At the same time the council handles recruitment and performs other government-wide human resource management functions. Ongoing business process improvements under the PSMP I have resulted in the elimination of some bureaucratic bottlenecks, and the introduction of a basic M&E system. The government has also begun introducing performance planning and appraisal systems in executive authorities.

27.   The reforms supported under this component will make human resource management more effective, enhance public service ethics, and support staff performance systems.

15

Subcomponent 2.1 is dedicated to harmonization of the public service and preparing the foundation for the introduction of performance pay.

28.   Low pay is a serious constraint to Armenia's public sector effectiveness. International practice on pay reform suggests that while an increase of the average pay level is difficult, improving the structure of remuneration is necessary to improve the competitiveness of pay in the public sector and thus improve the likelihood of attracting and retaining quality personnel. One approach for introducing a merit-based system and improving performance as well as productivity in the public sector is performance-based pay. The GoA intends to adopt a regulation on performance pay in 2010 and to pilot a performance-based pay system in 2011. Because performance pay is a new undertaking in the Armenian public sector, the project will support a feasibility study to identify constraints and risks for pay reform as well as weigh options and propose realistic steps for introducing it. The study will explore how the performance pay scheme can be linked to performance appraisals. The project also intends to explore rewarding teams and professionals with scarce, high-demand skills. This would be a movement away from the current, traditional individualized bonus system.

29.   An additional area of focus in this sub-component will be improving intergovernmental labor mobility between the parallel public services. Currently, there are no rules for carrying over the benefits and credits when transferring staff members from one system to another. Fostering mobility is one of the primary targets of the Law on Public Service. The project will help the government to make an informed decision on the remuneration system with the objective of introducing performance pay and harmonizing a package of wages and benefits.

Subcomponent 2.2 will focus on public service ethics and a code of conduct.

30.   The government has launched a program to strengthen the management of conflicts of interest by first revising the rules regulating conflicts of interest and second bolstering enforcement.   The first element is being supported by the series of Development Policy Operations begun in 2009.   This project would support the second element -- enhancing compliance. It would i) provide advice on how to structure ethics compliance bodies, ii) train the staff of these bodies on how to foster voluntary adherence to the rules and deal with violations, and iii) support the administration of the revised income and asset declaration law.

31.   The government is proposing a three year program develop a database of officials required to file income and asset disclosures, establish verification procedures and criteria, acquire software to help with verification, and enable civil society to conducts its own verification by making the submissions of at least senior officials public. This component would fund consultants to help develop the necessary data bases and procedures while Component 3.2 would support the acquisition of the required software. This component would also provide training to the staff on the use of the software and the management of an income and asset program

32.   Finally, *capacity building and training*, relevant to the project's thematic priorities, will be addressed under *subcomponent 2.3.* The ongoing PSMP has been supporting capacity building at the Academy of Public Administration and the Budgeting Training Center under the Ministry of Finance. Further capacity building will involve the delivery of a comprehensive series of courses for public service officials on key administrative issues addressed in the PSMP II. Each

course would be delivered using modern communication technologies and distance learning methodologies, combined with traditional face-to-face classroom learning and reading assignments.

Component 3: Development of Information Systems for Managing Internal Workflow and External Communication (US$ 3.895 million)

33.   The project will invest in *management information systems* to implement the reforms described in components 1 and 2. These systems will also support project management capacity. Under *subcomponent 3.1,* interoperability between different government Information Systems will be improved. The Electronic Document Management System (EDMS), introduced under the first PSMP, will be enhanced to become a more comprehensive management tool, and will be connected with other current or planned systems.

Sub-component 3.2 will finance *e-kiosks and other information systems to enhance public access to information.*
34.   One way government can engage with citizens is through e-kiosks, computer terminals in durable housings with a dedicated link to government data systems and easy to follow instructions for obtaining information on government services.   E-kiosks will be particularly valuable for delivering IT-based services to many communities in rural Armenia because wireless connections, cell phone service, and other telecommunication technologies are not available. Indeed, in Armenia, less than six percent of the population has access to the Internet. The project will identify the services to be provided through e-kiosks. It will build on the successful experience with e-kiosks in the Second Judicial Reform Project (JRP2) where court users, lawyers, and citizens can determine the status of cases, find statutes, and look up court decisions at kiosks located in courthouses.

35.   The government is introducing new information systems and e-services to its citizens but there is as of yet no Web portal available to the public where citizens can access all information available from government. To enable on-line service delivery, as envisaged in the Government Program and PAR Concept, the project will support the development of a government-wide Web portal for e-government, giving access to EDMS, MGIS, HRMIS, e-procurement, income and asset declarations of public officials, and other information and systems developed under PSMP as well as other projects.

Management of a Government ICT system will be addressed under *Subcomponent 3.3.*
36.   PSMP II will provide technical assistance to government on efficient management of the evolving e-governance and automation system to ensure the sustainability of the achievements and further development.   Support will be provided to develop (i) a service desk for the government to support ISs; (ii) the budgeting and procurement of private services for servicing and maintenance of existing systems; (iii) the prioritization of new digitization proposals for state funding submitted by public administration entities; (iv) the endorsement of universal e-government (interoperability, security, etc.) standards; (v) the development of a disaster recovery and data backup policy (and equipment needs assessment); and (vi) a regulatory framework for private companies operating the e-kiosks that give access to services delivered through various ISs.

Component 4: Just-in-Time Technical Assistance (US$ 0.40 million)

37.   Just-in-Time Technical Assistance (JIT TA) will provide the means to address immediate, unforeseen needs of the government and take advantage of opportunities to support worthy intervention when they arise. Four point six percent of the project's budget is allocated to JIT TA.

38.   Outputs under this activity will include advisory services and capacity building not already allocated under the project, to bridge policy and implementation gaps revealed in the course of introducing performance based approaches in the Armenia public sector. Some examples include analysis of HR functions and development of new business processes for HR Units in the ministries, as a result of introduction new performance management techniques; or enhancing the practice of job descriptions development and use. Analysis on the governance and accountability framework for institutions not selected at the start of project effectiveness, but which are subsequently deemed important during the process of implementation, may also be considered under this component.   JIT TA funds will not be available for payments to government staff, for ministries to hire additional people, nor for study tours.

Component 5: Project Management and Implementation (US$ 0.885 million)

39.   Monitoring project outcomes and impact is essential for proper management. To achieve this, component five will support the administration and coordination of the project as well as the implementation and follow-up of the project's M&E framework.

Subcomponent 5.1 details project management and administration arrangements.
40.   On a day-to-day basis, project activities will be managed by the Project Management Group (PMG). The staff of the Foreign Financial Project Management Center (FFPMC) of the Ministry of Finance will perform the project's financial management and procurement functions, although a significant portion of responsibilities on preparing procurement-related documents will be shifted to the PMG. The Public Sector Reform Commission (PSRC) will continue acting as steering committee for the project. Oversight mechanisms similar to those found the PSMP I will be established, and the Office of Government will be the Bank's main counterpart for the proposed project. If there will be a need for refurbishment of Government offices during the project implementation, provision of minor works for refurbishment of the Government offices involved in the project implementation will be financed by this subcomponent.

41.   *Subcomponent 5.2* will finance technical assistance and operational expenses to: monitor and evaluate the project's progress, impact and fiduciary controls.
It will also support the mid-term review and continuously engage internal and external stakeholders. Funds will also finance periodic user surveys and public dissemination of the survey results as well as a communication campaign to explain project objectives and activities to managers, staff, and stakeholders.

D. Lessons learned and reflected in the project design

42.   The proposed project design has drawn upon the lessons learned from other donor projects supporting public sector reforms in Armenia (DfID, the EU, and others), and the experience of the original PSMP and other public sector management projects of the World Bank, as set out in Independent Evaluation Group (IEG) and Quality Assurance Group (QAG) evaluation documents.

43.   Important lessons that have been incorporated into the project design include:

- To build political commitment to and ownership of reforms, it is essential that project activities correspond to the strategic priorities of the country and the government. For this reason, the project has been designed to support the goals articulated in the SDP.
- It is important to understand the specific context of the country when designing reform activities because a one-size-fits-all approach does not work. Here the identification of project activities relies heavily on available country experience, analytical work, and conclusions from technical discussions and consultations.
- For successful public sector reform, new ideas and initiatives should be met with a flexible and open mind, when seeking opportunities for intervention. Being realistic about what is politically and institutionally feasible, as well as being opportunistic in preparing technical foundations for what might become feasible in the future is an important ingredient for success (IEG Report 2008, "Public Sector Reform: What Works and Why?").
- Projects providing technical assistance and investments in capacity building often require policy reforms in order to make these interventions successful. Therefore, it is necessary to link such projects to policy activities in adjustment operations. The PSMP II is linked to the ongoing Development Policy Operation (DPO) series.
- It should be recognized that enhancing technology is not enough by itself, and that the most crucial and difficult part is changing behavior and organizational culture (IEG Report 2008, "Public Sector Reform: What Works and Why?").

44.   Based on the lessons learned from PSMP-1 and other technical assistance operations for public administration reform in the ECA region, some room for flexibility on budget allocations for project activities is useful for operations covering more than three years.

E. Alternatives considered and reasons for rejection:

45.   The possibility of funding the proposed reforms through Additional Financing (AF) was considered. However, taking into account the time constraints under AF and the significant duration of the planned reforms under PSMP II, the proposed instrument was considered inappropriate for this project. Another option discussed was to prepare the PSMP II as a repeater, which was also ruled out because of the significant evolution of the project components and the different emphases of the original PSMP.

46.   The possibility of designing the PSMP II as an Adaptable Program Loan (APL) instrument rather than a Specific Investment Loan (SIL) was not considered, since the nature of the project, which does not require phased implementation, makes a SIL more appropriate.

III.   IMPLEMENTATION

A. Partnership arrangements (if applicable)

47.   The project does not envision any formal partnership arrangements.

B. Institutional and implementation arrangements

a. *Executing agencies:*

48.   The inter-ministerial Public Sector Reform Commission (PSRC) will act as the project's steering committee (board). Together with selected pilot ministries and agencies, it will be the agency responsible for the implementation of project activities, while the Office of Government will be the Bank's main counterpart for the proposed project.

b. *Project management*:

49.   Project management will be the responsibility of a Project Manager, who will report to the PSRC. The Project Manager will oversee project implementation, provide advice and support to the agencies participating in the project, and report to the PSRC on project implementation. The implementation of the different project components is the responsibility of the various government agencies involved in the project. Each agency will create an internal working group that will coordinate the implementation of its project activities. Financial management and procurement for the project will be carried out by the FFPMC at the Ministry of Finance, although a procurement assistant will also work with the Project Manager.

50.   The FFPMC is successfully implementing the PSMP I and Social Protection Administration Project (SPAP), as well as several small, stand-alone grants.

51.   No significant weaknesses have been identified in the financial management arrangements at the FFPMC. The latter will update its Financial Management Manual (FMM) prior to the project's implementation.

52.   These institutional and implementation arrangements remain the same as in the PSMP I.

C. Monitoring and evaluation of outcomes/results

53.   The Public Sector Reform Commission (PSRC) and the Project Management Group (PMG) will be responsible for the overall monitoring of the project. Monitoring will be based on three main sets of indicators. The first set includes qualitative information about improved design and performance of reformed public sector institutions and organizations. Annual CPIA methodology- based assessments will be the second major source of M&E information that will be used for the PDOs. Available statistical data on the use of certain ICT innovations (such as public information kiosks, the portal, EDMS, etc.) will be the third source of information. The

Office of the Government and the PMG will be the primary sources of information for all three sets of indicators. The CPIA methodology-based assessments will be assessed through a participatory process involving representatives of civil society organizations (CSO) and businesses (the list of experts to be agreed between the PMG and the World Bank) for the project's selected pilot institutions - Ministry of Territorial Administration and the Visa and Passport Directorate of the RoA. The PMG will host the annual workshops with an expert team to present: (i) the CPIA methodology; (ii) the proposed relevant assessments for the pilot institutions, taking into account the World Bank assessments or results from the expert survey; and (iii) the improvements (or changes) that led to the upgrade (or downgrade) of the score. At the end of (or following) the workshop, the respondents will be handed the survey (or provided with a link to it online) and will be asked to complete the questionnaire (with several questions borrowed from the CPIA methodology) prepared by the task team and reflected in the operational manual.

54.   The PMG will be responsible for ensuring that information from all three sets of indicator sources is consolidated and reported in timely manner in order to track progress against the monitoring plan. The PMG will be responsible for the consolidation and reporting task which will generate regular annual M&E reports. The annual reports will be submitted to the PSRC and World Bank by March 1 of the following calendar year and will be based on the Results Framework of the project. For these purposes, the mechanisms as set out in the Results Framework will be used.

55.   The results of the evaluation will be used for analyzing the intermediate outcomes of the project and adjusting project activities or priorities, if needed. The results of monitoring will be, as far as possible, widely publicized. The PSRC and PMG will hold a number of sessions with the media, other donors and interested parties to provide updates on project progress and monitoring results. Monitoring results will be posted on the PSMP/PMG's dedicated webpage.

56.   In addition to tracing the implementation via annual M&E reports, the PMG will be generating forward looking comprehensive quarterly reports on project implementation status focusing on projections and analyses of the current and expected changes in the country situation and legal framework, as well as a short description of the new project activities that are expected to commence during the upcoming quarter. The updated draft procurement plan as of the end of the previous quarter will be attached to the report as well. The template of the report will be proposed by the World Bank team and attached to the Operational Manual for PSMP II. The report should be submitted to the PSRC and the World Bank before the start of each quarter.

D. Sustainability

57.   The recipient's ownership of the project is evident both from the progress made under the original PSMP I as well as the Government's continued commitment to public administration reform.   The PARS was approved by the Government (decree #37) on September 10, 2009, on which the PSMP II is based.

58.   To concretize these strategies, the Government needs to strengthen institutional capacity in policy formulation and execution; increase human resources; and improve information flow by

enhanced communication for not only internal but also external usage. Focusing on performance management, the PSMP II will strengthen public institutions in order to bring about the better quality of service delivery.

59.   The PARS is aligned with the long-term national strategies articulated in the policy papers including SDP. The reforms to which the PSMP II will provide assistance are not only supported by the leadership of the National Assembly but also senior officials of the President's Office. As such, the public administration reform efforts in Armenia are likely to be sustained over and beyond the life of this project.

60.   The PSMP II builds on the areas where the PSMP I has laid the ground for sustainable institutional development. Specifically, merit-based recruitment and career advancement with the HRMIS system has been introduced; certain aspects of public expenditure management has been improved, and policy formulation and implementation through the EDMS, which is being rolled out.

61.   The Government and the people of Armenia aspire to be recognized as a member of the larger European community. Armenia has agreed to have its conflict of interest policies and their enforcement monitored by the Council of Europe, the OECD, and the EU. The stimulus provided by these evaluations offer good reason to believe the government will continue to make progress on conflict of interest issues.

E. Critical risks and possible controversial aspects

62.   The country risk is significant as Armenia's macro economy is affected by the global economic crisis, and there is an unfinished governance agenda which includes taxation, customs, inspections, and competition policy. However, the Bank is engaged in a macro-dialogue and working closely with the authorities on the entire set of reforms, currently being supported by the DPO series.   Nonetheless, systematic corruption is identified as a significant risk and the residual risk after mitigation has remained significant even though adequate mitigation measures have been incorporated into the proposed project.

63.   The Government of Armenia is keen on public sector governance reform, with consensus at the highest political levels. Reputational risks are manageable, given that the reforms supported by the project are regarded as a catalyst of the country's public administration reform Risks related to implementation capacity are marginal because the implementation arrangements will be the same as under the original PSMP I. The project is also built on the lessons and knowledge acquired during implementation of PSMP I. The ratings assessed by the Risk Identification Worksheet, five factors have been rated as "low" and five rated as "moderate." The overall risk is therefore rated moderate

F. Loan conditions and covenants

Conditions of Effectiveness

64.   Borrower shall have duly extended the contractual arrangements with the existing Project Management Group under terms and conditions satisfactory to the Bank with terms of reference and qualifications satisfactory to the Bank.

65.   The PSMP II Operations Manual, satisfactory to the Bank, has been adopted.

Legal Covenants

66.   The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

67.   The Borrower shall prepare and furnish to the Bank not later than forty five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

68.   The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

69.   The Borrower will provide an annual monitoring and evaluation report to the Bank by March 1 of each year throughout the execution of the Project, and an annual work program with updated Procurement Plan. A mid-term review of the Project will be conducted by July 2013.

IV.   APPRAISAL SUMMARY

A. Economic and financial analyses

70.   The reforms proposed under the project are expected to create economic efficiency gains as described below but that are difficult to quantify. Follow-up actions, especially the introduction of IT technology, might on the other hand entail additional financial costs that are also described below.

71.   The project emphasizes the introduction of technological innovations to improve the efficiency, effectiveness, transparency and accountability of public sector management. The hardware and software needed to implement new management systems will be funded by the project. However, additional budgetary resources will be needed to sustain and operate these systems. The impact on the government's budget, however, to sustain these measures is expected to be small, comprising applicable software licensing fees along with some ongoing maintenance of equipment acquired under the project. The annual cost to the government's budget would be

in the order of 5 percent of the initial investment cost for maintenance. However, if the functionality is to be maintained over time, equipment and software that has become obsolete will need to be replaced in 5 to 7 years. Similarly, if more coverage were desired for the system, additional investments would be required.

72.   The project will also fund the development of horizontal management systems for the civil service, which would promote merit and professionalism in that sector. However, the investment in management systems is unlikely to have the desired impact if it is not accompanied by an improvement in civil service salaries and the salary system. This, however, cannot be done without increasing the proportion of the civil service wage bill as a percentage of GDP. The analytical work planned under the project will help the GoA identify options for increasing the budget allocations for civil service salaries and social benefits. The project would support further rationalization and optimization of the whole public service system.

B. Technical

73.   There is strong emphasis on the introduction of modern information technologies and e-government tools, which would significantly improve the effectiveness and transparency of the project entities. The project team has taken into account the country's readiness for introduction of these types of new systems in the government.

C. Fiduciary

74.   The FFPMC will be responsible for the implementation of the financial management (FM) function of the project, including the flow of funds, planning and budgeting, accounting, reporting, internal controls, and auditing. The FFPMC is successfully implementing the PSMP I and the SPAP, as well as several small, stand-alone grants.

