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Report No:

IMPLEMENTATION COMPLETION AND RESULTS REPORT

TF 0A5529

ON A

SMALL GRANT

IN THE AMOUNT OF USD 0,450 MILLION

TO THE

REPUBLIC OF ARMENIA

FOR

ARMENIA MINERAL SECTOR POLICY (P163060)

{Date}

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ABBREVIATIONS AND ACRONYMS

| | |
|--------------|--|
| CSO | Civil Society Organization |
| DPM | Deputy Prime Minister |
| EITI | Extractive Industries Transparency Initiative |
| FFPMC | Foreign Finance Projects Management Units |
| GDP | Gross Domestic Product |
| MENR | Ministry of Energy and Natural Resources (dismissed in 2019) |
| MES | Ministry of Emergency Situation |
| MNP | Ministry of Nature Protection (currently renamed as Ministry of Environment) |
| MoE | Ministry of Environment |
| MoF | Ministry of Finance |
| MoH | Ministry of Health |
| MTAI | Ministry of Territorial Administration and Infrastructure |
| MSG | Multi-Stakeholder Group |
| PDO | Project Development Objective |
| PID | Project Implementation Department |
| PM | Prime Minister |
| ToR | Term of Reference |
| SEP | Stakeholder Engagement Plan |
| SRC | State Revenue Committee |

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DATA SHEET

BASIC INFORMATION

Product Information

| | |
|-----------------------|--|
| Project ID P163060 | Project Name Armenia Mineral Sector Policy |
| Country Armenia | Financing Instrument Investment Project Financing |
| Original EA Category | Revised EA Category |

Organizations

| | |
|---------------------------------|---|
| Borrower Republic of Armenia | Implementing Agency RA Prime Minister Office |
|---------------------------------|---|

Project Development Objective (PDO)

Original PDO

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

FINANCING

| | Original Amount (US\$) | Revised Amount (US\$) | Actual Disbursed (US\$) |
|---------------------------|------------------------|-----------------------|-------------------------|
| Donor Financing | | | |
| TF-A5519 | 450,000 | 450,000 | 225,230 |
| Total | 450,000 | 450,000 | 225,230 |
| Total Project Cost | 450,000 | 450,000 | 225,230 |



KEY DATES

| Approval | Effectiveness | Original Closing | Actual Closing |
|-------------|---------------|------------------|----------------|
| 21-Aug-2017 | 06-Nov-2017 | 30-Apr-2020 | 30-Apr-2020 |

RESTRUCTURING AND/OR ADDITIONAL FINANCING

| Date(s) | Amount Disbursed (US\$M) | Key Revisions |
|-------------|--------------------------|---|
| 20-May-2019 | 0.06 | Change in Implementing Agency Change in Institutional Arrangements |
| 17-Dec-2019 | 0.08 | Change in Implementing Agency Change in Institutional Arrangements |

KEY RATINGS

| Outcome | Bank Performance | M&E Quality |
|-------------------------|-------------------------|-------------|
| Moderately Satisfactory | Moderately Satisfactory | Modest |

RATINGS OF PROJECT PERFORMANCE IN ISRs

| No. | Date ISR Archived | DO Rating | IP Rating | Actual Disbursements (US\$M) |
|-----|-------------------|-------------------------|-------------------------|------------------------------|
| 01 | 08-Jun-2018 | Moderately Satisfactory | Moderately Satisfactory | 0.00 |
| 02 | 31-May-2019 | Moderately Satisfactory | Moderately Satisfactory | 0.06 |
| 03 | 24-Jul-2020 | Moderately Satisfactory | Moderately Satisfactory | 0.23 |

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I. PROJECT CONTEXT AND DEVELOPMENT OBJECTIVES

Context

A. Country Context

Since independence Armenia has featured itself as a reform champion among the Post-Soviet countries, persistently following this path till 2008. Indeed, for several years the country has seen sustainable growth, economic stability, low inflation, modest level of deficit and foreign debt, increased level of remittances transferred by migrant workers from abroad, and sharp decline in poverty. However, many analysts at the time highlighted the need for deeper reform efforts to be able to stay on this path of development with the objective of creating level playing field, better integration with the global value chains and capital markets, building financial markets, and creating conditions for knowledge absorption leading to technological sophistication.

