



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
PUBLIC SECTOR MODERNIZATION PROJECT III
APPROVED ON SEPTEMBER 30, 2015
TO
REPUBLIC OF ARMENIA

GOVERNANCE

EUROPE AND CENTRAL ASIA

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|----------------------------------|-------------------------------------|
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ABBREVIATIONS AND ACRONYMS

| | |
|--------|--|
| APSAS | Armenia Public Sector Accounting Standards |
| CSC | Civil Service Council |
| CSO | Civil Service Office |
| DPM | Deputy Prime Minister |
| EKENG | e-Governance Infrastructure Implementation Unit |
| FFPMC | Foreign Financing Project Management Center |
| GFMS | Government Financial Management Information System |
| IPSAS | International Public Sector Accounting Standards |
| PDO | Project Development Objective |
| PMG | Project Management Group |
| PSMP-3 | Public Sector Modernization Project III |



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

| | |
|--|--|
| Project ID P149913 | Financing Instrument Investment Project Financing |
| Original EA Category Not Required (C) | Current EA Category Not Required (C) |
| Approval Date 30-Sep-2015 | Current Closing Date 31-Dec-2020 |

Organizations

| | |
|---------------------------------|--|
| Borrower Republic of Armenia | Responsible Agency Office of the Government |
|---------------------------------|--|

Project Development Objective (PDO)

Original PDO

The project development objective (PDO) is to improve quality of the public financial reporting and to improve access to selected enhanced e-government services.

Summary Status of Financing

| Ln/Cr/Tf | Approval | Signing | Effectiveness | Closing | Commitment | Net Disbursed | Undisbursed |
|------------|-------------|-------------|---------------|-------------|------------|---------------|-------------|
| IBRD-85390 | 30-Sep-2015 | 18-Nov-2015 | 06-May-2016 | 31-Dec-2020 | 21.00 | 3.28 | 17.72 |

Policy Waiver(s)

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

No



Note to Task Teams: End of system generated content, document is editable from here.

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

Status

1. Progress in achieving the Project Development Objective (PDO) of the Public Sector Modernization Project III (PSMP-3) is mixed. As of mid-term, PSMP-3 is well positioned to meet the second part of its PDO that relates to improving access to selected enhanced e-government services. In particular, given advances in the e-Consulate system that was launched in May 2018, the Project has over-achieved the target for the PDO-level indicator of reduced time for processing a passport extension request (current value is 24 hours versus a target of 48 hours from a baseline of 500 hours). Likewise, it has achieved about 50 percent of the target for the PDO-level indicator related to increased access to e-consular services for issuing citizenship, civil status certificates and statements on any existing criminal records. These achievements are significant considering that they benefit both citizens in the country and the diaspora that are the largest in the world. Beyond the indicators, the project also launched in May 2019 the whistle-blowing platform that provides the Government with a tool for fighting corruption, one of the key priorities of the new Government following the “Velvet revolution” in 2018. Nevertheless, several e-government services remain to be deployed that would improve delivery of public services as well as provide additional benefits to the citizens. Moreover, the PSMP-3 has yet to advance in achieving the part of the PDO that aims to improve quality of financial reporting.

2. The project ratings are currently Moderately Unsatisfactory for both PDO achievement and implementation progress largely due to delays in implementing three extremely important activities. These activities relate to the Government Financial Management Information System (GFMIS) (Public Financial Management Information Systems) under Component 1, the pre-trial case management system, and strengthening the policy and institutional setup of e-government management both under Component 2 (e-Governance Solutions for Improved Service Delivery). These pending activities constitute over 50 percent of project funding and, as a consequence, the disbursement and commitment levels remain low (disbursement plus commitment represent 25% of the loan, currently).