75.   *Fiduciary Risk at the Project Level.* The financial management arrangements of the FFPMC have been reviewed as part of the active projects' supervision and have been found highly satisfactory. An assessment of the financial management arrangements for the project was undertaken in December 2009. Based on the FM assessment, it was established that the FFPMC has acceptable FM arrangements in place, particularly adequate because (i) accounting and reporting is performed in 1C accounting software, which is a reliable and flexible system to record the accounting data; (ii) the filing system allows keeping all supporting financial documentation relating to the project in a well-systematized manner; (iii) the FFPMC's accounting staff has extensive experience with Bank procedures for disbursement and financial management, including the preparation of Interim Unaudited Financial Reports (IFRs); (iv) the internal control system is sound; (v) the results of the FM supervision were highly satisfactory; and (vi) annual audits of the on-going PSMP and SPAP projects were conducted on time with unqualified (clean) opinions, and no issues were raised by the auditor in the management letters. The overall financial management risk for the project before mitigation measures is moderate, and after mitigation measures, the risk is low.

76.   As the project will be implemented in an environment where corruption can be perceived as an important issue, adequate mitigation measures have been put in place and will be closely monitored to ensure that the residual project risk is acceptable. These mitigation measures include: (a) a formal internal control framework as described in the Operational Manual; (b) the enforcement of the flow of funds mechanism agreed with the Recipient; (c) the audit of the project's financial statements by independent auditors, and on the basis of Terms of Reference (TORs) acceptable to the Bank; and (d) regular FM supervision and procurement prior- and post-reviews will be conducted to monitor and assess the corruption risk.

77.   *Fiduciary Risk at the Country Level.* According to the latest Doing Business Survey 2010, Armenia was among the top-rated CIS countries and scored well *vis-à-vis* many other developed and developing countries (it ranked 43th out of 183). At the same time, Transparency International's Corruption Perception Index 2009, which indicates the perceived level of public sector corruption, ranked Armenia 120[th][1] on the list of 180 countries. A Country Procurement Assessment Review (CPAR done in 2009 also concluded that the public procurement environment is in the mid- to high-risk category. The 2005 Country Financial Accountability Assessment (CFAA) report concluded that the overall fiduciary risk[2] in Armenia is significant. The key reasons for this are that: (i) the core control and supervisory agencies performing the audits within the public sector have inadequate capacity; and (ii) compliance remains a problem, and authorities need to improve the quality of auditing, monitoring, and supervision, although most of the basic laws are in place with respect to various entities' (private sector and public enterprises, including state, non-commercial organizations) financial reporting. The Public Expenditure and Financial Accountability (PEFA) assessment report published in October 2008 also found that several critical Public Financial Management (PFM) elements—including internal controls, internal and external audit, and financial reporting—are still weak.

78.   Based on the above assessments of the country's PFM system, no elements of country FM systems are currently planned to be used under the project. The use of country PFM systems for the project implementation may be considered as the government progresses with the on-going PFM reforms.

79.   The project Designated Account will be with the HSBC Bank Armenia and the arrangements with HSBC have been found to be satisfactory in previous projects.

D. Social

80.   The project will fund household and stakeholder surveys to monitor the impact of the project in terms of the transparency and accountability of government institutions.

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[1] http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

[2] The risk that illegal, irregular or unjustified transactions go undetected, measured on a four-point scale according to the CFAA Guidelines (low, moderate, significant or high).

E. Environment

81.   The project's goal is to enhance public sector governance through the objective and targeted use of public resources, confirmed by accountability mechanisms and citizen participation, and is not expected to have any direct environmental impact. The project is deemed to be a Category C project.

F. Safeguard policies

Table 3: Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[ ]	[X]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Physical Cultural Resources (OP/BP 4.11)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[X]
Indigenous Peoples (OP/BP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP 7.60)	[ ]	[X]
Projects on International Waterways (OP/BP 7.50)	[ ]	[X]

G. Policy exceptions and readiness

82.   This project complies with all applicable Bank policies: the project is entirely consistent with Bank policy and no exceptions are requested. With regards to readiness criteria, the Project Manager and project fiduciary consultants will be hired before effectiveness. The TORs for major activities are under preparation.

Annex 1: Country and Sector or Program Background

ARMENIA: Second Public Sector Modernization Project

Country Background

1.   Armenia has a history of sustained economic reform which helped it to transition from low to a middle-income country status over the past decade and a half. Growth accelerated in particular after 2000 (12 percent on average between 2001 and mid-2008), assisted by an increased inflow of private capital (foreign direct investment and remittances) and high commodity prices. This, and improved social services, led to a sharp drop in the poverty rate from over half of the population in 1999 to about 23.5 percent in 2008; and to an even sharper fall in extreme poverty (from 21 percent in 1999 to roughly 3 percent in 2008). The overall fiscal deficit fell to around 2 percent of GDP between 2004 and 2008 (and an operational surplus of around 2 percent of GDP during the same period).

2.   The global financial crisis hit Armenia significantly. Preliminary assessments for 2009 indicate that the economy contracted by 14.4 percent while poverty rose by nearly 3 percentage points and the fiscal deficit reach 7 percent of GDP. Growth was in turn affected by a sharp contraction in remittances (by about 35 percent), and exports (by about 34 percent). Among the sectors, construction activity – a key engine of growth of the past several years – fell significantly leading to significant job losses. The global crisis affected the country much less through the financial sector channel as the banking sector had mobilized resources mainly from domestic sources

3.   The government's policy response was comprehensive. On the fiscal front, the authorities rapidly prepared a stimulus package aimed at containing the impact of the crisis of the population. The package also included the acceleration of infrastructure investments for job creation, and provision of short and medium-term credits and guarantees to private enterprises.

4.   The crisis revealed many of the country's economic vulnerabilities, including, high dependence on remittances, weak development of its tradable sector, excessive dependence of economic activity on construction, and limited economic competition. The country also faces significant constraints, such as closed borders to its east and west. To cope with the aftermath of the global crisis, and advance an structural agenda that addresses these issues, the authorities are pursuing a multi-pronged approach including measures to consolidate its fiscal position and to restore growth. In particular, the authorities opened discussions of a deep and comprehensive Free Trade Agreement with the EU and signed a protocol with Turkey seeking to re-open the common border.

5.   The medium term outlook remains however highly uncertain, with government estimating modest growth of between 1-2 percent for 2010. The pace of recovery will depend on the pace of implementation of structural reforms, as well as on the reactivation of remittances and trade.

Table 4: Selected Macro-economic Indicators

	2004	2005	2006	2007	2008	2009*
Real Sector						
Real GDP growth (%)	**10.5**	**13.9**	**13.2**	**13.7**	**6.8**	-14.4
Per capita GDP (US$)	1,113	1,523	1,982	2,853	3,685	2,686
Official unemployment rate (%)	9.6	8.2	7.5	7.0	6.3	6.9
Fiscal indicators,						
State Budget revenue (% of GDP) , o/w	15.9	15.8	18.0	20.1	21.5	20.9
Tax revenue, (% of GDP)	14.2	14.4	14.5	16.	17	16.6
State budget expenditure (% of GDP),	20.6	18.4	20.0	22.4	22.2	27.8
Operational balance (% of GDP)	1.8	2.1	1.3	2.9	1.9	-2.0
Overall Fiscal balance (% of GDP)	-4.9	-2.6	-2.0	--2.3	-0.7	-6.9
Monetary Sector						
Annual inflation, CPI	7.0	0.6	2.9	4.4	9.0	3.4
Exchange rate (AMD/US$, period average)	533.	458	416	342	306	363
Reserves (months of imports)	4.1	3.8	5.1	5.5	3.6	7.1
External Sector						
Current account balance (% o f GDP)	-0.5	-1.1	-1.8	-6.4	-11.6	-12.9
Exports, goods and services (% of GDP)	29.9	28.9	23.7	19.3	14.7	14.2
Imports, goods and services (% of GDP)	45.5	43.3	39.7	39.0	39.8	39.1
Foreign Direct Investment, (% o f GDP)	6.9	4.9	7.1	7.6	7.8	4.8
External Public Debt (% of GDP)	33.1	22.4	18.9	15.7	13.2	34.3
Remittances (% of GDP)	15.4	15.3	14.9	14.1	13.8	13.6

Source: NSS and MoF data.
* Preliminary estimates by the authorities

6.   The ongoing PSMP has supported the government in advancing the public administration and civil service reforms initiated in the beginning of this decade. The technical assistance under the project was essential for. making the established career civil service system effective in bringing a certain level of sustainability and objectivity to the human resource capacity and human resource management practice. The human resource management principles and concepts first tested in the civil service system were exported to other parts of Armenia's public service, including the municipal service supported under the project. The PSMP I also pioneered support to certain Public Financial Management (PFM) activities in the Bank portfolio, particularly in the external and internal audit, which, together with a series of DPO and IDF grants, resulted in the inclusion of a stand-alone PFM operation in the current Country Partnership Strategy. The project also became the main vehicle for introducing electronic government in central, territorial and municipal administrations. The MISs that have been introduced allow for the gradual automation of the internal operation of the entities, including such management processes as the recently introduced continuous performance appraisal exercise. Electronic document management systems are currently introduced in the ministries and *marzpet* (regional governor) offices, and 225 municipalities. In addition to the introduction of EDMSs, the project also supported the automation of human resource management in civil service, and is making initial steps for the transition to electronic government procurement.

7.   The new economic reality brought about by the current global economic crisis imposes even more challenging targets for the public administration system, which will be partially tackled by the PSMP II. Despite the significant progress in civil service reforms, currently the policy formulation and implementation functions are still not clearly divided between the political and career civil service officials. The project will further support civil service reforms, focusing on building capacity for better policy formulation and performance management at the organizational level. The government initiated a stocktaking exercise in the ministries to describe the existing business processes and re-engineer those through functional reviews and the subsequent update of job descriptions for the civil servants. A special system should be introduced to ensure a robust process for rating the grades of the civil (or wider public service) positions, based on the actual job responsibilities. The electronic government and automation systems currently being introduced will be further elaborated to make them accessible to the general public, aiming for better service delivery, more transparency and efficiency, and retaining PSMP's leading role in e-government reforms in Armenia. The planned reforms are to help strengthen the government's capacity to formulate and implement better policy for development, and improve the business climate in Armenia.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

ARMENIA: Second Public Sector Modernization Project

1.   The project is selective in its design, focusing on those areas which are priority for the government while at the same time considering ongoing and upcoming activities supported by the World Bank and other donors. Between World Bank projects, the project exploits synergies with the IDF "Building Capacity for Better Monitoring of Results" in its development of initial performance monitoring mechanisms, the Judicial Reform Project 2 in expanding the use of e-kiosks in information dissemination and public service delivery outside of judicial services. The E-Society, Innovation and Competitiveness Project will provide the horizontal ICT standards, backbone and infrastructure of the IT systems which the PSMP II will utilize in expanding the reach of the electronic systems.

2.   The project is designed to be complementary to upcoming World Bank projects. A proposed public financial management project is in preparation, which will address external audit, performance budgeting and enhancing revenue administration, all areas which the PSMP II does not fully cover. The project also does not address issues surrounding non-commercial organizations (NCOs) or internal audit, as they are being addressed by the Institutional Development Fund (IDF) grants, "Piloting Fiduciary Control for Non-Commercial Organizations" and "Strengthening Public Sector Internal Auditing," respectively.

3.   The principal donors that provide support on good governance issues, in particular on Public Administration Reform (PAR) in Armenia, are the World Bank and the European Union (EU). Other donors include the UNDP, UK DfID, USAID, OSCE, ADB and GTZ.

European Union (EU)

4.   **The Country Strategy Paper for 2007-2013** provides the main objectives and priorities of the EU-Armenia cooperation. On the basis of bilateral priorities, a **National Indicative Program (NIP)** has also been adopted, in agreement with the Armenian authorities, which covers the period 2007–2010.[3] The preparation of a new NIP for 2011-2013 started in April 2009. Both programs emphasized the PAR as one of its key priorities, focusing on e-governance, procurement, public finance management and audit as well as anti-corruption efforts.

5.   The EU listed the PAR as one of the sub-priorities under its priority area of Strengthening of Democratic Structures and Good Governance. Assistance provided under NIP for 2007–2010 benefited the following PAR areas: local self-government, public finance management, public internal financial control, external audit, and the fight against corruption. The ongoing preparation of the NIP for 2011–2013 suggested the following PAR areas: e-governance, procurement, public finance management and internal audit, as well as the fight against corruption.

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[3] Under this program, Armenia benefits from an indicative amount of €98.4 Million , targeted at the strengthening of democratic structures and good governance, regulatory reform and administrative capacity building, and poverty reduction.

6. To accelerate the process of PAR, the EU currently provides assistance in certain projects:

- **Support for Improvement in Governance and Management (SIGMA-Armenia):** SIGMA is one of the key tools of EU assistantship to Armenia in PAR. It is a joint initiative of OECD and EU financed by the European Union. Since June 2008, Armenia has been receiving assistance from SIGMA in the framework of the European Neighbourhood policy. Activities in Armenia are undertaken in accordance with country's specific needs and priorities in areas of (i) civil service, (ii) public procurement and (iii) financial control. The Ministry of Economy is the main coordinator of the program.

- **"Support to Armenian Programme Administration Office for Twinning and TAIEX Operations" (SATTO):** SATTO is the EU funded project on technical assistance which started its activity on March 2009 as a support project to Program Administration Agency of the Ministry of Economy of Armenia (PAO). The main purpose of SATTO is to support Armenian public administration to use effectively Twinning and TAIEX instruments of the EU.

The UK Department for International Development (DFID)

7. DFID's bilateral aid program closed in December 2008. However, it continues to support Armenia's poverty reduction and economic development efforts through its membership of the European Union, the World Bank, the European Bank for Reconstruction and Development and the United Nations.

Organization for Security and Cooperation in Europe (OSCE)

8. **OSCE has provided support in several areas related to governance and public administration reform, among others,** improving the professional skills of Armenian civil servants in the legislative and executive branches of government, promoting freedom of press, curbing violence against journalists, and facilitating access to information. There is a partnership between OSCE and the National Assembly, which includes capacity building of the National Assembly staff. In addition, at the request of the Ministry of Foreign Affairs, in 2008 the Office embarked on supporting the launching of the Armenian Diplomatic Academy.

9. As to access to information, the OSCE activities in support of improving governmental transparency and accountability have included the organization of training workshops for civil servants on access to information. The Office has also assisted the Council in developing service passports for civil service information officers, which clearly specify these officers' functions and responsibilities in regards to information.

United Nations Development Programme (UNDP)

10. UNDP supports the Government of Armenia in fostering democratic governance. **The Strengthening Awareness of and Response to Exposure of Corruption Program** in Armenia

is a four year project (2005-2009) that supports strengthening the capacity of the civil society and the media to effectively expose and curb corruption. The expected results of this program are: (i) a comprehensive UN Convention Against Corruption (UNCAC) gap analysis, identifying the existing gaps between the UNCAC requirements and Armenia's institutional framework on anti-corruption, is implemented and the report is provided to the government for further incorporation into the second phase of the National Anti-Corruption Strategy; (ii) the results of the Anti-Corruption Participatory Monitoring (ACPM) are presented to stakeholders for further incorporation into national level strategic documents; (iii) awareness of civil society on corruption-related issues is increased; (iv) the capacity of the media to monitor and report on corruption cases is strengthened and (v) establishment of an e-Judiciary web portal completed. UNDP in Armenia supports the implementation of the Anti-corruption Strategy through its programme, Support to Information Society and Democratic Governance (SISDG), which has a special focus on supporting civil society participation in anti-corruption initiatives. **The Anti-corruption Participatory Monitoring Methodology** devised by the SISDG project for the healthcare and education sectors was recently approved by the state Anti-corruption Council, which was created by a decree of the Prime Minister.

USAID

11.   The USAID Mission to Armenia is working with civil society, alternative media, local government, women and youth, and reformers within the GoA to promote democratic governance. USAID supports the following programs in Armenia:

12.   **Mobilizing Action Against Corruption (MAAC)**, which aims to (1) assist citizens with legal aid through Advocacy and Assistance Centers in each of Armenia's 11 *marzes*; (2) support anti-corruption efforts of selected government agencies—the Chamber of Control, the Human Rights Defender, and the Anti-Corruption Strategy Monitoring Commission; (3) work with civil society to mobilize action against corruption, and (4) increase public awareness of corruption.

13.   **The Freedom of Information Center (FOICA)**, which monitors compliance with the 2003 Freedom of Information (FOI) Law and promotes citizens' awareness of their rights under the law through: (1) training of local government representatives and civic groups; (2) media outreach; (3) regular publication and distribution of the bulletin "You Have a Right to Know"; (4) publication of FOI manuals for civil servants, journalists and citizens; and (5) free legal counseling to citizens and community organizations in all 11 regions.

14.   **Civic Advocacy Support Program (CASP)**, which is building the capacity of non-governmental organizations to analyze and articulate constituency needs and contribute to policy reform through advocacy.

Asia Development Bank (ADB)

15.   *Public administration and governance* is in principle supported through non-lending activities. The volume of the Governance and Finance Reform technical assistance program in 2008 was estimated at US$700,000, a similar amount having been allocated in 2009. Speaking on particular interventions, The "Governance, Institutional and Corruption Risk Assessment,"

had been under implementation since 2008 and covers public financial management, procurement, and controls against corruption, with a special focus on the water and transport sectors. In 2010, under the Government and Finance Reform Program, ADB plans to support an enabling environment for private sector development and enhancement of government effectiveness.

The German Gesellshaft für Technische Zusammenarbeit <u>GTZ</u>

16.   GTZ has supported the PAR in Armenia in different spheres. Most of the assistance is directed towards the preparation and implementation of the Poverty Reduction Strategy Paper (PRSP), in collaboration with the Ministry of Finance. GTZ is currently providing follow-up support to one of DFID's projects aimed at moving forward the PFM reforms in general and program budgeting in particular. The reforms aim to achieve an important outcome - the full switch to new budget instruments and formats by 2011.