For almost a decade since 2008, Armenia's economy was trapped in a completely different and challenging context - sluggish growth, with unfavorable investment climate and stalled progress in poverty reduction. Steeply rising public debt has left the country with no fiscal space to maneuver. The country also has one of the highest unemployment rates (18.5 percent) in Europe and Central Asia region, largely caused by limited job creation, and skills and jobs mismatch. The country is grappling with the fall in remittances, aggravation of external conditions, stall in poverty reduction, unaccomplished reforms in critical areas, and unfavorable demographic trends that will soon pose fundamental constraints.

Going forward, the main challenge for the country is to strengthen the macroeconomic stability and unlock the potential of sustainable and shared growth, anchored in a well-integrated and competitive economy. On the macroeconomic front, imports remain significantly higher than exports, and there is continued reliance on private and official transfers. Public debt has increased, thus limiting the potential of external borrowing for increased financing. The fiscal consolidation in recent years was marked by significant increase in current spending and decline in public investments. Henceforth, revenue mobilization is the key aspect to strengthening the public finance. In terms of improving its competitiveness, Armenia's membership in the EAEU has secured a better access to the markets in Russia and other large countries, such as Kazakhstan. However, the dynamics of these markets has triggered export decline. While productivity and growth are further constrained by a number of critical gaps in the business environment, such as lack of incentives for entrepreneurs and high logistics costs, there is need for enhanced market contestability.

B. Sector Specific and Institutional Context

Mining industry can play an important role in pursuing the much needed shared prosperity. Armenia's economy has undergone major structural changes since its independence, moving from an industry-based economy to one with increasing reliance on agriculture and trade. Armenia is endowed with mineral resources, such as copper, gold, silver and zinc, as well as industrial minerals such as diatomite, gypsum, limestone, perlite and rhenium salt. In 2011, it ranked 7th in the world in molybdenum production. The mineral sector represents one of the few industries with positive economic trajectory, and the Government sees it as a key driver of the country's economy. In the past 5 years, mineral exports have generated around USD 500 million annual revenues, making the sector Armenia's top contributor to exports and foreign exchange earnings, as well as to the industry. In 2018, the share of mineral industry comprised 15.7 % of the total output - a 12% decline from the previous year, caused by



suspension of Teghut mine operation, which was later resumed in mid-2019.

The mineral industry is dominated by mining of metal ore, which accounts for around 98% of the sector's output. The overall share of exported minerals in the export-generated revenues was 35.9% in 2018. Armenia's main export partners are Russia, China, and, recently, Canada. Contribution to employment is less significant, given the capital-intensive nature of the sector (9.2 thousand workers in 2018, or 0,9 percent of total employment). Yet, mining companies are significant job providers in rural areas, where very few other opportunities exist.

While being a potential engine for growth, mining is a contested subject in Armenia. There is strong mistrust in mining among parts of the population, and a robust "anti-mining" civil society. This mistrust is largely fueled by lack of information and stakeholder dialogue, as well as inheritance of Soviet-era metal mines developed under shaky environmental and social standards. To address this lack of trust and improve the investment climate, the Armenian Government, supported by the World Bank, has been giving serious thought to joining the Extractive Industries Transparency Initiative (EITI). Thus, on July 28, 2015, the Government of Armenia publicly pronounced its intention to seek EITI candidacy and nominated the Minister-Chief of Staff of the Government to lead the process. In August 2016, a Multi Stakeholder Group (MSG) was formed and worked out the EITI priorities for Armenia, as well as the action plan. Armenia submitted its EITI candidacy application in December 2016. On March 9, 2017 Armenia was granted the status of EITI Candidate country. In July 2020, during its first validation, Armenia received the highest "Satisfactory Progress" rating.

It is clear, that further development of the mineral sector should be accompanied by robust and transparent engagement of the government, private sector, civil society and affected communities in the dialogue on the future of the sector. In 2015-2016, the World Bank, in the framework of the Extractive Industries-Transaction Advisory Facility Multi Donor Trust Fund (EI-TAF MDTF), supported the undertaking of a *Strategic Mineral Sector Sustainability Assessment*¹. It revealed that while mining is important for the country's economy, individual mining operations, in general, are not sufficiently conducive for sustainable development of the nation in long term perspective, despite multiple efforts to reform the sector undertaken by regulating authorities in the past and present. This context creates the momentum for developing the country's Mineral sector policy to ensure Armenia's readiness to tackle various potential challenges and opportunities entailed by the next wave of development and investments that may arrive with higher mineral/metal prices. Key recommendations of the Report suggest embarking on the national mineral sector policy design – something the country has never had – paired with ongoing efforts to make Armenia an EITI compliant country. Having such a sector-specific policy in place will support the sustainable development and regulation of the sector, and ensure its contribution to the national development vision taking shape.