3. As of June 2019, a new Project Steering Committee, headed by the Deputy Prime Minister (DPM), Mr. Tigran Avinyan, has also been established which augurs well for the PSMP-3. The DPM is also in charge of the Government’s new, comprehensive e-Government reforms. The DPM’s leadership will enhance ownership of the project that will ensure high level attention to project implementation that will facilitate improvements in coordination arrangements going forward and better inform how best to fine tune project’s e-governance activities. Specifically, under the DPM’s leadership, PSMP-3’s relevance and its e-governance activities would be better aligned with Government priorities that further enhance government-citizen interaction and the feedback mechanism (G2C), transparency, accountability, and overall anti-corruption reforms of the government. Moreover, the Project Management Group (PMG) will now be reporting to the DPM. The PMG will also assume fiduciary functions for the PSMP-3 under the DPM’s office that were moved from the Project Implementation Department (PID) within the Ministry of Finance (following dissolution of the Foreign Financing Project Management Center in April 2019).



Rationale for Restructuring

4. The Government, in a letter dated May 29, 2019, requested to extend and restructure the project to enable achievement of the desired outcomes and strengthen the project's support to the Government Program adopted in February 2019 and GovTech agenda, with the project development objective remaining unchanged. The Government requested an extension of the closing date by 23 months (from December 31, 2020 to November 30, 2022) to enable implementation and completion of activities critical to achieving the desired outcomes and strengthening the project's support to the Government Program. In addition to the extension, the project will be restructured to:

- revise the results framework to better reflect what can be realistically achieved at as the final outcomes, particularly with respect to quality of financial reporting and to better align results with project activities;
- update the implementation arrangements following the latest Government decision to restructure project management arrangements with PMG moved under DPM's office; and
- adopt a single disbursement category to allow for flexibility in financing project activities.

5. The Bank team endorses the Government request subject to strong commitment for implementing the most critical pending activities/reforms by MoF, E-Governance Infrastructure Implementation Unit (EKENG) and the Office of the Prosecutor General with respect to the GFMIS, strengthening the policy and institutional setup of e-government management, and the pre-trial case management system, respectively. Further implementation delays of these major activities, could pose a serious risk for achieving the PDO, even after an extension. Accordingly, the Bank team agreed on a time-bound action plan with the DPM's office, PMG, and all beneficiary agencies. In addition, the Bank emphasized the need for a clear and strong monitoring arrangement between all Government stakeholders and proactive leadership of the DPM's Office in advancing project implementation.

6. While the project's institutional arrangements have been changed twice in the last two months, the project management capacity remains satisfactory. Fiduciary performance (both financial management and procurement) continues to be satisfactory with the project in good standing in terms of financial reporting and external audits. Moreover, as mentioned above, the Project's leadership under DPM is a positive development towards improving project implementation and ensuring achievement of project outcomes.

II. DESCRIPTION OF PROPOSED CHANGES

7. The key changes proposed under this restructuring are the revisions to (a) the results framework; (b) loan closing date; (c) reallocation between disbursement categories; and (d) institutional arrangements. In addition, the implementation schedule, risk rating, and disbursement estimates will be updated. Likewise, the reference to the Civil Service Council (CSC) will need to be replaced with Civil Service Office (CSO) given changes in the legal framework for the entity.

Results Framework

8. The PDO will not be revised. However, given the delays in GFMIS and the implementation of consolidated financial statements that are compliant with the Armenia Public Sector Accounting Standards (APSAS), the results



framework needed to be recalibrated to reflect what could realistically be achieved under the project even with the proposed extension.

9. The PDO-level indicator “Improved quality of annual financial reporting” will be maintained but will now have a new end-target value of “Three selected public administration entities that are in charge of sectors amounting to 10 percent of the state budget expenditures, prepare substantially APSAS compliant financial statements”. This replaces the original target of “Financial reports for two selected pilot sectors prepared annually and are comparable with the approved budget, and include information on revenue, expenditure, financial assets and liabilities, guarantees and long-term obligations”.

10. The relevant intermediate results indicator “Rollout and use for financial reporting (annual financial statements) of newly adopted APSAS (based on International Public Sector Accounting Standards, IPSAS)” will be replaced by “Establish preconditions required for consolidation of the financial statements” with an end-target value of “APSAS compliant Financial statements for three selected public administration entities are prepared on an annual basis and include substantial information on assets and liabilities, income and expenses, and net assets.”

11. The intermediate results indicator “Increase in the average number of bids/tenders competing for bus and minibus interregional routes” will be deleted due to the cancellation of e-Transport activity.