Table 5 Overview of major related projects financed by the Bank (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
Bank-financed		**Implementation Progress (IP)**	**Development Objective (DO)**
Improve the efficiency, reliability and transparency of judicial operations and services	Judicial Reform 2 (ongoing)	S	S
Enhance efficiency in public sector management; improve transparency in government decision-making and policy implementation.	PSMP I (ongoing)	MS	MS
Provide support to the Government of the Republic of Armenia to address vulnerabilities, particularly in the context of the global economic crisis, while strengthening competitiveness for more rapid growth in the post-crisis period.	Development Policy Operation-1 (completed)		HS
Support policy and institutional reforms in furtherance of the Government's Poverty Reduction Strategy Paper (PRSP).	Poverty Reduction Support Credit 4 (completed)		S
Improve the organization of the health care system, better manage public health threats	Health 1 (ongoing)	S	S
Improve the organization of the health care system, better manage public health threats	Health 2 (ongoing)	S	S
Institutional Development Grant for Building Government Capacity for Better Monitoring for Results	Institutional Development Grant (ongoing)		

1. IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

Annex 3: Results Framework and Monitoring

ARMENIA: Second Public Sector Modernization Project

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
To enhance performance of public sector management for better service delivery by (i) strengthening institutional capacity in policy formulation; (ii) maximizing the efficiency of human resources; and (iii) developing information systems for internal work flow and external communication.	1. Improved policy coordination and responsiveness. 2. Improved service delivery and operational efficiency. 3. Improved access to public information.	The institutional reviews to be conducted will provide a basis for sharpening approaches, scope and contents of each component. Outcome information provided by the indicators will feed information into the "Just-in-Time" component to be developed after YR2. Baseline data will be established by an expert survey of civil society and business to be developed using CPIA concepts.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Component 1. Strengthening Institutional Capacity in Policy Making and Service Delivery		
1.1 Improved capacity for policy formulation and policy compliance reviews at Office of Government level.	• New internal directives and regulations for policy formulation and monitoring developed and applied by the Government.	If the practices introduced don't result in (i) transparency of policy choices, (ii) quality of policy analysis, policy formulation practices are to be corrected.
1.2 Government agencies increase their capacity to plan and implement programs and deliver services.	• Improved practice for delivery of selected pilot services. • Improved planning and performance monitoring and evaluation processes in pilot ministries, measured as a reduced number of ad-hoc tasks assigned to the staff through EDMS.	Indicates improved transparency and capacity of the GoA and ministries to plan and monitor their performance; Service standards further clarified and easily accessible to the public. If the mechanisms for measuring and analysis of performance do not allow identification of poor performance, they are to be corrected. Indicates capability of the ministries to capture violations and cases of underperformance.
Component 2. Maximizing the Efficiency of the Human Resources in the Public Sector		
2.1 More effective human resources management in the public service.	• Functional rules established for benefit transfer between public service positions. • Consistent use of work plans and performance appraisals in the public service according to specifications. Information generated from performance	Indicates that the revised system addresses harmonization of all clusters of public service and provides better incentives to retain experienced human resources in the public service system. Work plans have a good quality and are measurable. Performance appraisals are used in the entire civil service and the

	appraisal used for performance planning.	practice has been improved based on assessment of impact of the appraisals.
2.2 Capacity of ethics body enhanced	• Ethics body staff is providing advice and training to public servants. • Ethics violations pursued	Low number of trainings and failure to establish outreach indicates weak capacity Failure to pursue violations of ethics rules indicates weak capacity
2.3 Sustainable training capacity is developed and accessibility of training courses is increased.	• At least 5 computer-based training and testing programs prepared and available for public service training on-line. (Possibly also measured by the number of public servants who pass the computer-based training.)	Assessment of the quality of the programs and assurance that they function according to specifications.
Component 3. Development of Information Systems for managing Internal Workflow and External Communication		
3.1 Improved transparency and efficiency of government operations through enhanced information systems.	• Enhanced functionality and interoperability of the electronic document management system • An effective income and asset disclosure program established for senior public officials • The civil servants and IT staff trained to use the developed systems.	EDMS is delivering what is expected and the systems are interrelated. The main government data systems demonstrate enhanced interoperability. The potential of further use of HRMIS is investigated. Selected assessment to establish progress.
3.2 Improved public access to the Government information	• Public access to services available through internet and public e-kiosks.	New electronic services and tools introduced provide citizens with better access public information and inform them of the quality of services expected from civil servants.

Arrangements for results monitoring

Project Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Improved policy coordination and responsiveness (CPIA 15a)	Baseline to be established by initial expert survey results for CPIA 15a questions (alternatively WB CPIA 2009 assessments can be used). Administrative structures are fragmented, and coordination mechanisms are generally inadequate to overcome parochial bureaucratic interests.			Formats and processes for policy formulation and instruments for compliance are applied. High level Policy and Performance Monitoring functions established and operational.	New internal directives and regulations for policy formulation and monitoring developed and implemented by the Government. Mechanisms for policy coordination generally function effectively.	15% increase over the baseline value	Annual	CSO-Business community expert survey	Project Management Group (PMG)
Improved service delivery and operational efficiency (CPIA 15b)	Baseline to be established by initial expert survey results for CPIA 15b question (alternatively WB CPIA 2009 assessments can be used). Administrative structures are generally well			Improved planning and performance monitoring and evaluation	Organizational structures are along functional lines with very little duplication. Business processes are regularly reviewed to ensure efficiency of decision making and implementation.	At least 10% increase over the baseline	Annual	CSO-Business community expert survey	PMG

designed, although gaps or areas of overlap may exist. Initial efforts have been made to redesign business processes in selected areas.						
Improved access of civil society to information on public affairs (CPIA 16b),	Baseline to be established by initial expert survey results for CPIA 16b question (alternatively WB CPIA 2009 assessments can be used). Decision making is generally not transparent, and public dissemination of government policies and outcomes is a low priority. Restrictions on media limit is potential for information gathering and scrutiny	Decision making is generally transparent. Government attempts to publicize the policy information. Media provides some deterrent against unethical behavior. Significant part of public services are available on-line.	At least 15% increase over the baseline	Annual	CSO-Business community expert survey	PMG
Intermediate Outcome Indicators						

37

New internal directives and regulations for policy formulation and monitoring developed and applied by the Government.	Government lacks formats and processes for policy formulation and instruments for compliance	Analysis of needs, agreements of formats and processes and capacity building assessment is conducted		Roll out of the new approaches, business processes and mechanisms in pilot ministries	The results of the pilots are assessed whether new policy formulation process results in transparency in policy choices and relies on sufficient analysis.	High level Policy and Performance unit is established and operational. The regulations outlining new policy formulation requirements are - implemented.	Annual	M&E Report	Office of the Government, PMG
Improved practice for delivery of selected pilot services demonstrates that: (i) clear requirements for receiving the service are publicly accessible; and (ii) citizen/firm complaints are reduced.	The baseline will be established based on the results of the institutional reviews conducted in Y1 under sub-component 1.1	Pilot institutions implement recommendations from institutional reviews. Capacity built in pilot institutions for compliance with established requirements		Pilot institutions monitor compliance with established requirements on a regular basis. Improvements are measures through annual assessment	Pilot institutions monitor compliance with established requirements on a regular basis. Improvements are measures through annual assessment	Pilot services demonstrate (i) clear requirements for receiving the service are publicly accessible; and (i) at least 20% reduction in number of complaints.	Annual	Reports from institutional reviews, Government reports	PMG
	Baseline will be established in Y1 through a specially opened link for on-line complaints.			Statistics on complains is collected from on-line facility	Statistics on complaints is collected from on-line facility	v	Continuous, summarized on a monthly basis	Complaints submitted on-line through a specially established link	
Improved planning and performance monitoring and evaluation processes in pilot ministries, measured as a reduced number of ad-hoc tasks assigned to the staff through EDMS	Quantitative baseline on ad-hoc tasks to be obtained from EDMS. No systems in place to monitor and evaluate performance, except for the EDMS system		Clear connections established between the current annual planning and the new and improved approach to planning. Business processes developed	New mechanisms and tools to become part of planning, M&E processes. Capacity building interventions in pilot ministries launched	Capacity building interventions on application of new mechanisms and tools on planning, M&E in pilot ministries completed. Annual	At least 25% reduction of ad-hoc tasks over the baseline	Annual	M&E Report, EDMS	Office of the Government, PMG

Description	Analysis / Baseline	Activities	Plan of action	Outcome target	Frequency	Source	Responsible
...to check individual performance. Ministries / agencies produce annual budgets but more for budget line item planning. Weak connections between budgets and planning of outputs/outcome				government activity plan is developed in transparent manner and the planned output/outcomes are aligned with the budget. M&E systems have been tested and applied.			
Consistent use of work plans and performance appraisals in the public service according to specifications. Information generated from performance appraisal is used for performance planning.	Acceptable approaches and systems exist but they are not used government wide.	Analysis of requirement for effective roll out and a plan of action. Information from institutional reviews are analyzed	Realization of plan of action. Analysis of quality improvements and capacity building of managers to be conducted	Quality improvements and training of managers. Better connection with organizational performance	Possible revision of these systems for better linkages with results based management	Work plans and performance appraisals are used in pilot institutions in terms of civil servants annual performance planning	Annual — M&E Report — Office of the Government, PMG
Capacity of high level ethics commission staff to provide advice and training to public servants and enforcing ethics rules	There were attempts of the GoA to establish high level ethics commissions at the level of ministries, but the commissions lack credibility, A centralized commission has not been established. The present regulatory	Analysis of lessons learnt from ministerial ethics commissions. Development of the structure and regulation for the ethics commission in new bodies. Needs assessment for capacity building. Analysis of needs and international	High level ethics commission has been established. Capacity building plan for the body developed. Ethics body staff is trained in providing advice and training for public servants in enforcing ethics rules. Capacity building program, with specific emphasis on training senior	Training of trainers for ethics body staff is developed and launched. Ethics body is established and operational. The staff of the ethics body demonstrates capacity to provide advice and enforce ethics rules. All civil servants receive copy and	Annual	M&E Report	Ethics Commission, PMG

	framework insufficient	examples	staff, is conducted	educational materials. All mid-level and senior managers trained.					
At least 5 on line training modules prepared and made available for public service training	Such programs do not exist	Analysis of needs to develop training modules and decision on a development plan, including specification of scope and content of modules Procurement of a recognized training institutions to partner with Academy of Public Administration	Development of 2 training modules- content, case studies, technical on line modalities- and the modules are started to be used Development and purchase of appropriate technology	Development of 3 more training modules	All 5 modules are fully functional and delivered using the combination of class room and distance learning approach	70% of civil servants take one of the modules developed relevant to their job responsibilities	Annual	M& E Report, HRMIS	Office of the Government, and/or CSC, PMG
Enhanced functionality and interoperability of the electronic document management system	EDMS is running in ten government bodies.	Analysis of requirement for a wider application of EDMS as a comprehensive management tool		Solutions developed to widen the application of EDMS government wide, with more emphasis on archiving of e documents, better connection to performance appraisals and as a project management tool	Implementation of more comprehensive EDMS which includes improved options for the archiving of e-documents, enhanced performance appraisal system, as well as project management tools.	EDMS is operational in all government bodies and demonstrate interoperability of the electronic document management system including the archiving of e-documents, enhanced performance appraisal system, as well as project management tools.	Annual	M& E Report, EDMS	Office of the Government, PMG

							Annual	M&E Report	Office of the Government, PMG
An effective high level declaration of interest system is established for senior public officials	Does not exist.	Design and implement software program to manage issues of conflict of interest.	Collect relevant information	Collection of information. System fully functioning.	Train the ethics body to use the system		Annual	M&E Report	Office of the Government, PMG
The civil servants and IT staff are trained to use the developed systems	Separate systems in operation, such as EDMS, HRMIS, MGIS and other systems. The interoperability is lacking	Investigation of complementary standards for effective data exchange and usage	Decision on what is required to enhance interoperability and the costing of such development. Decision on what this project shall support, in terms of content and scope.	Elimination of obstacles for interoperability between systems and establishment of standards as well as modalities for improved data exchange	A development program is started that will include technical upgrading of systems and training of selected government staff and IT staff working for the government agencies, covered by the development program	80 % of staff in government agencies covered by the development program, trained to use the upgraded systems. 100% of IT staff trained to maintain the upgraded systems.	Annual	M&E Report	Office of the Government, PMG
Public access to services available through internet and public information kiosks.	Some e-kiosks exist, introduced under the JRP2, which also give access to the EDMS. Preliminary work is done to start use of government web portals. Quantitative baseline for 2010 to be obtained through EDMS.	Analysis and recommendations for government ICT (e-governance) systems. Action program for modalities for on line public access to government as well as specification on the requirement		Reengineered business processes and ICT horizontal standards set by the EIC project enable commencing activities for modernization of MISs and enhancing public access to the systems.	Harmonization of existing ICT systems. E-government portal and kiosks established and operational At least 15 e-kiosks are established and operational (in the Government office, in pilot institutions and at least 1 in each marzpetarans).	At least 50% increase over the baseline	Annual	M&E Report, Information of progress of EDMS usage	Office of the Government, PMG

Annex 4: Detailed Project Description
ARMENIA: Second Public Sector Modernization Project

Component 1: Strengthening Institutional Capacity in Policy Making and Service Delivery

1.   This project component will aim at strengthening systems for policy development, performance management and accountability for results. The Government realizes that an obstacle to improving efficiency and effectiveness of the public service lies in weaknesses to not only develop but foremost to apply policies and transform these into transparent service delivery oriented plans of operation and to follow up on results. This demonstrates a fundamental organizational weakness.   These weaknesses relate to: (i) the suboptimal structure of organizations, (ii) the cumbersome or incomplete business processes, (iii) lack of skills.

2.   On the level of government, the mechanisms for coordination of policies are weak — providing little support to ministries in their strategic planning—which forms the basis of a healthy performance management system. The full cycle of policy management, from setting policy goals to achieving results and reporting back, involves an administrative hierarchy with a ministry at the top and the implementing agencies that deliver services at the bottom.   Therefore, to enable performance improvements, all levels and links of the policy chain need to be aligned in order to develop, coordinate, monitor and supervise policy implementation.

Sub-Component 1.1: Review and Re-engineering Institutions and Business Processes

3.   In relation to institutional strengthening of the public administration, the Public Administration Reform Strategy envisages conducting reviews of key institutions so as to: (i) determine appropriate organizational structures; and (ii) improve management of business processes with a view to streamline and coordinate functions.

4.   While conducting such reviews, the government plans to identify the baseline expenditures; determine cost options of new policy initiatives; facilitate strengthening policy capacity of line ministries; strengthen central management systems (for policy, budgeting, personnel and procurement), as well as strengthen the performance management and monitoring function.

5.   In Armenian public administration, policy functions belong to ministries, while implementation is assured by either subordinated agencies at the central level or by regional administrations —*marzpetarans.* . The project proposes to conduct a vertical review of two key institutions. [4].

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[4] The Ministry of Territorial Administration (MTA) has been identified by Government as one of the two institutions.   The MTA's service functions in the regions make it a relevant candidate.   The second ministry institution is the Visa and Passport Directorate of the RoA, one of the major government service providers in the area of registration and migration.   Examples of services the Directorate provides includes passport issuance, registration of citizens, granting citizenship, visas and residency permits and ID data related services. The Directorate reports to the Deputy Chief of Police in charge of registration and migration policy and operates through sixty-one regional offices and six offices located at the state border.

6.   The information from the reviews will support strengthening the following aspects of policy making and service delivery:

- The role of political leadership in defining policy goals, approving strategies, and assuring monitoring of agreed results (performance indicators) and managerial responsibility for chiefs of staff (thus assuring delineation of political and administrative responsibility);
- Possible need for revising the institutional framework for a policy-driven performance planning process;
- The quality of managerial and administrative business procedures and processes (HRM, financial management and supporting systems) as well as accountability mechanisms;
- Assessment of the main impediments to meeting the objectives of the Law on Civil Service regarding the strengthened role of the chiefs of staff in the administration of public institutions; and
- Identification of capacity-building needs

7.   The process of institutional development thus defined will complement other project activities, e.g., subcomponent 1.2 and 1.3, which will focus on building the country-wide framework for policy development and coordination. At the same time, this subcomponent will provide inputs to inform legislation that would regulate common principles for organizing the public administration—the allocation of functional responsibilities among units and officials, strengthening of the monitoring and accountability responsibilities, and arrangements for the delivery of agreed (performance) results

8.   Outputs:
- Analysis of the management and accountability mechanisms to determine that all enabling elements and resources for quality service delivery are available;
- A review of the organization and management systems of service delivery agencies and marzpetarans, and helping design restructuring plans;
- Overall capacity building plans for the institutions. For the ministry, training and capacity building for strengthening the capacity of Heads of Staff to perform policy compliance functions (ministerial compliance with overall government strategy on policy formulation).
- Support for high level change management events to build awareness and acceptance.

9.   The additional *purpose* of such reviews is to establish the present stage in those parts of the civil service that this project intends to support, as a basis for defining the appropriate approach, scope and content of further investments in capacity building and the development of processes. These reviews will be carried out in the early stages of the project and will feed baseline information into the overall government strategy on policy formulation (subcomponent 1.2).[5]

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[5] A full functional review of the Office of the Government itself is being undertaken by the EU.

Sub-Component 1.2.: Policy Analysis, Formulation and Monitoring

10.   An important objective for the government is to move from a rule-driven public service to a result-driven service or rather, to find an appropriate balance between these ways of managing the public service, suitable for the Armenian civil service tradition and also with a developmental perspective. The Government Decree nr. 37 of September 10, 2009 recognizes that the coordination of policies is weak, providing little support to ministries in their strategic planning, that strategic planning must be improved, and that there is a lack of policy- making capacity at all levels of government.

11.   The objective of this component is to strengthen the Office of Government for policy formulation and make it better capacitated to steer and evaluate the policy process.

12.   At a higher level of government, the process, as a whole, is regulated in some specific areas such as procedures on mandatory cross-ministerial policy communications. But the system lacks a standard approach for policy formulation, communication, consultation, advocacy and adoption.

13.   Policy formulation techniques at the ministerial level highly depend on individual settings (subjective state of affairs) in ministries and vary with the personal demands of individual ministers. Some ministries utilize formal processes of internal policy formulation and communication, such as policy councils attached to the minister (consisting of key policy makers, e.g., deputy ministers). However, these practices are not common across the government and even in those ministries that have adopted such models; the process mostly operates on an *ad hoc* basis.

14.   There is, therefore, a significant gap at the political and administrative levels in terms of capacity to utilize modern policy analytical tools, which should be utilized in many processes, e.g., work planning and performance management, strategic planning, and budgeting. In order to address these deficiencies, there is a need for the Office of Government to be firm and clear on what is expected of these levels of government.

15.   The PSMP II will address these gaps by assisting the Office of Government in producing standards as well as model processes for policy formulation, consultation, communication and adoption, which will then become the government format and approach to be transformed into the ministerial business processes. In addition, the project will assist the government in introducing relevant guidelines, methodology instructions, templates and other toolkits required for policy formulation processes. The Office of Government requests project support also to set up and participate in a team to ensure that the outputs are achieved and used to assess the quality of work and performance at ministries

16.   The project will also assist the government in establishing a high-level Policy and Performance Monitoring Unit, which will help create demand for the planned policy analyses within the government. The unit will be established based on the experience in other countries (e.g., the Prime Minister's Delivery Unit established in the U.K., in 2001), to monitor progress, and to strengthen the government's capacity to deliver its key policy priorities. The mission of

the planned unit will be (i) reviewing and coordinating the ministries' policy analyses and plans; and (ii) ensuring the delivery of the government's key policy outcomes. The unit will be working closely with all the parts of the government to ensure proper performance management and monitoring of key policy delivery areas. Initial analyses will help the GoA to take an informed decision about the placement of the new unit. The project will also finance training of the staff of the new unit, to develop the necessary technical skills for monitoring and evaluation and policy analyses.