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

1. communicating a clear statement to the mining industry in terms of Government expectations and intentions vis-à-vis the sector;
2. providing guidance to the lawmakers, regulating authorities, and other stakeholders, and facilitating coordination among the agencies.

An inclusive process of developing the Mineral sector policy, with multi-stakeholder engagement, will facilitate the establishment of an appropriate policy framework for the mineral sector governance in Armenia, while making

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



sure that further development of the sector is in line with the highest social and environmental standards. Such a policy will help Armenia determine its vision of the sector and ensure that mining industry in Armenia is a) using modern technologies; b) operating in technically, economically, environmentally and socially responsible manner, c) based on strong links with local businesses.

Effective sector-specific policy will set the framework for broad based reforms in the mining sector of Armenia, including corresponding action plan for legal and institutional reforms. Furthermore, the approach and methodology for drafting a solid Mineral Sector Policy document can inform the neighboring countries, in particular, Georgia which is still extensively guided by the Soviet-era standards and policies.

To launch the development of Policy for the sector, a working group was set up by Prime Minister's Decree No 1092-A, dated of November 23, 2016. The working group drafted the Concept Paper for Development of the Mining Sector Policy. The Concept Paper identified main problems of the sector and areas where deep assessments were necessary. It was shared with line ministries for review and comments. It was also posted on the official website of the Government.

Project Development Objectives (PDOs)

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

Key Expected Outcomes and Outcome Indicators

- A Mineral Sector Strategy/Policy is developed, based on solid analytical work and through an inclusive multi-stakeholder process that is in line with international good practices and standards for sustainable mineral sector governance.
- Representatives from communities affected by mining (both men and women) participate actively in the dialog on the future of the sector.
- A permanent dialog forum for key stakeholders in the mining sector (communities, civil society, companies and government agencies) is put in place, enabling better knowledge and access to information on the key characteristics, impacts, benefits and future strategy of the Armenian mining sector.

Components

The Grant to the Government of Armenia for producing the National Mineral Sector Policy consisted of the following components:

Component 1: Analytical underpinnings

To support the development of a long-term Policy, this project planned to assist in undertaking, in a participatory manner, a series of diagnostic studies, as recommended by, and building upon the findings of, the Armenia Strategic Mineral Sector Sustainability Assessment (World Bank, 2016). Following key areas of knowledge gap are identified:

a) Economic Assessment, assessing the economic viability/ advisability of different types of mining investments for Armenia, considering their (potential) contribution to local, regional and national development, and the potential



to develop stronger economic linkages along the supply chain.

b) Environmental and Health Assessment, assessing, building upon existing studies, risks the mineral sector development poses to local communities, with a particular focus on health and safety for both communities and workers, and the existing standards, capacity and institutions to effectively address this through a mineral sector policy.

The objective of these studies was to fill the existing knowledge gap, and identify, together with the already existing analytical work on the mining sector in Armenia, the priorities, means and measures for producing a policy that would be translated into an action plan.

Component 2: Policy development, outreach and consultation: Policy discussions should involve all stakeholders and be based on multi-stakeholder dialog and consultations. Individual meetings, focus groups and roundtables with all stakeholders - government representatives, mining companies, CSOs, affected communities, etc. – were to be organized, emphasizing the participation of women and vulnerable groups. The objective of these consultations was to develop a shared vision of the future of the mining sector in Armenia, which would feed into the Policy. The EITI MSG would actively be involved in these processes. The policy would be based on literature review, studies and public consultations; making it acceptable for all stakeholders.

Component 3: Capacity Building for the relevant line ministries, in particular the MEINR (currently MTAI) and the MNP (MoE) was a crucial part of the project. This included the development of a capacity building plan for effective policy implementation and conducting the early phase of training on policy implementation, focusing on environmental and social sustainability of the sector.