12. The intermediate results indicator “Increase the share of total number of cases processed by the Ethics Commission and which will be analyzed based on the risk indicators/Red Flags” will be deleted. The envisaged Anti-Corruption Body is yet to be established and its assignment of functions, responsibilities, rights, and operations are to be defined by a special Law. As of now, it is not clear whether this body will have its own investigation unit and the key responsibilities going forward until the new Law (referred to above) will be adopted.

13. Likewise, with the proposed extension, the intermediate target values for some intermediate results indicators (such as those related to police dispatch time, pre-trial proceedings, training of trainers) will now be recalibrated to reflect delays in implementation. Moreover, the date for achieving the final target value for all results indicators will be set for November 30, 2022, in line with the proposed new closing date.

Loan Closing Date

14. The loan closing date is proposed to be extended by 23 months to November 30, 2022. This is necessary to facilitate implementation and completion of activities critical to the achievement of the PDO. Moreover, the extension would allow the project to increase its relevance to the Government Program by allowing PSMP-3 to accommodate priorities of the new Government with respect to utilizing GovTech in enhancing the Government’s service delivery capacity as well as its anti-corruption agenda.

Reallocation Between Disbursement Categories

15. The restructuring also proposes the adoption of a single disbursement category to allow for flexibility in financing activities under the project including new priorities of the Government. To date, there are no disbursements under the expenditure category intended to finance the GFMIS.

Overall Risk Rating



16. There is no change in the overall risk rating of Substantial. However, the fiduciary risk is proposed to be raised to Substantial given the need for the institutional arrangements to stabilize.

Institutional Arrangements

17. On May 20, 2019, the project was restructured to establish the PID within MOF as the new unit performing the fiduciary functions following the abolition of the FFPMC on April 1, 2019. Recently, however, the Government made a decision to move all fiduciary functions of foreign-assisted projects to the beneficiary agencies. In this regard, the PMG assumed the fiduciary functions for the project and is now under the DPM’s office. Accordingly, the restructuring proposes to update the institutional arrangements under the project consistent with the Government’s system-wide approach to project management of foreign-assisted projects.

Implementation Schedule

18. In line with the extension and recognizing the delays in critical activities, the implementation schedule of the project will also be revised.

Disbursement Estimates

19. The project’s disbursement estimates are also updated to reflect the extension and the delays in implementing key activities.

Other Changes

20. All references to the CSC will be replaced with the CSO to reflect the correct legal reference to the beneficiary entity under the Project. The CSO was duly established and operating pursuant to the requirements of the RA Law HO-205-N of March 23, 2018 "On Civil Service" and Decision N 973 of July 17, 2018 of the RA Prime Minister “On approving Statute of the Civil Service Office of the Office of the RA Prime Minister”.

Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

I. SUMMARY OF CHANGES

| | Changed | Not Changed |
|--|---------|-------------|
| Results Framework | ✓ | |
| Loan Closing Date(s) | ✓ | |
| Reallocation between Disbursement Categories | ✓ | |
| Disbursement Estimates | ✓ | |
| Overall Risk Rating | ✓ | |
| Institutional Arrangements | ✓ | |



| | | |
|----------------------------------|---|---|
| Implementation Schedule | ✓ | |
| Implementing Agency | | ✓ |
| DDO Status | | ✓ |
| Project's Development Objectives | | ✓ |
| Components and Cost | | ✓ |
| Cancellations Proposed | | ✓ |
| Disbursements Arrangements | | ✓ |
| Safeguard Policies Triggered | | ✓ |
| EA category | | ✓ |
| Legal Covenants | | ✓ |
| Financial Management | | ✓ |
| Procurement | | ✓ |
| Other Change(s) | | ✓ |
| Economic and Financial Analysis | | ✓ |
| Technical Analysis | | ✓ |
| Social Analysis | | ✓ |
| Environmental Analysis | | ✓ |

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

| Ln/Cr/Tf | Status | Original Closing | Revised Closing(s) | Proposed Closing | Proposed Deadline for Withdrawal Applications |
|------------|-----------|------------------|--------------------|------------------|---|
| IBRD-85390 | Effective | 31-Dec-2020 | | 30-Nov-2022 | 30-Mar-2023 |