17. The project naturally recognizes that it is the politicians that formulate policies. The Office of Government will ensure the natural connection to and involvement of the political levels. In this context the project will also extend relevant support for building policy analyses and public consultations mechanisms and capacity at the National Assembly.

18. Capacity building to support the policy formulation process will be designed. This will foremost be in the form of high-level workshops and seminars, closely connected to the results achieved under this sub component.

19. Outputs

- Accounting and classification of existing policy processes and policy papers; advice on hierarchy, procedures and requirements on application of various policy papers in the policy processes
- Strengthened capacity of the staff of the Government Office for policy, budget and performance analysis to perform policy compliance reviews
- Strengthened capacity of the staff of the National Assembly for policy analyses and effective communication with government and public
- Development of capacity building material, participation in capacity building events and training of trainers
- Review and advice on standardized policy formulation techniques and practices to be applied at ministerial level
- Analysis on placement and assessment of technical needs of the Policy and Performance Monitoring Unit
- Capacity building for staff of the Policy and Performance Monitoring Unit

Sub-Component 1.3: Strengthening Organizational Capacity for the Policy Driven Performance Planning and Management Processes

20. Sub-component 1.2. will improve government policy formulation capacity and enhance the process and result in standardized policy formulation techniques and practices to be applied at the ministerial level. Subcomponent 1.3 will continue the developmental efforts by strengthening capacity at ministerial level to respond to the new and different requirements mainly driven by the Office of the Government.

21. At present, ministries do not have transparent and comprehensive strategic documents that inform the rest of the civil service and citizens of what they shall expect from the respective ministries in terms of services and based on clear policies. Ministries are expected to ensure

proper formulation of tasks which the ministries and agencies shall deliver and report on in terms of progress. Such strategic documents are a condition for evaluating organizational and institutional performance. In addition, many policies accepted by government are not supported by clear plans of action. These deficiencies result in that monitoring of policy compliance and assessment of expected results is difficult for all stakeholders: the Office of the Government, the ministries themselves, the staff of the organization and the public.

22. A consequential goal is that these plans of action are formulated in a way that compliance and performance can be measured; by government as a whole, by other ministries and agencies that shall cooperate to reach common objectives and by the public, in terms of what they shall reasonably expect from government.

23. Organizational performance may be assessed from two perspectives – policy performance and activities performance. Although both perspectives relate to the same organization, stakeholders of these processes may have dissimilar performance assessment needs.[6] Ministers and their deputies must be more engaged in effective and efficient delivery of demands (what is delivered). Heads of Staff must ensure that business processes are effective and that resources are efficiently used (how it is delivered). The government expresses the same concern by stating that ministries lack well drafted, clear and easy-to-understand business processes. Some of these processes should be generic for all government operations and concern internal operations (HRM, accounting, legal services, internal audit, document management and administrative services). Other business processes have an external dimension such as licensing, inspection, service delivery policy formulation and support to the general public. These external processes include high risks for corruption. Subsequently, the challenge is that the organizational activities must be connected with the specific policy outputs and as expected by external stakeholders.

24. To establish firm linkages between government operations and what the public expects from their government is a long process. This subcomponent will partly address how to improve linkages between inputs and activities of executive authorities to public services quality and ensure improvement of organizational performance from the point of maintaining and improving standards of policy development and public service delivery.

25. The project will develop formats for:

a) *Performance reviews* and *audits of services (programs)* which aims at exploring to what extent performance reflects quality standards and identifying the causes of performance and underperformance;

b) *Compliance audits* as a type of internal audit which ensures that procedures and processes are in compliance with government policy, decisions and regulations,

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[6] Organizations' policy performance is assessed mostly by external stakeholders such as government, MPs, civic organizations (ministers may also be part of this group). The objective of a policy performance assessment is the organization's policy outputs – goods, services, transfers and other policy interventions that are supplied to the beneficiaries.

and which takes into account the causes and responses to variations in performance

26.   The currently introduced individual performance appraisal system (as referred to in component 2) reveals a significant shift in performance culture. There are several full cycles of the processes to be completed before the systems operates in a sustainable way, in order to assess the full and intended effects of staff performance appraisals and especially whether staff actually are working to support institutional objectives or not. The performance appraisal system now works as a form of bottom up planning; staff formulates their own work plans and performance indicators that are controlled and endorsed by supervisors. Managers must however also respond to this system to ensure that this bottom up planning is aligned with the policies for the specific organization, emanating from the politicians and translated by Chiefs of Staff into policy driven plans of operation The project aims to address the risk that will potentially arise in the course of the development of individual performance appraisals without addressing organizational and strategic performance.

27.   In the longer term and based on this experience, the project will consider supporting the design of training modules to be amalgamated with the government's regular training programs for high- and mid-level officials, in areas like policy formulation, policy analysis, and M&E techniques. Such modules could also include performance planning and budgeting techniques. These initiatives will include the training of trainers.

28.   Outputs:

- Development of a methodology to assess compliance with the Government strategy (developed under subcomponent 1.2) for policy making and strategic planning;
- Introduction of standardized approaches of integration of policy processes (including policy action indicators);
- Implementation of the government strategy (referenced above) regarding plans for policy development in two pilot institutions[7]
- Needs assessment study to identify additional techniques, enabling the enhancement of government performance, including how government can make the public aware of what they are to expect;
- Compliance review and assessment of the results of the pilot exercise (testing of methodology in pilot institutions), and potential revision of original methodology by Office of Government, including recommendations on strengthening the Heads of Staff to perform policy compliance functions (training for Heads of Staff to be covered under subcomponent 1.3).

Component 2: Maximizing the Efficiency of Human Resources in the Public Sector

29.   This component will enhance the efficiency of human resources in Armenia's public sector. Since 2001, Armenia has made significant progress in the establishment of a career civil service organization. At present 43 different ministries, commissions, and other government

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[7] The institutions will be the same as under sub-component 1.1.

bodies have units within them which administer the policies set by the Civil Service Council. At the same time the council handles recruitment and performs other government-wide human resource management functions. Ongoing business process improvements under the PSMP I have resulted in the elimination of some bureaucratic bottlenecks, and the introduction of a basic M&E system. The government has also begun introducing performance planning and appraisal systems in executive authorities.

30.   In addition to refining the existing civil service regulations, further civil service reforms will: (i) harmonize the parallel fragments of the public service in terms of remuneration and benefits, and move to a performance-based pay system; (ii) establish stronger ethics and code of conduct standards across the system; (iii) target better management of conflict of interest situations; and (iv) build further capacity for public servant training.

31.   Ongoing business process improvements under the PSMP I have resulted in the elimination of some bureaucratic bottlenecks and the introduction of a performance-tracking, basic M&E system. In addition, the government has started introducing performance planning and appraisal systems in executive authorities.

32.   The reforms to be supported under this component will make people management more effective and more supportive of reaching organizational objectives, by removing additional obstacles to progress. The reforms will enhance public service ethics and further support systems aimed at enhancing staff performance.

Sub component 2.1 Harmonization of Public Service and Introducing Performance Pay

33.   Incentives are the key to changing behavior, and the project will consider different ways to improve inceptive mechanisms by exploring options for performance-pay approaches and preparing the foundation for the pay reform.

34.   The low pay is currently a serious constraint in Armenia's public sector. International practice on pay reform suggests that while an increase in the average salary level is a difficult and evolutionary process, improving the structure of remuneration is absolutely necessary to improve the competitiveness of pay in the public sector.

35.   One approach to introducing a merit-based system and improve performance as well as productivity in the public sector is performance-based pay. The GoA is intent to adopt a regulation on performance pay in 2010, and move to piloting a performance-based pay system in 2011. While performance pay is known for improving incentives, the major challenges involve linking performance to results, and formulating results for different groups of civil servants, especially difficult considering that the results of public authorities are less tangible (than private sector "results") and often depend on multiple external factors. Taking into account this challenge, the universal tendency in the public sector is to make the variable part of the remuneration package relatively small. Since the performance pay agenda is a new undertaking in the Armenian public sector, the project suggests that a feasibility study be conducted first, in order to (i) identify the constraints to and risks of pay reform; (ii) weigh several options; and (iii) propose realistic steps for the introduction of a performance-based pay system.

36.   Regarding links between results and remuneration, it will be important to explore how the performance pay scheme can be linked to performance appraisals. The first functional performance appraisal system is the result of the previous project phase (PSMP I). The Office of Government is driving this process, in cooperation with the CSC. There is no history yet of its full application, so it is not known how well the system is functioning. Moreover, to date there has been no real application of the results of the appraisals, which will be the central element of further project interventions in this area. The project will in this respect be flexible and provide support on a just-in-time basis (see component 4), something that requires close connection with the drivers of the process.

37.   On a conceptual note, the different government and project interventions need to be well harmonized and sequenced. The appraisals system is now related to work plans and is better connected to what is expected from civil servants and what is to be measured. What is lacking is the direct connection to the indicators that will monitor achievement of overall policy targets. There is no immediate risk that the performance appraisal system will develop at its own speed, on its own path, and out of this context. It is, however, important that this project address this potential danger and conflict. Heavy reliance on bottom-up work planning processes carry the risk of a narrow presentation of individual, specific activities aggregated into administrative units' work plans.

38.   Further, the performance based pay approach intends to explore incentivizing clusters of professionals and organizations in an ex-ante approach to rewarding high performing or government-critical groups with specialized skills. This would be a movement away from the traditional individualized bonus system. The government's plan of widening the civil service will need to also be considered, as a roll out of performance based pay to the entire civil service may not be an effective approach.

39.   An additional area of focus will be the process of transferring staff between the parallel public services. Currently, there are no rules for carrying over the benefits and credits when transferring staff members from one system to another. Filling this gap will be one of the primary targets of the Law on Public Service. Any recommendations on improvement of the civil/public servant remuneration system to facilitate increased staff movement will require robust and holistic analyses covering wages as well as other social benefits, in order to make a public service career attractive for qualified professionals. A first project intervention requires a feasibility study that would also show the consequences and benefits of such a reform.

40.   The project will help the government make an informed decision (and possibly provide advice on some initial actions to be taken) on revisiting the remuneration system, with a view to introducing performance pay and harmonizing a package of wages and benefits.

41.   Outputs:

    • Analysis of current pay system and wage grid
    • Feasibility study on introducing performance based pay and harmonizing wages and social benefits between different public service

- Roll-out of work planning and performance appraisal within the civil service and support to further improvement of the systems as well as more strategic usage of new information for work planning and resulting HR actions;
- Analysis, recommendations and action plan for Armenia's public service which would enable continuous career advancement within the system.

Sub-Component 2.2 - Public Service Ethics and Code of Conduct

42.   Managing conflicts of interest is a major challenge for all governments – as recent scandals in both developing and developed countries show.   Over the past decade successive Armenian governments have initiated a series of steps to address the issue -- promulgating rules to govern conflicts of interest and establishing units to oversee their implementation.   In 2001 a law was enacted requiring senior officials to disclose their financial interests by filing a statement showing their income and assets.   In 2002 the Civil Service Commission introduced ethics rules for civil servants that contained provisions on conflicts of interest and authorized the creation of agency-level ethics bodies. In 2005, with support from DfID, pilot agency-level ethics units were established at the Ministry of Health, the Ministry of Science and Education, and the Ministry of Labor and Social Affairs.

43.   The current government has launched a two-pronged program to build on these measures. The first will revise the rules regulating conflicts of interest by specifying in detail what is and is not permitted while the second will strengthen those units responsible for overseeing compliance.   The series of Development Policy Operations begun in 2009 and projected to continue over the next three years supports the first prong.   As a prior action for DPO-I the government submitted legislation to the National Assembly that would write into law the controlling principles of a conflict of interest regime, ban most gifts to public officials, require officials to disclose any potential conflict to their supervisor, and tighten up the income and asset disclosure law.   As agreed with government, under DPO-II the government will issue regulations implementing the conflict of interest law, including provisions strengthening the current system of income and asset disclosure, and DPO-III would provide for the evaluation of the steps taken under DPO-I and DPO-II.

44.   This project would support the second prong of the government's conflict of interest program -- strengthening compliance with the rules.   It would i) provide advice on how to structure ethics compliance bodies, ii) train the staff of these bodies on how to foster voluntary adherence to the rules and deal with violations, and iii) support the administration of the revised income and asset declaration law.

45.   The project has already provided some assistance on income and asset declaration programs.   As part of project preparation, four video conferences on the enforcement of a conflict of interest law and the management of an income and assets disclosure program were organized with the head of the Civil Service Commission, the Prime Minister's chief lawyer, and other Armenian policymakers.   The participants discussed these issues with OECD staff, the Deputy Administrator International of the U.S. Office of Government Ethics, a leader of Philippine civil society, and staff of ethics agencies from Bulgaria, Croatia, Estonia, Georgia, and Latvia.

46. Particular stress was placed on the role of an income and asset declaration program in monitoring conflicts and the practical problems of managing these programs. Although Armenia enacted a law requiring public officials to declare their income and assets, Armenian participants agreed it had several weaknesses. This is also the opinion of the Council of Europe and the OECD. As a party to the Council of Europe's Civil Law and Criminal Law Conventions Against Corruption and the OECD's Istanbul Anticorruption Action Plan, Armenia submits to regular assessments of its anticorruption policies. In its 2007 report the OCED evaluators found that Armenian officials' income and asset declarations were "not reviewed for truthfulness or compared to any public data on officials' property or asset holdings." In its 2008 Compliance Report on Armenia the Council of Europe's Group of States Against Corruption, known by its French acronym "GRECO", concluded that "an effective system for verifying declarations of property and income of public officials whose service duties could be affected by conflicts of interest" was not in place.

47. A 2008 report of the Asian Development Bank ascribed these weaknesses to a lack of methods and procedures for implementing verification and an absence of cooperation across public institutions. The government is now proposing a three year program develop a database of officials required to file, establish verification procedures and criteria, acquire software to help with verification, and enable civil society to conducts its verification by making the submissions of at least senior officials public.

48. This component would fund consultants to help develop the necessary data bases and procedures while Component 3.2 would support the acquisition of the required software. This component would also provide training to the staff, not only on the use of the software but on how to manage an income and asset program: ways to promote voluntary compliance through outreach and counseling, techniques for detecting and enforcing violations, and steps to involve civil society in the oversight of the program.

49. This component will also support the government's efforts to re-organize the way it manages compliance with conflict of interest and ethics laws. For a variety of reasons the experiment with agency-level bodies was disappointing. These bodies spent too much time on internal organizational matters and not enough reaching out to those subject to the laws. Its staffs were not trained in ethics administration, and the lines between the agency-level entities and the Civil Service Commission were not always clear. Agency-level ethics personnel were often reluctant to pursue violations against those who worked in their own ministry -- either because they knew the violator personally or were close to friends of the violator.

50. Based on this experience the government is proposing to consolidate the administration and enforcement of ethics rules in one or two bodies that would have a broader reach, one possibly to address conflicts of high level officials and one for lower level staff. The project would provide support to newly formed consolidated ethics bodies through the preparation of organization charts and functional specifications and training.

51. Outputs:

- Organization charts and function descriptions for newly created ethics bodies;

- Capacity building for ethics bodies including training on the management of income and asset declaration programs;
- Capacity building of ministerial top management

Sub-Component 2.3 - Capacity Building/ Training

52.   The ongoing PSMP has been supporting capacity building at the Academy of Public Administration and the Budgeting Training Center under the Ministry of Finance. Further capacity building will involve the delivery of a comprehensive series of courses for public service officials on key administrative issues addressed in the PSMP II.

53.   The proposed capacity building program structure requires a partnership between an internationally recognized academic institution and a similar domestic institution and is intended to provide high-quality international education adapted to the Armenian reality and delivered in the Armenian language.   To accomplish this, an international institution, selected via a competitive tender, would develop all course materials and teaching instructions, which would be provided to a local Armenian institution under a licensing or similar arrangement. The local institution, also selected via a competitive tender, would provide local inputs for the course and module development, and ensure that all materials are translated to Armenian.

54.   Each course would be delivered in a variety of ways using modern communications technologies and distance learning methodologies combined with traditional face-to-face classroom learning and reading assignments. The emphasis will be on providing practical, hands-on experiences provided by actual practitioners as well as case studies describing the successes and challenges faced by other countries. While courses can also be delivered in a traditional classroom format by interested public servant training institutions, each one would be available as a computer based online distance learning module. These modules will include recorded lectures with required reading and a single key task that the student must work through by addressing a series of questions through an online facilitator. (An example of such a task could be the evaluation of a particular project.) Thus the modules will provide a foundation of knowledge so that the student can select what he or she wants to learn, based on his or her own level of understanding of the subject at hand and what is required to complete the key task. Modules will be supplemented at various points with classroom lectures as a means to enhance the learning experience by providing the opportunity for interaction with leading practitioners who may be connected by video technology.

55.   Course topics may include the following:

- Policy analysis, monitoring and evaluation techniques;
- Performance management, including management of organizational change;
- Human resource management;
- External Audit;
- Civil/public servant ethics (and conflict of interest management);
- Project management;

56.   In order to ensure the highest quality of course delivery in Armenia, Armenian instructors would be selected based on their knowledge of the subject and proficiency in English, so that as a first step the instructors would attend the courses at the location of the international institution, where they would be taught in English by the institution's instructors.   This will ensure that the Armenian instructors receive the appropriate foundation in the course materials as well as experiencing for themselves how the course should be delivered in the classroom setting.   In essence this would constitute a "train-the-trainers" component, as these instructors would form the core group of instructors who will be able to deliver the courses repeatedly in Armenia.

57.   Since the program would be delivered by a local institution of higher learning, it would be scalable to a large number of officials while ensuring sustainability by integrating the courses with the curriculum of the local institutions.   The approach is seen as a superior solution to sending small numbers of individuals abroad for training, not only because of the expense of travel, subsistence and tuition, but because most certificate programs offered by international institutions are conducted in English or other major international languages, which would likely present a significant challenge to the majority of public sector employees in Armenia.   It is also an approach that offers the greatest possibility for significant program impact, given the substantial number of public servants that could be trained.

58.   Outputs:

- A total of 6-8 courses including online modules, written course materials and reading lists, and teacher instructions
- A core group of local instructors trained to deliver the courses
- Necessary hardware and communication equipment for computer based modules, that will be installed at CSC or other location identified by GoA

Component 3: Development of Information Systems for Managing Internal Workflow and External Communication

Subcomponent 3.1: Improved Management Information Systems (MISs)

59.   The project will invest in introducing and improving MISs that support the effective implementation of the envisaged reforms, primarily in components 1 and 2, but that also have a government-wide impact on effectiveness. In addition, the systems especially support the building of project management capacity.