Based on Components 1, 2, and 3, the Mining Sector Policy and Implementation Plan for Armenia should have been finalized, providing clear guidance towards the development of a sound, sustainable and equitable mining sector in Armenia. The policy would have set the objectives of the mineral sector, and appropriate guiding principles across the legal, contractual, institutional, fiscal, environmental and socio-economic dimensions. The Implementation Plan would define the timeline with associated priorities and responsibilities.

II. OUTCOME

Assessment of Achievement of Each Objective/Outcome

The development objective of the Project was to assist in elaboration of the Mineral Sector Policy for Armenia that would focus on strengthening the contribution of the mining sector to sustainable economic growth. This was reflected in the PDO level outcome indicator, sub-indicator, and intermediate result indicator of the project.

The Armenia Mineral Sector Policy project was not finalized under this grant, since it was not possible to fulfill all planned activities by the project closing date due to the following reasons:

Firstly, during elaboration of the Mineral Sector Policy, Armenia went through radical political changes, with “Velvet revolution” taking place amidst the project implementation period. An overhaul of the government, followed by the Parliamentary Elections in 2018, the government representatives were replaced, to a large extent, with a group of young people including civil society representatives and journalists. This created quite some delays. An additional cause of delays was connected with the difficulties to find the right consultants for the planned analytical works. The



last complicating factor was the closing date of the ParentTrust Fund. Due to above-mentioned reasons, the Government of Armenia requested an extension and additional financing for the Mineral Sector Policy Grant. However, the Bank was not able to satisfy the request for administrative reasons, and, based on the discussions with the EGPS, agreed to allow for a new grant instead, to enable completion of the work. A new project grant was put in place in July 2020 to assist the government of Armenia with the finalization and implementation of this important process.

PDO level indicator: A Mineral Sector Strategy/Policy is developed, *based on solid analytical work and through an inclusive multi-stakeholder process* that is in line with international good practices and standards for sustainable mineral sector governance.

This indicator was not fully met. No Mineral Sector Policy was developed. Before starting the development of the Mineral Sector Policy itself, two “deep dive” studies were conducted: i) Economic Assessment and ii) Environmental and Health Assessment. In addition, as a response to the COVID-19 outbreak, the Government initiated and conducted a rapid assessment of COVID-19 Impact on the Armenian Mining Sector. Those three studies, as well as previously produced analytical pieces supported by the World Bank, will serve as a bases for the Policy discussions and development. The Policy itself was not produced under this grant due to the above-mentioned reasons.

All assessments include recommendations which are based on benchmarking of the current situation with the international best practices for sustainable management of the mining sector. Sustainable development of the mineral sector has been in the front and center throughout project implementation, including the design of the concept paper, followed by the ToRs and analytical reports.

The project itself was very inclusive. Involvement of various ministries (Environment, Economy, Emergency Situations and others) and other key stakeholders (civil society, industry, community representatives) was required by project design, as well as driven by the current situation in the mining sector of Armenia, and the industry itself. All stakeholders were engaged in the development of the ToRs for analytical works, as well as in the review of the reports.

PDO level indicator 1: *Representatives of communities affected by mining (both men and women) actively participate in a dialog on the future of the sector.*

The indicator is met partially. Most of consultations, especially with affected communities, should have been held during discussions on the actual policy, rather than the analytical phase. Hence, most of discussions will be organized under the new Mineral Sector Policy Grant II. Meanwhile, the Client has prepared the Stakeholder Engagement Plan and identified all key stakeholders and channels of communication with each of them.

PDO level indicator 2: *A permanent dialog forum for key stakeholders in the mining sector (communities, civil society, companies and government agencies) is put in place, and allows better knowledge and access to information on the key characteristics, impacts, benefits and future strategy for the Armenian mining sector.*

This indicator has been met. The Multi-Stakeholder Group (MSG) formed for the EITI implementation in Armenia has become the main platform for all mining sector related discussions. MSG extended its activities notably under this Project. The EITI MSG consists of 15 members, including 6 Government representatives (deputy ministers of



MTAI, MoE, MoJ, SRC, MoF), 4 business representatives, and 5 CSO representatives (including 1 from academia and 1 from a mining region). Each constituency has quite a few many members who have access to meetings and can provide feedback on the documents through various channels. It is worth noting that the CSO constituency is proactive in engaging its members and sharing with them documents for comments.