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

| | Current Allocation | Actuals + Committed | Proposed Allocation | Financing % (Type Total) | |
|--|--------------------|---------------------|---------------------|--------------------------|----------|
| | | | | Current | Proposed |

IBRD-85390-001 | Currency: USD



| | | | | |
|------------------------------|--|---------------------|----------------------|--------|
| iLap Category Sequence No: 1 | Current Expenditure Category: GD,Non-CS,CS,TR,IOC for P.1.1(a), 1.2, 2, 3, and 4 | | | |
| 14,663,500.00 | 2,522,987.06 | 20,947,500.00 | 100.00 | 100.00 |
| iLap Category Sequence No: 2 | Current Expenditure Category: intentionally left blank | | | |
| 6,284,000.00 | 0.00 | 0.00 | 100.00 | 0 |
| Total | 20,947,500.00 | 2,522,987.06 | 20,947,500.00 | |

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

| Year | Current | Proposed |
|------|--------------|--------------|
| 2016 | 52,500.00 | 0.00 |
| 2017 | 300,000.00 | 300,000.00 |
| 2018 | 2,600,000.00 | 1,137,550.00 |
| 2019 | 6,700,000.00 | 2,000,000.00 |
| 2020 | 7,150,000.00 | 7,000,000.00 |
| 2021 | 4,197,500.00 | 7,000,000.00 |
| 2022 | 0.00 | 3,862,450.00 |

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

| Risk Category | Rating at Approval | Current Rating |
|--|--------------------|----------------|
| Political and Governance | ● Substantial | ● Substantial |
| Macroeconomic | ● Moderate | ● Moderate |
| Sector Strategies and Policies | ● Moderate | ● Moderate |
| Technical Design of Project or Program | ● Substantial | ● Substantial |
| Institutional Capacity for Implementation and Sustainability | ● Substantial | ● Substantial |
| Fiduciary | ● Moderate | ● Substantial |



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| | | |
|------------------------|---------------|---------------|
| Environment and Social | ● Low | ● Low |
| Stakeholders | ● Moderate | ● Moderate |
| Other | | |
| Overall | ● Substantial | ● Substantial |



Results framework

COUNTRY: Armenia

Public Sector Modernization Project III

Project Development Objectives(s)

The project development objective (PDO) is to improve quality of the public financial reporting and to improve access to selected enhanced e-government services.

Project Development Objective Indicators by Objectives/ Outcomes

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|---|--|--|----------------------|---|---|--|--|---|---|---|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Improve quality of the public financial reporting. | | | | | | | | | | |
| Improved quality of annual financial reporting (Text) | | Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and liabilities, guarantees and long-term obligations. | | | | Work is underway to develop a methodology for preparing consolidated financial statements. | Work is underway to develop a methodology for preparing consolidated financial statements. | Preparatory work for two selected public administration entities to prepare substantially APSAS compliant financial statements. | Three selected public administration entities that are in charge of sectors amounting to 10 percent of the state budget expenditures, prepare substantially APSAS compliant financial statements. | Three selected public administration entities that are in charge of sectors amounting to 10 percent of the state budget expenditures, prepare substantially APSAS compliant financial statements. |
| Action: This indicator has been Revised | Rationale: To reflect what could realistically be achieved at exit. | | | | | | | | | |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target | |
|--|---|----------|----------------------|------|--------|----------|----------|-----------|-----------|------------|-----------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| Improve access to selected enhanced e-government services. | | | | | | | | | | | |
| Average processing time for public services (hours)(Comment: Reduced time for processing a passport extension request by the Consular Department of the Ministry of Foreign Affairs. (Hours) | | 500.00 | | | 350.00 | 48.00 | 48.00 | 48.00 | | | 48.00 |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | | |
| Increased access to consular services for issuing citizenship, civil status certificates and statements on any existing criminal records (data disaggregated by gender) (Number) | | 0.00 | 0.00 | 0.00 | 0.00 | 5,000.00 | 7,000.00 | 10,000.00 | 10,000.00 | | 10,000.00 |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | | |



Intermediate Results Indicators by Components

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target | |
|---|--|--|-------------------------|-------------------------|-------------------------|---------------------------|--|---|--|--|--|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| Public Financial Management Information Systems | | | | | | | | | | | |
| Establish preconditions required for consolidation of the financial statements (Text) | | APSAS has been adopted by the National Assembly on June 21, 2014, but has not yet been applied by public sector organizations. | | | | | | Establish preconditions required for consolidation of the financial statements. | The accounting framework enables preparation of the consolidated financial statements. | APSAS compliant Financial statements for three selected public administration entities are prepared on an annual basis and include substantial information on assets and liabilities, income and expenses, and net assets. | APSAS compliant Financial statements for three selected public administration entities are prepared on an annual basis and include substantial information on assets and liabilities, income and expenses, and net assets. |
| Action: This indicator has been Revised | Rationale: <i>To reflect what can realistically be achieved at exit as well as the gradual adoption of APSAS-compliant consolidated financial statements. The baseline information was also revised to reflect that the law on APSAS was already in place at the start of the Project.</i> | | | | | | | | | | |
| e-Governance Solutions for Improved Service Delivery | | | | | | | | | | | |
| Reduced time for police dispatch in emergency situations | | 15-20 minutes | System to be developed. | System to be developed. | System to be developed. | System under procurement. | System procured, implemented and tested. | System productive and time for dispatch | 5 minutes | 5 minutes | |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|---|---|--|--|---|--|--|--|--|--|--|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| (in at least two selected pilot regions/marzes). (Text) | | | | | | | | | reduced to 10 minutes. | |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | |
| Increased share of citizens (disaggregated by gender) providing voluntary feedback on specific public services (percentage - data generated from system) (Text) | | No feedback mechanism in place. | No feedback mechanism in place. | No feedback mechanism in place. | No feedback mechanism in place. | Feedback mechanism under procurement. | 12% of all users of specific public services provide voluntary feedback on selected public services. | 16% of all users of specific public services provide voluntary feedback on selected public services. | 20% of all users of specific public services provide voluntary feedback on specific public services. | 20% of all users of specific public services provide voluntary feedback on specific public services. |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | |
| Reduced time to transmit information/messages relevant for the pre-trial proceedings between prosecutors' offices in different regions. (Text) | | One week by special express mail (send via post office). | One week by special express mail (send via post office). | An Interdepartmental Working Group was set up in accordance with the Prime Minister's Decree 30-665-A of June 2017 to design the technical task of the digital pre- | An Interdepartmental Working Group operates. | An Interdepartmental Working Group operates. | Case Management System (CMS) under procurement. | Full rollout of the CMS. | CMS is in place; transmittal immediate (electronic transmission). | Immediate (electronic transmission). |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|--|---|---|---|---|---|--|--|---|--|--|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| available on the use of e-services which are provided by selected agencies (Text) | | data available in line ministries / agencies which will provide e-services. | data available in line ministries/agencies which will provide e-services. | data available in line ministries/agencies which will provide e-services. | data available in line ministries/agencies which will provide e-services. | data on e-services is available for the ministry of foreign affairs. | data on e-services is available for the ministry of foreign affairs. | data on e-services is available to ministry of foreign affairs; Anti-Corruption Body; Police. | data on e-services is available to ministry of foreign affairs; Prosecutor's Department; Anti-Corruption Body; Police. | data on e-services is available to ministry of foreign affairs; Prosecutor's Department; Ethics Commission; Police |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | |
| Reduced time to issue the certificate of civil status by the Consular Department of the Ministry of Foreign Affairs (Days) | | 60.00 | | | | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | |
| Capacity Building and Small Capacity Building Interventions | | | | | | | | | | |
| Number of Armenian Academy of Public Administration (AAPA) ToTs through proposed twinning | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 20.00 | 40.00 | 50.00 | 50.00 |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|--|--|----------|----------------------|---|---|---|---|---|---|------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| arrangements/collaborations with selected international public schools. (Number) | | | | | | | | | | |
| Action: This indicator has been Revised | Rationale: Adding intermediate targets to reflect the new closing date of November 30, 2022. | | | | | | | | | |



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