60.   The Electronic Document Management System (EDMS), introduced under the first PSMP, has gained wide acceptance within government. A contemporary Web-based architecture, its ease of use, and its flexibility make it a powerful tool towards e-governance, transparency and accountability. One of the key achievements that can be considered is the shift of mind of the government officials with regards to getting used to the electronic way of working.

61.   At the moment, this system is running in 10 governmental bodies. It is planned to cover the rest of ministries, *marzpetarans*, as well as the National Assembly in early 2010. As an EDMS, it seems that the current solution is complete. EDMS has also been equipped with a

special module to enable the public to monitor their communications and requests to government. This system will also ensure that electronic documents are preserved for a defined length of time. It is likewise used to track how staff is addressing their assigned tasks in terms of timeliness and as an instrument for management to assess performance in this respect. In this way, the EDMS supplements the regular performance appraisals by providing more immediate information on performance. The PSMP II will, therefore, enhance the EDMS to become a more comprehensive management tool, including connecting it with other current or planned systems (e.g., HRMIS).

62.   Special efforts will target improved interoperability between different government information systems. The proposed Technology and Competitiveness Enhancement Project (E-Society, Innovation and Competitiveness) is expected to deliver improved interoperability between systems, applications and other standards and is closely connected with the PSMP II.

63.   For HRMIS modernization, the suggested approach is that the CSC continue using the current HRMIS system with a 2-3 year perspective to its full potential, and ensure that HRMIS is fully operational during this period. The project may come in at a later stage of the project period and then consider how particular perceived outputs should be realized.   As such, the subcomponent allows for support to modernize the HRMIS in years 2 and 3 if necessary, as considered by the government.[8]   One area of consideration may be the enhancement of e-services, which will be a result of introducing a government-wide Web portal for e-government, and modernization of the HRMIS to shift from a client-server approach to a more contemporary, Web-based architecture. This approach will: (i) enable centralized implementation and maintenance, and (ii) ensure rather easy interoperability with other applications.

64.   Outputs:

- Wider application of the EDMS as a management tool, in order to: (i) improve record management; (ii) be able to (electronically) archive record documents; (iii) manage how staff handle their tasks in terms of timeliness; and (iii) increase accessibility by the public.
- Interoperability with MGIS, HRMIS, and other relevant systems and databases, in particular an automatic importing and record of performance appraisal results conducted through the EDMS. The imported performance appraisal records would automatically flag the resulting actions like planning specific training or *ad hoc* attestation, or, on the contrary, skipping the regular attestation cycle, payment of bonuses, etc.
- Archiving system and necessary hardware for EDMS

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[8] The HRMIS system has been in operation for less than a year. It has enabled CSC to move from a manual to a computer-based system. The efficiency gains are substantial, and CSC now has quick access to statistical information that is much more reliable. This information is also important for the ministries. The staff involved has learned the system and feels that it satisfies most of the immediate needs, albeit that some operations are cumbersome.

Subcomponent 3.2: Information systems development to enhance public access and information

65.   One of the contemporary ways for the government to engage with citizens is the use of e-kiosks. The use of e-kiosks is particularly valuable in delivering IT-based services in communities where the penetration of PC and telecommunication technologies is limited. In Armenia, where Internet penetration is around 5.9 percent, the provision of e-government services to citizens by means of e-kiosks is more than applicable.

66.   In the deployment of e-kiosks, it is vital to thoroughly understand the objectives that it will serve. Not all e-government services are suitable for delivery through kiosks. It is also apparent that no single kiosk can ever provide all the e-government services to the citizens. Nevertheless, when defining the roles of e-kiosks, some consideration of integration is required.

67.   At present, the government is in the stage of introducing new information systems and e-services to its citizens and slowly moving towards establishment of e-governance building blocks. There is no Web portal available to the public yet, which will act as a "one-stop shop" for citizens. To enable online service delivery, envisaged in the Government Program and PAR Concept, the project will support the development of a government-wide Web portal for e-government giving access to EDMS, MGIS, HRMIS, e-procurement, and other systems developed under the PSMP series and other projects. On the other hand, the deployment of e-kiosks, with different functionalities and underlying information systems, is already being introduced in the Second Judicial Reform Project (JRP2) in courts, for the benefit of the judicial system. The PSMP II will build on this initiative already underway, and supply e-kiosks for access by a wider public audience. Such kiosks will allow select modules of the EDMS, HRMIS, and MGIS to become available to the public (e.g., tracking of letters addressed to public officials, sent by citizens), as well as other information to support the income and asset, and freedom of information initiative described in subcomponent 2.2.

68.   The project component for improved ethics will produce standards for declaring income and assets for selected government staff. For the public to have access to such information, the available ISs could be used.

69.   Outputs:
  - Government-wide Web portal for e-government;
  - E-kiosk modules for EDMS, HRMIS, MGIS, income and asset declarations, etc.;
  - E-kiosks hardware.

Subcomponent 3.3: Management of a Government ICT System

70.   The PSMP II will also provide technical assistance to government on efficient management of the evolving e-governance and automation system to ensure the sustainability of the achievements and further development. Support will be provided to develop recommendations on (i) establishment of a service desk for the government to support ISs; (ii) budgeting and procurement of private services for servicing and maintenance of existing systems; (iii) prioritization of new digitization proposals for state funding submitted by public administration entities; (iv) endorsing the universal e-government standards (interoperability,

security, etc.); (v) development of a disaster recovery and data backup policy (and equipment needs assessment); and (vi) setting up a regulatory framework for private companies operating the e-kiosks for accessing services delivered through various ISs.

71. The disaster recovery and data backup policy is of great importance for any IT environment using critical data and systems. It involves being able to say roughly what set of actions needs to be taken before and after the disaster (natural or man-made) to be able to recover from a calamity, and assure the business continuity. Three main steps are required in this context:

- Develop the disaster recovery plan itself;
- Monitor the implementation of the plan, making sure that all components are in place;
- Test the disaster recovery plan several times per year.

72. The development of a disaster recovery plan is an ongoing process that requires continuous updating, as the requirements for disaster recovery as well as the environment itself change.

73. Currently, there are several ISs, running in different governmental bodies, that require special attention in this regard. The most critical is the EDMS, which is being widely rolled out. Apparently the EDMS should be able to quickly be back online after any kind of disruption. More important, however, is the ability to recover all data, i.e., all completed documents in the system as well as those in circulation. A well-defined policy will ensure minimal downtime and loss of data.

74. Based on the findings of the disaster recovery plan and analysis, the project may also procure some hardware for implementing a disaster recovery policy. Some central servers might require building a cluster to guarantee high availability and fault tolerance.

75. Outputs:

- Analysis and recommendations for government ICT (e-government) system;
- Hardware for implementing disaster recovery policy.

Component 4: Just-in-Time Technical Assistance

76. Just-in-Time Technical Assistance (JIT TA) is an instrument to take into account ad hoc needs of the government, and to effectively take advantage of opportunities of intervention when they arise. It is envisioned that 4.6% of the project budget will be allocated for JIT TA.

77. Outputs under this activity will include advisory services and capacity building not already allocated under the project, to bridge policy and implementation gaps revealed in the course of introducing performance based approaches in the Armenia public sector.

78. One example may include the possible need for analysis of HR functions and development of new business processes for HR units, due to the introduction of new techniques

such as the performance appraisal system. It is difficult to plan any specific actions in this area at this stage, however, as HR strengthening in ministries will require a change in roles and responsibilities which are planned to result from the project interventions under subcomponents 1.1 and 2.1. These activities are to be assessed to make a decision on the need, feasibility and scope of revising the roles of ministerial HR units.

79.   Another example is enhancing the practice of job description development and use. Currently, job passports (descriptions) have been developed for all the civil service positions as part of a wider civil service system development. Job descriptions are important documents to describe what is expected from different and specific positions on more general terms, providing the framework and the boundaries for tasks to perform – and not perform. They serve a good purpose for staff members when they develop their work plans. However, the job descriptions are not designed in a way that they provide a comprehensive picture of what the individual holder of a position should do within the individual job. It is also not clear what is the expectation on ministerial managers to specify job content to steer their staff in the right direction – and if the job descriptions are a vital instrument for this or not. Again the demand and feasibility for improving practice of job descriptions development and use depends on results of implementing activities and 2.1. Analysis on the governance and accountability framework for institutions not selected at the start of project effectiveness, but which are subsequently deemed important during the process of implementation, may also be considered under this component.

80.   Decisions on allocation of the JIT TA will be made by the World Bank supervision missions every six months, and only after the results of the first interventions are assessed at the Mid-Term Review of the project. Proposals for spending the JIT TA budget will be assessed in view of achieving the overall project development objectives. Funds from this component are not available for ministries to hire additional staff, for top-ups to officials' pay, or for study tours.

Component 5: Project Management and Implementation

81.   Monitoring of the overall project outcomes and impact is essential to proper management of the Project. In order to achieve this, Component 5 will support the administration and coordination of the project, as well as the implementation and follow-up of the project's monitoring and evaluation framework.

82.   Sub-components comprise of (a) project management and administration; (b) project monitoring and evaluation.

Subcomponent 5.1 - Project Management and Administration.

83.   On a day-to-day basis, project activities will be managed by the project management group. The staff of the Foreign Financial Project Management Center (FFPMC) of the Ministry of Finance will perform the project's financial management and procurement functions, although a significant portion of procurement related functions will be shifted to the Project Management Group. The Public Sector Reform Commission will continue acting as a steering committee (board) for the project. Similar oversight mechanisms will be in place as in the PSMP I, and the

Office of the Government will be the main counterpart for the proposed project. If there will be a need for refurbishment of Government offices during the project implementation, provision of minor works for refurbishment of the Government offices involved in the project implementation will be financed by this subcomponent. The Project Manager will be supported by a small team, including an IT specialist and a legal expert.

84.   The Project Manager will be responsible for:

- Carrying out site visits and ensuring that the project activities are implemented properly and on time,
- Reporting on project progress to the Project Management group and the World Bank;
- Request adequate budget provisions for the project from the national budget,
- Reviewing consultant outputs, organizing acceptance testing of IT software and hardware etc.;
- Providing advice to the Working Groups established for each component of the project;
- Disseminating project related information and provide necessary information to external stakeholders;
- Ensuring that the project's mid-term review and completion reviews are conducted.

85.   For carrying out these and other project implementation functions, Subcomponent 5.1 will finance operational costs of the FFPMC and PMG

Subcomponent 5.2 - Project Monitoring and Evaluation.

86.   Subcomponent 5.2 will finance technical assistance and operational expenses to: (i) monitor and evaluate the project progress; (ii) monitor and evaluate project impact; (iii) monitor and evaluate project fiduciary controls; (iv) undertake the Mid-term Review; and (v) continuously engage internal and external stakeholders. Funds will also finance periodic user surveys and public dissemination of the survey results; communication campaign to explain project objectives and activities to managers, staff and stakeholders. This will be important to build and maintain support and ownership for the reforms.

Annex 5: Project Costs

ARMENIA: Second Public Sector Modernization Project

Table 8: Breakdown of Project Costs

Project Cost By Component and/or Activity	IBRD US $million
1. Strengthening Institutional Capacity in Policy Making and Service Delivery	**2.675**
Subcomponent 1.1 – Review and Re-engineering Institutions and Business Processes	1.250
Subcomponent 1.2 – Policy Analysis, Formulation and Monitoring	0.485
Subcomponent 1.3 – Strengthening Organizational Capacity for the Policy Driven Performance Planning and Management Processes	0.940
2. Maximizing the Efficiency of Human Resources in the Public Sector	**1.145**
Subcomponent 2.1 – Harmonization of Public Service and Introducing Performance Pay	0.290
Subcomponent 2.2 – Public Service Ethics and Code of Conduct	0.215
Subcomponent 2.3 – Capacity Building/ Training	0.640
3. Development of Information Systems for Managing Internal Workflow and External Communication	**3.895**
Subcomponent 3.1 – Improved Management Information Systems	3.025
Subcomponent 3.2 – Information systems development to enhance public access and information	0.620
Subcomponent 3.2 – Management of a Government ICT System	0.250
4. Just-in-Time Technical Assistance	**0.4**
5. Project Management and Implementation	**0.885**
Subcomponent 5.1 – Project Management and Administration	0.815
Subcomponent 5.2 – Project Monitoring and Evaluation	0.07
Total Project Costs/Financing Required	**9.00**

Annex 6: Implementation Arrangements

ARMENIA: Second Public Sector Modernization Project

1.   Given the wide span of the reforms proposed under the project in various ministries and agencies, the project will be implemented under the leadership of the *Public Sector Reform Commission* (PSRC), which will service as the **Project Management Board**. The PSRC was established by the decree of the Prime Minister # 624 of October 07, 1999. It is located in the Office of the Government and is headed by the Chief of Staff of the Government, who reports to the Prime Minister. Its members include senior officials from the President's Office, different ministries and agencies, the Civil Service Council, as well as representatives of some NGOs. The Deputy Chairman of the Chamber of Control is also a member of the Commission. Representatives of project entities that are currently not members of the PSRC would be invited to its project-related deliberations.   The Government may still wish to consider further strengthening of the PSRC through adding other officials or changing the current composition of the Commission.

2.   The PSRC will provide political support and strategic guidance to project activities; support the implementation of policy changes; approve and submit draft legislative acts and regulations to the Cabinet; resolve inter-agency coordination issues; and assist in building support for reforms and overcoming resistance to them. The PSRC will carry out all the required functions as a Project Management Board, including approval of project implementation plans, annual budgets, important financial management and procurement documents, etc.

3.   On a day-to-day basis, project activities will be implemented by the beneficiary institutions, which would use the PSRC as the conduit for putting support proposals and for reporting purposes. Counterparts from beneficiary institutions will sit on the PSRC during sessions related to the PSMP II.   This will ensure that management and staff of the entities covered by the project not only actively participate in project activities, but also take full leadership and high level of ownership for implementing reforms.

4.   The WGs will be supported by a **Project Manager**, who will be hired by the PRSC and will be funded by the project. The Project Manager will be a high level professional, having the trust of and access to the highest-level of decision-making in the Government. He/she will participate in the meetings of the PSRC. The Office of the Government will provide office space for the Project Manager and her/his support staff, and the project will cover its basic refurbishment, as well as its maintenance cost during the project implementation. The Project Manager will be responsible for reporting on project progress to the PSRC and the World Bank, ensuring adequate budget provisions for the project are made in the national budget, facilitating the work of the working groups, reviewing consultant outputs, organizing acceptance testing of IT software and hardware, etc.

5.   **Procurement and financial management** activities related to the project will be performed by the Foreign Financial Projects Management Center (FFPMC) at the Ministry of Finance, which has experience in managing World Bank projects. On overall project financial management and procurement issues the FFPMC will report directly to the PSRC. The FFPMC will be responsible for ensuring that procurement of goods, works and services is done in a

timely manner in accordance with World Bank guidelines, managing project funds, maintaining accounts, preparing financial management reports and getting the accounts audited. The FFPMC staff responsible for project implementation will work closely with the Project Manager on various implementation issues, and prepare the necessary documentation and reports.

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                    │   PROJECT MANAGEMENT BOARD        │
                    │ Public Sector Reform Commission (PSRC) │
                    │      Office of the Government       │
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│ │ Counterpart 1                │ │
│ │ Office of the Government     │ │
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│ │ Counterpart 2                │ │
│ │ National Assembly            │ │
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│ │ Counterpart 3                │ │
│ │ Civil Service Council        │ │          ┌──────────────────────────────────────────┐
│ └──────────────────────────────┘ │          │        Project Implementation Group        │
│ ┌──────────────────────────────┐ │          ├──────────────────────┬───────────────────┤
│ │ Counterpart 4                │ │          │ Project Management   │ Financial Management │
│ │ Ministry of Territorial Administration │ │  │ PMG of               │ and Procurement    │
│ └──────────────────────────────┘ │          │ Office of the Government │ FFPMC of MOF     │
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│ │ Counterpart 5                │ │
│ │ Visa and Passport Directorate│ │
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│ │ Counterpart 6                │ │
│ │ Chamber of Control           │ │
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│ │ Counterpart 7                │ │
│ │ Ministry of Finance          │ │
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│ │ Other:                       │ │
│ │ Just in Time Counterparts    │ │
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Annex 7: Financial Management and Disbursement Arrangements

ARMENIA: Second Public Sector Modernization Project

Country Issues .

1. According to the latest Doing Business Survey 2010, Armenia was among the top-rated CIS countries and scored well *vis-à-vis* many other developed and developing countries (it ranked 43rd out of 183). At the same time, Transparency International's Corruption Perception Index 2009, which indicates the perceived level of public sector corruption, ranked Armenia 120th[9] on the list of 180 countries. A CPAR done in 2009 also concluded that public procurement environment is in the mid- to high-risk category.

2. The 2005 CFAA report concluded that the overall fiduciary risk[10] in Armenia is significant. The key reasons are: (i) the core control and supervisory agencies performing the audits within the public sector have inadequate capacity; and (ii) compliance remains a problem, and authorities need to improve the quality of auditing, monitoring, and supervision, although most of the basic laws are in place with respect to various entities' (private sector and public enterprises, including state non-commercial organizations) financial reporting. The PEFA assessment report published in October 2008 also demonstrates that several critical Public Financial Management (PFM) elements—including internal controls, internal and external audit, and financial reporting—are still weak.

3. Based on the above assessments of the country PFM system, no elements of the country's FM systems are currently planned to be used under the project. The use of country PFM systems for the project implementation will be considered, as the government progresses with the ongoing PFM reforms, outlined below.

4. Since the CFAA and the CPAR reports were delivered, some reforms were initiated regarding the PFM. Specifically, following the amendment to the Constitution of the Chamber of Control (COC-Armenian Supreme Audit Institution), the COC gained more independence from the Parliament, and the new Law on COC, which needs further improvement to realign it with international standards and best practices, has been adopted. The internal audit reform is under implementation, with the government strategy in place supported by PRSC programs and internal audit IDF grants provided to support implementation of the strategy. The MOF also adopted an action plan for implementation of the IPSAS in the government sector and now is designing a detailed timeline for the transfer to cash basis IPSAS and then to accrual. The reforms in adopting IPSAS in the public sector are also supported by the Bank via a separate IDF grant.

5. In spite of the above, the fiduciary risk of the stand-alone financial management arrangements for Bank-financed investment projects in Armenia is considered low. The government counterpart funding is assessed to be adequate for a number of years, including for 2009, despite the impact of the financial and economic crisis on the state budget.

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[9] http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

[10] The risk of illegal, irregular or unjustified transactions, measured on a four-point scale according to the CFAA Guidelines (low, moderate, significant or high).