The MSG was largely involved in all aspects of the project, including broader discussions on the institutional and legal reforms of the sector. As mentioned, the ToRs for multiple analytical pieces and workshops were prepared through inter-ministerial consultations and reviewed by the EITI MSG. All initial, draft and final reports of Economic, Environmental and Health assessments, as well as the report on impact of COVID-19 on Armenia's mining sector were received and reviewed by the line ministries and the EITI MSG. Furthermore, the MSG CSO constituency shared the reports with broader civil society for comments and review.

The project attached high importance to women participation, and at least 30% of the above mentioned stakeholders were women.

Intermediate result indicator: Analytical reports produced. This indicator has been met.

The **Economic Assessment of the mining sector** provides an analysis of Armenia's mining sector since independence, its impact on the sustainable development of the Armenian economy, the sector's contribution to the local economic development, the legal and tax system in Armenia, and shares the international best practices, scenarios for the future of the sector, as well as recommendations to enable sustainable mining in Armenia. While the study is valuable and will be widely used in the policy discussions, its final version was not accepted by the Government of Armenia. Some of the government comments on the last draft of the report, specifically those from the MTAI, were not fully addressed in the final version of the assessment. Therefore, the Government accepted only the draft version of the report. It is worth mentioning that the reason behind such situation was again linked to the political changes in the country. The ToR was developed and then negotiated under the previous government. The new government had some more specific requests to the consultant. The interpretation of the ToR was different during different governments. Despite these differences, during the last project supervision mission held in June 2020, the project coordinator from the DPM's office and the Deputy Minister of MTAI confirmed that the Economic Assessment is an important document and will be widely used in the coming policy development process.

The Environmental and Health Assessment provides an analysis of the existing legal framework, and the international best practices that can be applied to improve the environmental and health standards for the mining sector in Armenia. The assessment is based on literature review and several case studies. Selection of the consulting firm to conduct the Environmental and Health Assessment of the mining sector took more than six months. First of all, consultations on the TOR took longer than expected, due to high interest and sometimes conflicting views of the stakeholders involved. Secondly, finding the appropriate expertise turned out to be quite a challenge. Initially, the request for expression of interests was published for the local firms. However, only two companies applied in the first round. Therefore, the deadline was extended, but unsuccessfully, as, again, no qualified company turned out to apply. With the third effort, the call was modified to mobilize international firms. As a result, several international consulting firms applied. The selected company came up with a very high budget, and the government did not succeed to reach an agreement acceptable to all parties. The selection committee started negotiations with the second ranking



consulting firm and managed to reach an agreement. This resulted in a report that was accepted by all parties, and will be a useful basis for the next steps.

At the initiative of the Government, during the last month of the Project, a **Rapid Assessment of the Economic Impact of the COVID-19 on the Armenian Mining Sector** was conducted, building upon lessons learned from around the globe. It provides recommendations for short-term and long-term actions, with the latter being especially important to consider in the policy development process.

The project activities were linked to the achievement of each of the above indicators as follows:

Component 1: Analytical Underpinnings: Three assessments conducted under this component summarized the state of affairs and key challenges facing the mining sector, based upon existing analytical work and new problems identified by various stakeholders, as well as international best practices. The reports provide recommendations that will be used in the policy development process.

Component 2: Policy development, outreach and consultation: Interviews, focus group discussions, seminars, and site visits undertaken in preparation of the above-mentioned assessments largely assisted in collecting stakeholder input. Hence, the new Mineral Sector Policy Grant II will continue to extensively employ consultations and outreach, as stakeholder engagement is crucial for the Project.

Since the Project required involvement of various ministries, the Government decided to assign the project coordination to the Prime Minister's office, with contributions from the MTAI (at that time MENR), MoE, MoEc, MoH, MoF, MES and PM's office in project design and implementation. A working group was set up by the PM Decree and produced a Concept Paper, which served as a baseline for project design and management.

Component 3: Capacity Building: This was also completed in part.

Under the capacity building component of the Project, the deputy ministers of the MTAI (previous MEAR) twice participated in the annual Intergovernmental Forum on Mining (IGF) in Geneva, and organized information sharing events for the staff upon return. The IGF representative visited Armenia and had official meetings and training workshops on the IGF mining guidelines. Valuing the importance of exchange, as well as IGF's sector related expertise, Armenia decided to join the Forum and became IGF official member in 2019.