6. Specific procedures are developed by the project to secure proper financial accountability of this project and to minimize project financial management risks. Additional financial management arrangements in the project will include the audit of project financial statements by an independent auditor acceptable to the Bank, in accordance with TORs acceptable to the Bank. The project Designated Account will be with the HSBC Bank Armenia, the only bank in Armenia eligible for IBRD-financed projects, and the arrangements with HSBC were found to be satisfactory in previous projects.

7. The country residual risk is assessed to be moderate.

Risk Assessment and Mitigation.

8. The overall financial management risk for the project before mitigation measures is assessed to be moderate and after mitigation measures, the risk is low. Although the project will be implemented in an environment of high perceived corruption, adequate mitigation measures are in place to ensure that the residual risk is acceptable. Table 9 summarizes the financial management assessment and risk ratings of this project.

Table 9: Assessment of financial management and risk ratings

	FM Risk	*Risk Mitigating Measures*	*Residual Risk*
INHERENT RISKS			
Country level			
BEEPS report identified corruption as an issue. CFAA report addressed overall fiduciary risk as significant. PEFA assessment of critical PFM elements as weak. Weak PFM institutions (additional information is included in country issues in the previous section).	S	• Chamber of control has become independent and is being strengthened. • Internal audit reforms under way. • Public sector accounting standards being improved. • FFPMC is to maintain an independent financial management system, use of private auditors and use of commercial banks for designated accounts.	M
Entity level			
Risk of political interference in entity's management.	M	Board composition and structure of FFPMC will provide for independence of the entity.	M
Project level			
Project is small sized, with local commercial banks used by the Treasury for flow of funds from Government with risk of inefficiency of the operations on the Treasury resulting slow funds disbursement (also impacted by the financial crisis).	M	Implementation arrangements that allow close monitoring of activities under the project (including flow of funds) by the Bank.	L
OVERALL INHERENT RISK	M		M

	FM Risk	Risk Mitigating Measures	Residual Risk
CONTROL RISKS			
Budgeting Good Budgeting system. Budget is prepared in much detail which is necessary for monitoring the project	L	No additional mitigation measure required	L
Accounting. The FM staff has extensive experience in the Bank FM and disbursement procedures, including IFRs preparation. The accounting software is adequate.	L	No additional mitigation measure required	L
Internal Controls The internal control system is sound.	L	FFPMC has developed Financial Management Manual (FMM) to reflect the FM arrangements under the PSMPII..	L
Funds flow Government and the Bank funds will flow through commercial bank designated accounts.	M	The Bank will monitor the government counterpart funding transferred to the commercial bank accounts through reports received from FFPMC on a monthly basis.	L
Financial Reporting The IFRs of active projects were always received on time and found to be acceptable to the Bank.	L	No additional mitigation measure required	L
Auditing No issues have arisen in the audits of the two active Bank-financed projects.	M	No additional mitigation measure required. The audit will be carried out by independent auditors acceptable to the Bank.	M
OVERALL CONTROL RISK	**L**		**L**
OVERALL FM RISK	**M**		**L**

H – High   S – Substantial   M – Moderate   L – Low

Strengths

9.   The significant strengths that provide a basis for reliance on the project's financial management system include: (i) significant experience of the FFPMC's accounting staff in implementing Bank-financed projects for past several years; (ii) the use of adequate accounting software; (iii) FM arrangements similar to the ones used in active projects implemented by the FFPMC, and found to be adequate; (iv) the audits of the active, Bank-financed projects (and grants) implemented by the FFPMC revealed no issues; and (v) IFRs on the active projects (grants) were always received on time and found to be acceptable to the Bank.

Weaknesses and Action Plan

10.   No significant weaknesses were identified at the FFPMC. The FFPMC has developed Financial Management Manual (FMM), to reflect the FM arrangements under PSMP II.

Implementing Entity

11.   The residual risk associated with the FFPMC is moderate with little likelihood of external intervention to modify the structure and staff of the organization.

Budgeting and Planning

12.   The FFPMC is capable of preparing relevant budgets. The financial manager prepares the project annual budget in co-operation with procurement specialists. The annual budget is based on the procurement plan, which is regularly updated. The budget is classified by categories, components, and sources of funds. All changes in procurement plan are reviewed by the FFPMC Director agreed in advance with the Bank and with MOF, and only then the changes are incorporated in the annual budget. The risk associated with planning and budgeting is assessed as low.

Accounting Staffing

13.   The accounting staff at FFPMC consists of an experienced financial manager, an experienced chief accountant and a financial specialist. The financial manager previously worked at the similar position in another PIU implementing the Bank-financed projects. The financial manager is responsible for budgeting, withdrawal applications preparation, control over statutory accounting and over payments to contractors, reporting to the WB, MoF and other relevant local authorities. The chief accountant is responsible for statutory accounting and payments to contractors, reporting to the Tax Service and other relevant local authorities. The financial specialist is responsible for bookkeeping and posting of the accounting transactions in the software. The financial manager participated in the regional joint financial management (FM) and Disbursement workshop organized by WB in June 2007 in Yerevan, and in WB Joint Fiduciary Workshop in Tbilisi in November 2009. The risk associated with staffing is assessed as low.

Information Systems

14.   The FFPMC utilizes 1C accounting software, which has fully-integrated accounting and financial management software modules adapted for use in Bank-financed projects. The software is capable of generating IFRs automatically. For reconciliation purposes, the IFRs are also prepared in Excel. The risk associated with ISs is assessed as low.

Accounting Policies and Procedures

15.   The accounting system of the FFPMC is maintained according to Accounting Standards of the Republic of Armenia (ASRA). For reporting purposes, the FFPMC uses cash basis IPSAS.

The current chart of accounts will be adapted to the PSMP II's requirements. The risk associated with accounting policies and procedures after mitigation is assessed as low.

Internal Controls and Internal Audit

16.   The internal controls at the FFPMC are found to be sound. The FFPMC maintains separate project FMMs for active projects and grants. All the payments for operating expenses are authorized by the director and then processed by the chief accountant, after receiving the financial manager's approval. All payments are made via bank transfers, with no petty cash held. The FFPMC's operating budget is prepared by the financial manager and reviewed by the director, MOF, and approved by the Project Management Board. All employees have employment contracts. There are also contracts with services providers (Internet, phone, etc). The FFPMC's financial management system is adequate for processing and maintaining SOE documentation. Stocktaking is performed annually (last in December 2008). All fixed assets (FAs) of the FFPMC are on the balance sheet of the MOF. The FFPMC maintains lists of FAs assigned to each employee and FAs' registration cards. The FFPMC regularly reconciles the projects' accounting records with the WB's disbursement data via the Client Connection system. The formal XDR reconciliation is also conducted on a regular basis (usually at least once a month) in an Excel spreadsheet. The reconciliation between the project accounting records and the SAs/DAs is done once a day when there are movements on the accounts. Considering the small size of the FFPMC, no internal audit function exists or is required; however, the MOF's internal audit unit performs *ad hoc* supervisions. The risk associated with internal controls and internal audit after mitigation is assessed as low.

Financial Reporting

17.   Project management-oriented Interim Un-audited Financial Reports (IFRs) will be prepared under the PSMP II project. The FFPMC will produce a full set of IFRs every 3 months throughout the life of the project. The format of IFRs has been agreed during the assessment (incorporated into the FMM) and includes: (i) Project Sources and Uses of Funds; (ii) Uses of Funds by Project Activity; (iii) Designated Account Statements; and (iv) SOE Withdrawal Schedule. These financial reports will be submitted to the Bank within 45 days of the end of each quarter. The first quarterly IFRs will be submitted after the end of the first full quarter following the initial disbursement. The risk associated with reporting and monitoring is assessed as low.

External Audit

18.   No issues have arisen in the audits of previous and current Bank-financed projects implemented by FFPMC. The audit of the PSMPII will be conducted (i) by independent, private auditors acceptable to the Bank, on the basis of TORs acceptable to the Bank and procured by the FFPMC, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

19.   The FFPMC's current auditing arrangements are acceptable to the Bank, and it has been agreed that similar audit arrangements will be adopted for the PSMPII financial statements' audit.

20.   The sample TOR acceptable to the Bank and to be used for the project audit was provided to the FFPMC. The annual audited project financial statements will be provided to the Bank within 6 months of the end of each fiscal year and also at the closing of the project. If the period from the date of effectiveness of the loan to the end of the borrower's fiscal year is no more than six months, the first audit report may cover financial statements for the period from effectiveness to the end of the second fiscal year. The contract for the audit awarded during the first year of project implementation may be extended from year-to-year with the same auditor, subject to satisfactory performance. The cost of the audit will be financed from the proceeds of the credit. Table 10 identifies the audit reports that will have to be submitted by the project implementation agency, together with the due date for submission.

Table 10: Deadlines for audit reports

Audit Report	Due Date
Continuing Entity financial statements	N/A
Project financial statements (PFS). The PFS include (i) Statement of financial position (Project Balance Sheet), (ii) Sources and Uses of Funds, (iii) Uses of Funds by Project Activity, (iv) SOE Withdrawal Schedule, (v) Designated Account Statement, (vi) Notes to the financial statements, and (vii) Reconciliation Statement.	Within six months of the end of each fiscal year and also at the closing of the project

21.   In addition, the Armenian Chamber of Control, the country's supreme audit institution, performs ad hoc external audits of the FFPMC and projects under its implementation with findings usually shared and discussed with the Bank. The risk associated with external audit is considered moderate.

Funds Flow and Disbursement Arrangements

22.   The staff is well aware of the Bank's disbursement procedures FFPMC will establish a Designated Account (DA) specifically for this project, in HSBC Bank Armenia.-The Treasury currently uses commercial banks for transfer of Government Counterpart Funding. The ceiling of the Account will be US$1.0 million, and the minimum applications will be US$200,000. Disbursements from the IBRD Loan Account will follow the transaction-based method, i.e., traditional Bank procedures: Reimbursement (with full documentation and using Statement of Expenditures), Advance, Direct Payments, and Special Commitments. For certain payments, above the minimum application size, as specified in the Disbursement Letter, the recipient will submit withdrawal applications to the Bank for payments to contractors, suppliers and consultants directly from the Loan Account. The Financial Manager would ensure completeness and accuracy of all withdrawal applications.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (exclusive of Taxes)
(1) Works, Goods, consultants' services, Training and Incremental Operating Costs for the Project	8,977,500	100___%
(2) Front-end Fee	**22,500**	**Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions**
TOTAL AMOUNT	**9,000,000**	

23.   All disbursements will be made on the basis of full documentation for (a) contracts for works and goods costing more than the equivalent of US$200,000 each; (b) consultant services for firms costing more than the equivalent of US$100,000 each; and (c) contracts for individual consultants costing more than US$50,000 equivalent each. Disbursements below these thresholds will be made according to certified Statement of Expenditures (SOEs). This documentation will be retained by FFPMC for at least one year after receipt by the IBRD of the audit report for the year in which the last disbursement was made or for such a period required by local legislation.

Financial Covenants

24.   The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

25.   The Borrower shall prepare and furnish to the Bank not later than forty five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

26.   The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Supervision Plan

27.   As part of its project supervision missions, the Bank will conduct risk-based financial management supervisions within a year since the project effectiveness, and then at appropriate intervals. During project implementation, the Bank will supervise the project's financial management arrangements in the following ways: (a) review the project's quarterly IFRs as well as the project's annual audited financial statements and auditor's management letter and remedial actions recommended in the auditor's management letters; and (b) during the Bank's on-site supervision missions, review the following key areas (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement management and

financial flows, including counterpart funds, as applicable; and (iv) any incidences of corrupt practices involving project resources. As required, a Bank-accredited Financial Management Specialist will be involved in the supervision process.

Annex 8: Procurement Arrangements

ARMENIA: Second Public Sector Modernization Project

A. General

1.   Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" current edition (May 2004, revised October 2006); and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" current edition (May 2004, revised October 2006), and the provisions stipulated in the Loan Agreement (LA). For each contract to be financed under the LA, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. A General Procurement Notice (GPN) will be published in February 2010 in UNDB on-line and in its printed version as well as in dgMarket online. Specific Procurement Notices (SPN) will be published for all ICB procurement and Consulting contracts per Guidelines as the corresponding bidding documents and RFPs become ready and available.

B. Assessment of the Agency's Capacity to Implement Procurement

2.   A Country Procurement Assessment Report (CPAR) for the Republic of Armenia was completed in June 2009. The Armenian Public Procurement Law (PPL) is generally comparable with internationally accepted public procurement legislation. Certain gaps still remain, such as noted in the following boxes:

Pillar 1 Legislative and regulatory framework

- The PPL does not have specific provisions on concession contracts, rent, and lease; utility companies are not specifically mentioned in the PPL; and procurement of civilian items for national security and defense, is excluded from open tendering. The PPL includes vague references to other procurement-related laws and decrees, such as the civil code and the criminal code.

- The PPL lacks clear provisions relating to the selection of consultants.

- There is no provision in the PPL or a decree on how to evaluate bids submitted by joint ventures. The PPL (Article 34(c)) provides that rejection of a bid may be based on "…other cases envisaged by law". The formulation in the PPL on this subject is vague and may lead to subjective results.

- The PPL does not include clearly defined criteria for the use of SS. The practice of use of registry of the Anti Monopoly Commission as a proxy for justifying SS on the basis of lack of competition should be discontinued. The current list of items subject to SS should be reviewed and periodically updated to reflect market changes. Extension of existing contracts must be justified on economy and efficiency reasons, and only those contracts initially concluded through competition should be considered for extension. Budgetary funds should be made available early in the fiscal year so as to allow time for use of competitive procurement method. Requirements for sole sourcing on the basis of urgent need or emergency needs to be tightened. Its use should be allowed only in extreme and exceptional circumstances, limited in application and duration, and only if such circumstance did not result from lack of foresight, poor planning or negligence on the part of the entity concerned. The framework should identify the state body responsible for determining urgent need or emergency and the legal basis on which such determination can be made.

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3.   There is also room for institutional improvement, particularly:

Pillar II Institutional framework and management capacity

- Procurement planning and contents of a procurement plan should be improved.

- The AB should discontinue direct involvement in the procurement process related to the reviews of evaluation reports and signed contracts to avoid conflict with its oversight role and the role of review and resolution of bid complaints. Furthermore, the PPL or the implementation decree should include clear rules regarding the oversight function of the AB.

- Procuring entities should be made responsible for their own procurement including the procurement process, and contract signature. SPA's procurement capacity and experience should be used to conduct periodic tenders, where central purchasing through aggregation results in clear efficiency gains. It should also support procuring entities through technical assistance and training. SPA's role in targeted tenders should be limited to providing advice to procuring entities and their tender committees.

- A procurement advisory council should be established, involving the major procuring entities not only from Yerevan but also from Marzes and local communities, to ensure stakeholders' participation in improving and overseeing the public procurement function. This council should also have representatives from civil society, including NGOs, Chamber of Commerce, etc.

- Develop a sustainable strategy for collecting, maintaining, and disseminating procurement statistics. Also design and implement a system for monitoring procuring entities' compliance with the procurement legislation. Prepare periodic report on the performance of public procurement and make these available to the public through the public procurement website. Develop a simple excel based procurement monitoring information system for procuring entities.

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4.   The current CPAR concludes that Armenia should be rated as mid to high risk country.

5.   An Assessment of the Capacity of the Foreign Financing Projects Management Center (FFPMC) to undertake procurement was conducted during preparation of Public Sector Modernization Program first project and this assessment was updated during preparation of Public Sector Modernization Program II project. It is available in project files. Procurement activities will be carried out by the existing FFPMC that will ensure overall leadership for the public sector modernization reform process, including project implementation. An overall Project Operations Manual will be drafted and expected to be cleared by the Bank by June 2010. The FFPMC has implemented many World Bank projects and has several procurement specialists that report to FFPMC Director. As the current workload of the procurement unit will be increased by the implementation of the FFPMC Project in parallel with other on-going projects there will be a need to monitor procurement workload and take adequate measures if needed. Anyway, at least two procurement experts of FFPMC will be involved in PSMP II implementation. The FFPMC has demonstrated good performance under other 38 implemented projects. Procurement risk is rated as moderate after mitigation measures.

C. Procurement Risk Assessment

6.   The Overall procurement risk is rated "Moderate". The risks associated with procurement and the mitigation measures were identified and are summarized in the table below:

Table 1: Summary Risk Assessment

Description of risk	Ratings of risk	Mitigation measures	Ratinga of residual risk
Per current CPAR Armenia is rated as procurement Mid to High risk country.	H	The Team will enforce strict compliance with the Bank's Procurement and Consultants Guidelines, Anti-Corruption Guidelines and procurement arrangements for the project specified in Project Operations Manual, Competitive Fund Manual and Procurement Plan.	M
Per updated capacity assessment of FFPMC, there is a risk of overloaded procurement activities given complex nature of project and multiple stakeholders	M	An existing and experienced FFPMC will coordinate procurement and contract management. In addition, it will coordinate workload among other projects.	M
Complexity of IT/MIS packages, lack of competition, low capacity of the bidders to prepare bids, delays in project procurement and implementation.	S	FFPMC will attend additional training in procurement of goods, IT systems and consultants services and will arrange for pre-bid conferences with potential bidders.	M
Average	S		M

H: High; S: Substantial; M: Moderate and L: Low.

D. Procurement Implementation and Arrangements

7.   Procurement of Works: At this stage it is not foreseen to procure any major works under PSMP II. There could be a need for refurbishment minor works that would include small interior refurbishment works of Government offices involved in the implementation. Works of the small values of less than $100,000 equivalent could be procured under Shopping procedures (i.e. minor works). It is anticipated that value of any contract would not exceeds $100,000 equivalent. It is recommended to combine packages to the extent possible, and in case combined value exceeds $100,000, the National Standard Bidding Documents agreed with or satisfactory to the Bank, for example, updated Europe and Central Asia sample on National Competitive Bidding (NCB) could be used.

8.   Procurement of Goods: Goods procured under this project would include furniture, office and computer equipment and associated peripherals, software, the MIS systems for the Beneficiaries. IT packages, training and printing materials and publications will be grouped to the extent possible and considering project objectives in package sizes that will encourage competitive bidding. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank. Database management system, networks and related software shall follow Bank's SBD "Supply and Installation of Information Systems". Simple goods, network equipment for existing networks, computers and related standard software may follow Bank's SBD "Procurement of Goods" tailored for specific package, Goods of the small values of less than $100,000 equivalent could be procured under Shopping procedures The following methods of procurement will be followed.

9. .   International Competitive Bidding (ICB). Goods estimated to cost US$200,000 and more equivalent per contract will be procured using ICB procedures in accordance with the Bank's Procurement Guidelines. Limited International Bidding (LIB) is not envisaged at this stage. If need arises during implementation and justified, Bidders shall be invited in accordance with the provisions of paragraphs 3.1 and 3.2 of the Guidelines.

10.   National Competitive Bidding (NCB). Works estimated to cost less than US$200,000 equivalent per contract and Goods estimated to cost less than US$200,000 equivalent per contract will be procured according to NCB procedures in accordance with paragraphs 3.3 and 3.4 of the Bank's Procurement Guidelines.

11.   Shopping (SH) procedure will be used for readily available off-the-shelf Goods, including furniture, office and computer equipment for the Beneficiaries and for the PCU, etc. All items would have standard specifications, estimated to cost less US$100,000 equivalent per contract. As for the small/minor Works, some packages of the required refurbishment will be procured under Shopping procedure as they are estimated to cost less than US$100,000 equivalent per contract. This procedure will be based on obtaining and comparing price quotations from at least three suppliers in case of goods or contractors in case of civil works in accordance with paragraph 3.5 of Procurement Guidelines. The evaluation of quotations shall follow the same principles as of open bidding.

12.   Direct Contracting (DC). Where certain goods are available only from a particular supplier or in cases where compatibility with existing equipment so requires goods may be procured under Direct Contracting with prior approval from the Bank (in accordance with paragraph 3.6 of the Procurement Guidelines).

13.   Procurement of technical services: At this stage it is not foreseen to procure any technical/non-consulting services.

14.   Selection of Consultants: Contracts for Consulting Services will be packaged to combine related skills and services in order to make them attractive for competition and reduce the number of contracts to be administered taking into consideration a size and physical distribution of the PCU and limited capacity to administer a large number of contracts. To the extent practicable, training activities would be incorporated with consulting services contracts.

Consultant services consist of short-and long-term assignments to be contracted to firms and/or individuals (national and/or foreign or jointly) depending on the nature and duration of the assignments. Selection procedures will generally be managed through competition among qualified short listed consultants. The short lists for consultant services contracts with firms shall comprise six firms with a wide geographical spread, and with no more than two firms from any one eligible country and at least one firm from developing country, unless qualified firms from developing countries are not identified. The procurement of consultant services contracts financed under the Credit will be in accordance with the provisions of the Consultant Guidelines. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The following procedures will be used for selection of consultant services:

15.   Quality and Cost Based Selection (QCBS) procedures, as described in Section 11, paragraphs 2.1 to 2.31 of the Consultant Guidelines will be used if necessary for assignment under all Components of the Project.

16.   Selection under a Fixed Budget (FBS) procedure may be used for the selection of a firm for conducting any Public Awareness Campaign on specialized education reforms.

17.   Least Cost Selection (LCS) procedure would be used for selection of an auditor to carry out audit of the Financial Statements of the Project.

18.   Selection Based on Consultants' Qualifications (CQ) will be used for contracting firms for certain assignments under all components of the project for which the value of the assignments is estimated to cost less than US$100,000 equivalent per contract.

19.   Single Source Selection (SSS) may be used for specific assignments if the need arises during implementation based on justifications.

20.   Individual Consultants (IC). Many specialized activities where specific skills are needed for short period of time at scattered intervals and which would not be practical to package with the assignments for consulting firms described above, would be best served through the recruitment of individual consultants (both foreign and national). Selection of individual consultants will be carried out in accordance with Section V of the Consultant Guidelines. Individuals will be selected on the basis of their qualifications for the assignment by comparing the CVs obtained in response to an advertisement in the national press or Development Business. PCU additional staff will be selected as individual consultants.

21.   Sole Source (SS). The method may be used for existing PMG staff on the basis of continuation of services. PMG staff currently holds individual consultant contracts and would continue their services. Sole Source may be used if individual specialists originally were selected competitively among qualified candidates based on comparison of qualifications. Consultants may be hired under sole source contracts with the prior approval of the Association in accordance with paragraph 5.4 of the Consultants Guidelines;

22.   Training Activities: Training is an integral element of the project's capacity building objective. The project will finance training programs, including training workshops, beneficiaries training, study tours and local training. Such training programs, particularly study tours, would be included in larger TA contracts with firms to reduce administrative burden on the FFPMC. Expenditures related to such training activities shall be described in Project Operations Manual. Design of the training courses and study tours will be done by the specialists contracted as short term consultants under relevant QCBS, CQ and/or IC procedures depending on the value of the assignment as described in this Annex. Estimated budget, list of participants and draft agenda for training event will be subject to the Bank prior review. Expenditure items for training activities, including study tours, would be reported under SOEs. The status of the training plan would be included as part of the quarterly progress reports, and would be updated and/or modified as may be mutually agreed between the coordination units and the Bank/IBRD.

23.   Project Operations Manual: The overall project procurement procedures, thresholds, SBDs, etc. to be used for each procurement method, as well as model contracts for works and goods procured, will be presented in the Project Operations Manual.

24.   Frequency of Procurement Supervision: In addition to the prior review supervision to be carried out by the Bank team, the capacity assessment of the Implementing Agencies recommends post reviews to be carried on at least 10 % (ten percent) of the contracts subject to post review. It is expected that a supervision mission in the field will be conducted every six months during which post reviews will be conducted. As a minimum one post review report which will include physical inspection of sample contracts including those subject to prior review will be prepared each year. Not less than 8-10% of the contracts will be physically inspected.

Additional Provisions for National Competitive Bidding
25.   In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Guidelines, the criteria specified in the capacity assessment and LA shall be followed in procurement under National Competitive Bidding procedures. Such clarifications as described in CPAR are required for compliance with the provisions of the Procurement Guidelines and shall be included in the Loan Agreement.

26.   Anti Corruption Measures: Procurement capacity assessment included certain recommendations on strengthening procurement including on the anti-corruption aspects of project implementation. These included such measures as review of Anti-Corruption guidelines, signing of "Declaration of Impartiality" letters by Evaluation Committee members, etc.

27.   Procurement Plan: The FFPMC at appraisal developed an initial Procurement Plan (PP) for the entire project scope consistent with the implementation plan, which provides information on procurement packages, methods and Bank review method. Since this would cover the entire project completion period it will be tentative. The PP will be updated in agreement with the Bank project team annually or as required to reflect the actual project implementation needs and improvements in the implementing agency institutional capacity. Methods and Prior review thresholds will be further reviewed during mid-term review to determine whether or not any

increase can be specified in the updated Procurement Plan based on improved implementing agency capacity.

I. Goods.
28.   Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank/IBRD as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Method Threshold	Prior Review Threshold
1.	ICB and LIB (Goods)	> US$200,000	> US$200,000
2.	NCB (Goods/Works)	<US$200,000	First two contracts
3.	Shopping (Goods/Works)	< US$100,000	First two contracts
4.	Direct Contracting*	n/a	All contracts if justified

* all contracts subject to justification as per Procurement Guidelines para 3.6 (a)-(e), 3.7

II. Selection of Consultants
29.   Prior Review Threshold: Selection Decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Procurement Method	Method Threshold	Prior Review Threshold
1.	QCBS (Firm)	> US$100,000	> US$100,000
2.	LCS (Firms)	>US$100,000	> US$100,000
3.	FBS (Firms)	>US$100,000	> US$100,000
4.	CQ (Firms)	<US$100,000	First two contracts
5.	IC (Individuals)	n/a	> US$50,000
6.	Single Source (Firms)*	n/a	All contracts if justified
7.	Single Source (Individuals)*	n/a	All contacts if justified
8.	TORs for assignments	all TORs	

* all Contracts subject to justification as per Consultants Guidelines para 3.10 (a)-(d), 3.9, 3.11-3.13

SECOND PUBLIC SECTOR MODERNIZATION PROJECT

Package No.	Description	No. of Packages	Procurement Method	Review By Bank (PRIOR / Post)	Invitation Date	Expected Bid Opening Date	Contract Award Date	Start Date	Completion Date
A	B	C	D	E	F	G	H	I	J
1. WORKS									
	Component 5 - Project Management, monitoring and evaluation 1.5.1 – Minor works at governmental offices		Sh	Prior					
2. GOODS									
	Component 1 - Policy formation and performance management Subcomponent 1.1 – Policy Development and Implementation Institutional capacity building of the ministries								

2.1.1.1	Supply of local networking equipment for the ministries and marzpetarans	1	ICB	Prior
Subcomponent 1.2 - Processes of policy formation				
2.1.2.1	Supply of equipment for provision of services to population by special civil servants	1	NCB	Prior
2.1.2.2	Supply of equipment for public relations divisions	1	SH	Prior
Subcomponent 1.3 - Organization of capacity building for performance programming and management processes conditioned by the policy				
2.1.3.1	Supply of IT equipment for GoA corporate network units	1	ICB	Prior
Component 2 - Assuring maximum efficiency of human resources in the public sector				
Subcomponent 2.2 - Public service ethics and code of conduct				
	Supply of IT equipment for the ethics commission	1	SH	Post

Ref	Description			
Subcomponent 2.3 - Study and capacity building				
2.2.3.1	IT and communication equipment for computer based modules	1	ICB	Prior
Component 3 - Improved Information Systems for organization of internal work and external communication				
Subcomponent 3.1 - Improving of MIS				
2.3.1.1	EDMS transfer into complete existing management tool	1	ICB	Prior
2.3.1.2	Supply of IT equipment for EDMS archive	1	NCB	Prior
2.3.1.3	Supply of IT equipment for the operation of MIS in the GoA, ministries and marzpetarans	1	ICB	Prior
2.3.1.4	Equipping the National Assembly facilities (session hall, offices of MPs and NA staff, and other) for operation of MISs (Lot 1 and 2 - estimated USD 350,000 and USD 370,000 respectively)	1	ICB	Prior
2.3.1.5	Supply of audio and other IT equipment for NA press-conference hall	1	NCB	Prior
2.3.1.6	Supply of IT equipments and technical means for operation of MIS and automation of measuring in Chamber of Control	1	NCB	Prior
Subcomponent 3.2 - Development of Information Systems for improving of public accessibility and information				
2.3.2.1	Supply of E-shop equipment	1	SH	Post

Ref	Description	Qty	Method	Review
2.3.2.2	Supply of IT and other equipment for service centers for developed MIS packages (EDMS, HRMIS, LGMIS)	1	ICB	Prior
Subcomponent 3.3 – Management of ICT system of GoA				
2.3.3.1	Equipment for the implementation of the policy of disaster rehabilitation		NCB	Prior
Component 5 - Project Management, monitoring and evaluation				
	IT equipments	1	SH	Post
	Transportation means and costs	1	SH	Post
3. CONSULTANT'S SERVICES				
Component 1 - Policy formation and performance management				
Subcomponent 1.1 - Policy Development and Implementation Institutional capacity building of the ministries				
3.1.1.1	Capacity building of the ministries for policy development and implementation (functional analyses in the territorial administration system and in one ministry)	1	QCBS	Prior

3.1.1.2	Functional analysis and corresponding suggestions for modernization of HR divisions	1	CQ	Post
Subcomponent 1.2 - Processes of policy formation				
3.1.2.1	Capacity building of NA Staff for policy analysis and efficient interface between the government and population		CQ	Post
3.1.2.2	Building of capacity for provision of services to the population by the special civil servants		CQ	Post
3.1.2.3	Capacity building of public relations divisions		CQ	Post
Subcomponent 1.3 - Organization of capacity building for performance programming and management processes conditioned by the policy				
3.1.3.1	Development of methodology for the assessment of compliance with GoA strategy (developed under Subcomponent 1.2) for policy formation and strategy planning		CQ	Post
3.1.3.2	Implementation of GoA strategy in pilot ministries within the format of policy development programs		CQ	Post
Component 2 - Assuring maximum efficiency of human resources in the public sector				
Subcomponent 2.1 - Most efficient Human Resource Management				

3.2.1.1	Development of the system, methodology, processes and standardized database/library for the assessment of a position/post and application capacity building in the CSC and in HR Divisions of the ministries.	CQ	Post
3.2.1.2	Feasibility study/assessment of introduction of the system of remuneration of public servants and the new social package and strategy development	CQ	Post
Subcomponent 2.2 - Public service ethics and code of conduct			
3.2.2.1	Development of the Code of Conduct for public servants	IC	Post
3.2.2.2	Setting up of an Ethics Commission and capacity building	CQ	Post
3.2.2.3	Capacity building of mass media for the presentation of situations of conflict of interests and analytical capacity building in press	CQ	Post
Subcomponent 2.3 - Study and capacity building			
3.2.3.1	Training of the main group of local lecturers for conducting of courses	CQ	Post
3.2.3.2	Module 1 - Methods of policy analysis, monitoring and evaluation	IC	Post
3.2.3.3	Module 2 - Performance management, including management of the change of organization/institution	IC	Post
3.2.3.4	Module 3 - Staff management	IC	Post
3.2.3.5	Module 4 - External audit	IC	Post
3.2.3.6	Module 5 - Ethics of civil/public service (and management conflict of interest)	IC	Post

82

3.2.3.7	Module 6 - Program management	IC	Post
3.2.3.8	Module 7 - Capacity building for regional development programs and management	IC	Post
3.2.3.9	Elaboration of a Training Manual of Individual Management Skills	IC	Post
Component 3 - Improved Information Systems for organization of internal work and external communication			
Subcomponent 3.1 - Improving of MIS			
3.3.1.1	Development of EDMS archiving system	QCBS	Prior
3.3.1.2	Modernization of HRMIS	CQ	Post
3.3.1.3	Accessible on-line unified database and software package of declaration of property and income of higher government officials, aimed at control over conflict of interests	QCBS	Prior
3.3.1.4	Assuring connection of the Chamber of Control to various information systems of management	CQ	Post
Subcomponent 3.2 - Development of Information Systems for improving of public accessibility and information			
3.3.2.1	Developing a management portal of e-services and assuring interconnection and compatibility of developed e-management packages (EDMS, HRMIS, LGMIS etc)	QCBS	Prior

3.3.2.2	Assuring software package for e-shops for EDMS, HRMIS, LGMIS packages (including for declaration of property and income)	CQ	Post
Subcomponent 3.3 – Management of ICT system of GoA			
3.3.3.1	Analysis of and proposals/suggestions for e-governance system	CQ	Post
Component 5 - Project Management, monitoring and evaluation			
5.1	Audit	LCS	Post
Component 4 – Unallocated			
4. TRAINING			
Component 1 - Policy formation and performance management			
Subcomponent 1.2 - Processes of policy formation			
4.1.2.1	Training tours	TR	Post
Subcomponent 1.3 - Organization of capacity building for performance programming and management processes conditioned by the policy			
4.1.3.1	Training tours	TR	Post

Component 2 - Assuring maximum efficiency of human resources in the public sector			
Subcomponent 2.1 - Most efficient Human Resource Management			
4.2.1.1	Exchange of experience between the Parliaments	TR	Post
4.2.1.2	Training tours	TR	Post
Subcomponent 2.2 - Public service ethics and code of conduct			
4.2.2.1	Training tours	TR	Post
Component 5 - Project Management, monitoring and evaluation			
4.5.1	Training costs	TR	Post
5. OPERATING			
Component 5 - Project Management, monitoring and evaluation			
5.1	Operating Costs (Salaries of FFPMC and PMG, Communication and other miscellaneous costs., miner office equipment and supplies, utilities, representation, advertisement and mass media costs	Op	
5.2	Procurement of Project monitoring services	Op	Post

Legend:	
ICB =	International Competitive Bidding (in accordance with section 2 of the Guidelines)
	For goods contracts valued at or more than US$ 200,000
NCB =	National Competitive Bidding (in accordance with section 3.3 of the Guidelines)
	For goods contracts valued less than US$ 200,000
DC=	Direct Contracting (in accordance with section 3.6 of the Guidelines)
SH =	Shopping (in accordance with section 3.5 of the Guidelines)
	For goods contracts valued at or less than US$$100,000
	Aggregate Shopping amount for the project: [INSERT AGGREGATE AMOUNT] to be monitored during the project period
[Insert other methods as applicable]=	[Insert other methods in the same format as above]
Prior review	
	For Goods contracts: : All ICB contracts. All NCB contracts of USD [Insert value] equivalent or more including the first [SELECT "two" or "three"] contracts regardless of value of contract. First [SELECT "One" or " two"] shopping contracts.
	[SELECT "Will apply to works contracts valued at or more than [Insert value]" or "Not Anticipated"]
Pre Qualification=	[Select: "will apply to works contracts only" or "will apply to goods contracts only" or "will apply to works and goods contracts" or "will not apply"]
Domestic Preference=	[Select: "will apply to works contracts only" or "will apply to goods contracts only" or "will apply to works and goods contracts" or "will not apply"]

86

Legend

QCBS = Quality and Cost-based Selection (in accordance with sections 2.1 - 2.28 of the Consultant's Guidelines)

QBS= Quality Based Selection (in accordance with section 3.2 the Consultant's Guidelines)

CQ= Consultants Qualifications (in accordance with section 3.7-8 of the Consultant's Guidelines)

LCS = Least-Cost Selection (in accordance with section 3.6 of the Consultant's Guidelines)

SSS= Single source Selection (in accordance with section 3.9-13 of the Consultant's Guidelines)

IC = Individual Consultant (in accordance with section V of the Consultant's Guidelines)

[Insert other methods]

Prior Review

For firms: All contracts equal to USD [INSERT value] or more. First two contracts regardless of value and all SSS contracts.

For individual consultants: All contracts equal to USD [INSERT value] equivalent or more. First two contracts regardless of value and all SSS contracts.

Annex 9: Economic and Financial Analysis
ARMENIA: Second Public Sector Modernization Project

1.   The reforms proposed under the project are expected to create economic efficiency gains as are described below but that are difficult to quantify. Follow-up actions, especially the introduction of IT technology might on the other hand entail additional financial costs that are also described below.

2.   The project emphasizes the introduction of technological innovations to improve the efficiency, effectiveness, transparency and accountability of public sector management. The hardware and software needed to implement new management systems will be funded by the project. However, additional budgetary resources will be needed to sustain and operate these systems. The impact on the government's budget, however, to sustain these measures is expected to be small, comprising applicable software licensing fees along with some ongoing maintenance of equipment acquired under the project. The annual cost to the government's budget would be in the order of 5 percent of the initial investment cost for maintenance. However, if the functionality is to be maintained over time, equipment and software that has become obsolete will need to be replaced in 5 to 7 years. Similarly, if more coverage were desired for the system, additional investments would be required.

3.   The project will also fund the development of horizontal management systems for the civil service, which would promote merit and professionalism in that sector. However, the investment in management systems is unlikely to have the desired impact if it is not accompanied by an improvement in civil service salaries and the salary system. This, however, cannot be done without increasing the proportion of the civil service wage bill as a percentage of GDP. The analytical work planned under the project will help the GoA identify options for increasing the budget allocations for civil service salaries and social benefits. The project would support further rationalization and optimization of the whole public service system.

4.   The main economic impact of the project will be anchored to: (i) ease market entry and increase competition, and (ii) reduce transaction costs in dealing with the government. The long-term competition gains will be the ultimate result of stronger oversight and pressure of the society on conflict of interest practices. Once the monopolies are relieved of their political offices, there will be less administrative and subjective obstacles for other entrepreneurs to enter most of the markets and increase competition. Additionally, the transaction costs of dealing with the government will decline, thanks to the increased labor productivity of public entities, and more objective and quick communication through electronic government systems.

Annex 10: Safeguard Policy Issues

ARMENIA: Second Public Sector Modernization Project

1.   The project's goal is to enhance public sector governance through the objective and targeted use of public resources, confirmed by accountability mechanisms and citizen participation and is not expected to have any direct environmental impact. The project is a Category C project.

Annex 11: Project Preparation and Supervision

ARMENIA: Second Public Sector Modernization Project

	Planned	Actual
PCN review	September 23, 2009	October 7, 2009
Initial PID to PIC		October 16, 2009
Initial ISDS to PIC	October 16, 2009	November 3, 2009
Appraisal	January 25, 2010	January 26, 2010
Negotiations	February 3,, 2009	February 9, 2010
Board/RVP approval	March 16,, 2010	
Planned date of effectiveness	July 1, 2010	
Planned date of mid-term review	May 10, 2012	
Planned closing date	July 31, 2014	

Key institutions responsible for preparation of the project:
  Public Sector Reform Commission
  Civil Service Council
  Ministry of Finance
  Chamber of Control
  National Asssembly

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Kathy Lalazarian	Sr. Public Sector Specialist	ECSP4
Richard Messick	Sr. Public Sector Specialist	PRMPS
Davit Melikyan	Public Sector Management Specialist	ECSP4
Robert Taliercio	Sr. Country Economist	ECSP1
Maya Gusarova	Public Sector Specialist	ECSP4
Svetlana Proskurovska	Sr. Public Sector Specialist	ECSP4
Gary Fine	Sr. Private Sector Development Specialist/Regional GDLN Coordinator	ECAVP
Hannah M. Koilpillai	Senior Finance Officer	LOAFC
Renee Desclaux	Senior Finance Officer	CTRFC
Karina Mostipan	Senior Procurement Specialist	ECSPS
Arman Vatyan	Sr. Financial Management Specialist	ECSPS
Yoko Kagawa	Operations Officer	ECSP4
Anita Correa	Program Assistant	ECSP4
Nelli Khachatryan	Program Assistant	ECCAR
Tony Verheijen	Lead Public Sector Specialist (Peer Reviewer)	AFTPR
Piet Hein Van Heesewijk	Sr. Program Officer (Peer Reviewer)	PRMPS
Juan Navas-Sabater	Lead ICT Policy Specialist (Peer Reviewer)	CITPO
Graham Scott	Consultant (Peer Reviewer)	ECSP4
Lynn McKenzie	Consultant (Peer Reviewer)	ECSP4
Suren Poghosyan	Consultant (Performance Management)	ECSP4
Vahagn Harutyunyan	Consultant (Information Technology)	ECSP4

1. Bank funds expended to date on project preparation:
   2. Bank resources: US$201,853.55
   3. Trust funds: N/A
   4. Total: US$201,853.55

2. Estimated Approval and Supervision costs:
   1. Remaining costs to approval: US$--
   2. Estimated annual supervision cost: US110,000.00

Annex 12: Documents in the Project File

ARMENIA: Second Public Sector Modernization Project

1. Letter from the Prime Minister requesting a follow-on Public Sector Modernization Project as part of the next Country Partnership Strategy
2. Project Concept Note (PCN)
3. Concept Note Review meeting with peer reviewers' comments
4. Project Information Document (PID) – Concept Stage
5. Integrated Safeguards Data Sheet (ISDS) – Concept Stage
6. Request for Comments on the Concept Stage Integrated Safeguards Data Sheet (ISDS)
7. Letter from the Speaker of the National Assembly requesting support for capacity building activities for the National Assembly
8. Response from Country Director to the letter from the National Assembly requesting assistance
9. Approved Minutes of Concept Note Review meeting
10. Request for Board deferral
11. Concept for Public Sector Governance and Administrative Reform approved by the GOA
12. Invitation to the Global Development Learning Network series on Addressing Conflicts of Interest in the Public Sector: International Best Practice and Implementation
13. Project Information Document – Appraisal Stage
14. Report on Conflict of Interest – Armenia Thematic Analysis 2008-2012 (Volume II)
15. Letter to the Prime Minister – Note on the establishment of an independent Ethics commission and clarification of roles in oversight of civil service code of conduct

Mission Documents (TORs, Aide-Memoire and Management letters)

• March 23, 2009	-	Terms of Reference
• March 23-27, 2009	-	Preparation Mission
• June 2, 2009	-	Terms of Reference
• June 4-13, 2009	-	Preparation Mission
• July 10, 2009	-	Aide Memoire and Management Letter
• October 8, 2009	-	Terms of Reference
• October 9-22, 2009	-	Pre-appraisal Mission
• November 9–13, 2009	-	Pre-appraisal Mission
• December 3, 2009	-	Announcement Letter
• December 7, 2009	-	Terms of Reference
• December 7-18, 2009	-	Follow up Pre-appraisal Mission
• December 10, 2009	-	Aide Memoire and Back-to-Office Report

Annex 13: Statement of Loans and Credits

ARMENIA: Second Public Sector Modernization Project

Project ID	FY	Purpose	Original Amount in US$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P116681	2010	IRRIGATION REHABILITATION EMERGENCY PROJ	30.00	0.00	0.00	0.00	0.00	30.00	0.00	0.00
P115626	2010	AM DPO-1	0.00	60.00	0.00	0.00	0.00	64.08	0.00	0.00
P107772	2009	2nd Education Quality & Relevance APL2	0.00	25.00	0.00	0.00	0.00	26.96	0.25	0.00
P115109	2009	Access to Finance for SME	50.00	0.00	0.00	0.00	0.00	24.88	0.00	0.00
P115486	2009	LIFELINE ROADS IMPROVEMENT PROJECT	36.60	25.00	0.00	0.00	0.00	41.50	-6.23	0.00
P104467	2007	HLTH SYS MOD (APL2)	0.00	22.00	0.00	0.00	0.00	15.85	8.93	0.00
P099630	2007	Judicial Reform Project 2	0.00	22.50	0.00	0.00	0.00	11.59	-5.91	0.00
P094225	2007	SIF 3	0.00	33.00	0.00	0.00	0.00	7.24	-9.24	-5.58
P057880	2006	URBAN HEAT	0.00	15.00	0.00	0.00	0.00	1.93	0.80	0.00
P083352	2006	RENEW ENERGY	0.00	5.00	0.00	0.00	0.00	0.22	-0.80	0.00
P087011	2006	RUR ENT & AGRIC DEVT	0.00	22.00	0.00	0.00	0.00	1.07	-2.81	-0.54
P099832	2006	AVIAN FLU - AM	0.00	6.25	0.00	0.00	0.00	2.28	1.69	0.00
P087641	2005	YEREVAN WATER/WW SERVS	0.00	20.00	0.00	0.00	0.00	10.01	9.83	0.00
P087620	2004	SOC PROT ADMIN	0.00	5.15	0.00	0.00	0.00	0.45	0.05	0.00
P088499	2004	IRRIG DAM SAFETY 2	0.00	6.75	0.00	0.00	0.00	0.75	0.34	0.00
P074503	2004	EDUC QUAL & RELEVANCE (APL #1)	0.00	19.00	0.00	0.00	0.00	1.27	0.18	-0.52
P073974	2004	HEALTH SYS MOD (APL #1)	0.00	19.00	0.00	0.00	0.00	1.68	1.00	0.00
P063398	2004	MUN WATER & WW	0.00	43.00	0.00	0.00	0.00	16.88	-3.81	-0.16
P060786	2004	PUB SECT MOD	0.00	10.15	0.00	0.00	0.00	1.20	0.91	0.00
		Total:	116.60	358.80	0.00	0.00	0.00	259.84	- 4.82	- 6.80

ARMENIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2002	ACBA Leasing	2.00	0.27	0.00	0.00	2.00	0.27	0.00	0.00
2004	Armeconombank	2.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00
2000	Hotel Armenia	0.00	0.00	3.57	0.00	0.00	0.00	3.57	0.00
2004	Hotel Armenia	0.00	0.00	1.25	0.00	0.00	0.00	1.25	0.00
2006	Inecobank	3.00	1.30	0.00	0.00	3.00	0.00	0.00	0.00
2006	NAREK	5.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2006	Armeconombank II*	2.0							
2007	Ardshininvest*	25.0							
2008	Inecobank II*	3.0							
2009	Ameriabank*	15.0							
	Total portfolio:	57.20	1.57	4.82	0.00	7.00	0.27	4.82	0.00

*Commitment and Disbursement data not yet available

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

Armenia at a glance

2/9/10

POVERTY and SOCIAL

	Armenia	Europe & Central Asia	Lower-middle-income
2008			
Population, mid-year *(millions)*	3.1	446	3,435
GNI per capita *(Atlas method, US$)*	3,350	6,052	1,905
GNI *(Atlas method, US$ billions)*	10.3	2,697	6,543
Average annual growth, 2002-08			
Population *(%)*	0.1	0.1	1.1
Labor force *(%)*	-0.5	0.7	1.5
Most recent estimate (latest year available, 2002-08)			
Poverty *(% of population below national poverty line)*	25	..	..
Urban population *(% of total population)*	64	64	42
Life expectancy at birth *(years)*	72	70	69
Infant mortality *(per 1,000 live births)*	21	21	38
Child malnutrition *(% of children under 5)*	4	..	25
Access to an improved water source *(% of population)*	92	95	88
Literacy *(% of population age 15+)*	99	98	83
Gross primary enrollment *(% of school-age population)*	98	97	111
Male	96	98	112
Female	100	96	109

Development diamond*

- - - - - Armenia
———— Lower-middle-income group
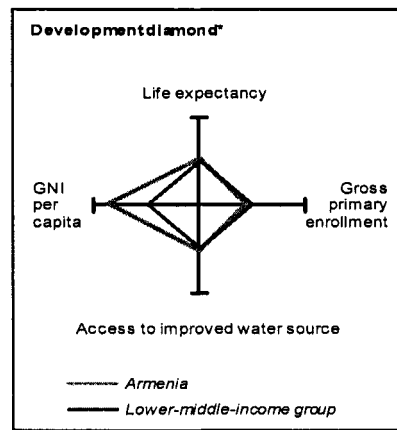
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1988	1998	2007	2008
GDP *(US$ billions)*	..	1.9	9.2	11.9
Gross capital formation/GDP	..	19.1	37.8	40.8
Exports of goods and services/GDP	..	19.0	19.2	14.7
Gross domestic savings/GDP	..	-14.7	17.8	15.8
Gross national savings/GDP	..	-2.1	31.1	29.3
Current account balance/GDP	..	-21.3	-6.4	-11.6
Interest payments/GDP	..	1.1	1.0	0.7
Total debt/GDP	..	42.5	31.6	28.9
Total debt service/exports	..	11.0	5.0	9.5
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	-4.7	11.3	13.7	6.8	-0.8
GDP per capita	-3.0	11.4	13.6	6.6	-0.6
Exports of goods and services	-25.3	13.0	-3.5	-13.1	-5.1

Economic ratios*

———— Armenia
———— Lower-middle-income group
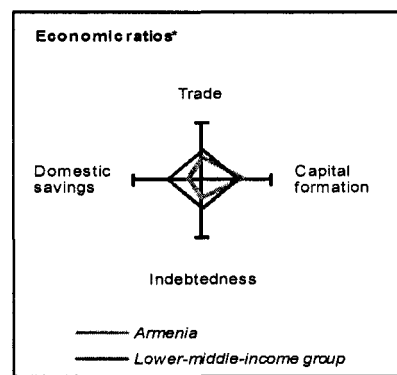
STRUCTURE of the ECONOMY

	1988	1998	2007	2008
(% of GDP)				
Agriculture	..	34.0	20.3	17.8
Industry	..	30.8	43.9	45.0
Manufacturing	..	21.9	16.6	14.7
Services	..	35.2	35.8	37.2
Household final consumption expenditure	..	103.6	72.0	72.7
General gov't final consumption expenditure	..	11.1	10.2	11.6
Imports of goods and services	..	52.8	39.2	39.8

	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	-0.4	6.5	10.3	14
Industry	-12.7	14.3	11.7	7.2
Manufacturing	-7.2	6.2	2.8	2.4
Services	6.9	12.1	12.8	7.2
Household final consumption expenditure	-2.4	7.7	17.9	12.8
General gov't final consumption expenditure	-2.0	9.4	5.1	16.7
Gross capital formation	-6.0	20.5	19.7	5.9
Imports of goods and services	-17.0	10.2	13.0	7.3

Growth of capital and GDP (%)

———— GCF ——◆—— GDP

Growth of exports and imports (%)

———— Exports ——◆—— Imports
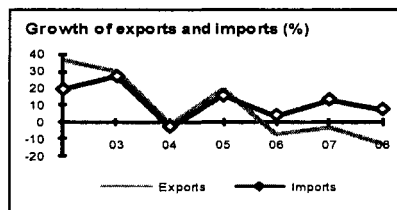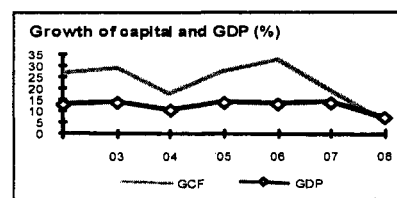
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

95

PRICES and GOVERNMENT FINANCE

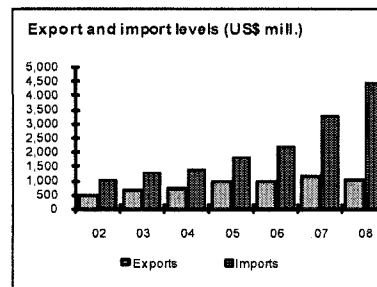|	1988	1998	2007	2008
Domestic prices				
(% change)				
Consumer prices	0.0	8.7	4.4	9.0
Implicit GDP deflator	..	10.7	4.3	8.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	17.1	18.1	21.0
Current budget balance	..	1.3	4.9	1.4
Overall surplus/deficit	..	-4.3	-1.4	-1.6

Inflation (%)
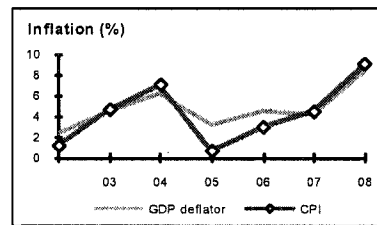
TRADE

	1988	1998	2007	2008
(US$ millions)				
Total exports (fob)	..	221	1,152	1,057
Gold, jewelry, and other precious stones	..	53	209	173
Machinery and mechanical equipment	..	41	40	40
Manufactures	..	102	429	377
Total imports (cif)	..	902	3,268	4,426
Food	..	292	536	756
Fuel and energy	..	203	483	645
Capital goods	..	113	850	1,219
Export price index *(2000=100)*	..	..	102	102
Import price index *(2000=100)*	..	..	123	133
Terms of trade *(2000=100)*	..	..	83	76

Export and import levels (US$ mill.)

BALANCE of PAYMENTS

	1988	1998	2007	2008
(US$ millions)				
Exports of goods and services	..	360	1,777	1,757
Imports of goods and services	..	1,000	3,589	4,748
Resource balance	..	-640	-1,813	-2,991
Net income	..	60	279	471
Net current transfers	..	177	945	1,138
Current account balance	..	-403	-589	-1,382
Financing items (net)	..	404	1,149	1,168
Changes in net reserves	..	-1	-560	214
Memo:				
Reserves including gold *(US$ millions)*	..	328	1,659	1,407
Conversion rate *(DEC, local/US$)*	..	504.5	342.1	306.0

Current account balance to GDP (%)
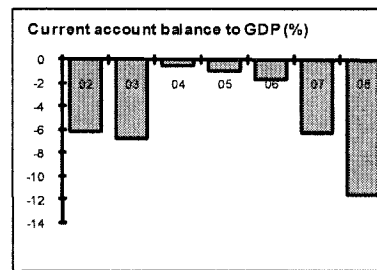
EXTERNAL DEBT and RESOURCE FLOWS

	1988	1998	2007	2008
(US$ millions)				
Total debt outstanding and disbursed	..	804	2,910	3,444
IBRD	..	10	5	5
IDA	..	293	973	1,015
Total debt service	..	61	173	361
IBRD	..	1	1	1
IDA	..	2	20	19
Composition of net resource flows				
Official grants	..	54	94	75
Official creditors	..	67	190	153
Private creditors	..	5	503	374
Foreign direct investment (net inflows)	..	221	701	925
Portfolio equity (net inflows)	..	0	-7	9
World Bank program				
Commitments	..	135	0	0
Disbursements	..	43	92	79
Principal repayments	..	0	14	12
Net flows	..	43	78	67
Interest payments	..	2	7	8
Net transfers	..	40	71	59

Composition of 2008 debt (US$ mill.)

A - IBRD   D - Other multilateral   E - Bilateral
B - IDA   F - Private
C - IMF   G - Short-term

96

ARMENIA

GEORGIA

To T'bilisi
To T'bilisi
To Borjomi

Tashir
Alaverdi
To Gäncä

Stepanavan

SHIRAK
LORRI
Lesser Caucasus Mountains

TAVUSH
Ijevan
To Gäncä

Gyumri
Vanadzor
To Gäncä

Dilijan

To Kars

Artik

Karmir
Artsvashen
To Gäncä

Aragats
(4090 m)

Sevan

Mingechevir Reservoir

ARAGATSOTN

Hrazdan

Ashtarak

KOTAYK'

Gavar

Lake Sevan

GEGHARK'UNIK'

Vardenis

TURKEY

Aras

YEREVAN
YEREVAN
YEREVAN

Martuni

Vardenis Range

ARMAVIR

Armavir

Artashat

ARARAT

Ararat

VAYOTS' DZOR

Jermuk

Yegegnadzor

Arpa

Vaik

AZERBAIJAN

ISLAMIC REPUBLIC OF IRAN

To Naxçivan

Aras

AZERBAIJAN

Angekhakot

Goris
To Qubadli

Vorotan

To Qubadli

To Naxçivan

SYUNIK'

Kapan

Zangezur Range

Aras

Megri

To Füzili

To Ordubad

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The boundaries, colors, denominations and any other information
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Legend

- ○ SELECTED CITIES AND TOWNS
- ⊙ PROVINCE (MARZ) CAPITALS
- ✪ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE (MARZ) BOUNDARIES
- INTERNATIONAL BOUNDARIES

0 10 20 30 40 50 Kilometers

0 10 20 30 Miles