As part of the capacity building exercise, the Government also initiated a series of trainings on communicable diseases and COVID-19 prevention for doctors and nurses from the main mining regions of Armenia, with around 1200 medical personnel attending these webinars. The mining industry was one of the few sectors that continued its full operation during the two months' lockdown, making the sector and surrounding communities even more exposed to COVID-19.



Overall Outcome Rating

The overall Project Outcome is rated as “Moderately Satisfactory” (MS). While the PDO is achieved partially, an overarching process to define a policy that secures the mining sector’s contribution to the sustainable development of Armenia is put in place to accomplish it the coming two years.

Even though the overall PDO is not achieved, the Project can be rated as “Moderately Satisfactory”. There are several reasons for that. Firstly, delay in implementation was mostly due to political changes in Armenia. The Velvet Revolution, Parliamentary elections and government change in 2018 took place in the middle of the project. The new government immediately indicated its commitment to improve the mining sector and saw the Mineral Sector Policy development as a cornerstone for the development of the sector. However, it took time for them to get organized. Therefore, after successfully finalizing the two sector related assessments, as well as a number of capacity building activities, when the government started to work on the recruitment of a firm to assist with the development of the actual policy, only two months were left before the project closing date. The Government requested project extension, but the Bank was not able to satisfy the request due to the Parent Trust Fund closing.

However, the project team did manage to secure a new grant from EGPS, that will allow, building upon the important work realized during this project, to finalize the Mineral Sector Policy. It will even go one step further and finance implementation of the high priority actions of the Policy Action Plan. The new grant project is already approved and will become effective in 2020.

This project has laid foundations for successful implementation of the follow up project to develop the Policy. First of all, the project created strong government buy-in. Secondly, high quality analytical outputs are produced and, thirdly, there is a solid multi-stakeholder platform in place. The Policy development process will be inclusive, with various stakeholder engagement activities. The Policy will have an Action Plan with priorities set, based on which the Government will undertake legal reforms. The follow-up project includes capacity building and awareness raising components to prepare the government officials and other stakeholders for Policy implementation.

Hence, with the new grant and strong Government commitment, the overall project goal will be achieved.

Other Outcomes and Impacts

A crucial outcome and success of the Project is the establishment of a new culture of project implementation with extensive involvement of various agencies and stakeholders. Such robust participation of the key stakeholders in the project and policy discussions is new to Armenia.

The Project was implemented with active engagement of different line ministries, such as the MTAI (previous MENR), MoE, MoH, MoEc and MES, and with EITI MSG in the frontlines. Specifically, the ToRs were designed jointly with relevant ministries - namely, the MTAI, MoEc, MoE and PM’s office contributed to the ToRs for the Economic Assessment; the MTAI, MoE, MoH, MES and PM’s office designed the TOR for the Environmental and Health Assessment. Representatives of these ministries provided feedback on the initial, draft and final reports.

Since the views of all interested parties on the future of the sector are crucial to obtain, the line ministries mentioned above will remain intensively involved in the upcoming Policy development process.

Noteworthy is the involvement of the EITI MSG which in itself is a unique group in Armenia. The Government does



have a number of initiatives with some level of CSO engagement, however, combining the Government, business and CSO efforts in decision-making is a novelty. The Project had the MSG involved in implementation from the very beginning. The group extensively reviewed and commented the ToRs and all reports, issuing recommendations for improvements. Furthermore, the MSG's CSO constituency reached wider groups of organizations it was mandated to represent.

III. KEY FACTORS THAT AFFECTED IMPLEMENTATION AND OUTCOME

Two groups of factors influenced implementation, with one contributing to the achievement of project outcomes, and the other one – creating bottlenecks.

The following key factors contributed to project achievements:

1. **Multi-stakeholder engagement** – the Government and the Project team did their best to make sure that all interested parties, including line ministries, businesses and CSOs are engaged in the implementation from the beginning. Involvement of various ministries, such as MTAI, MoE, MoH, MES and MoF, enabled incorporation of different views, while businesses and CSOs provided additional perspectives through the EITI MSG.
2. **Project ownership** – the Project was initially coordinated by the Prime Minister's office, followed by transfer of this responsibility to the Deputy Prime Minister, after the political changes. Such high level engagement from the Government side supported the Project moving forward and highlighted the importance of the Project for the Government. It also facilitated the collaboration among the ministries, which proved to be successful and efficient.

There are also several factors that hampered completion of the Project within the timeframe, and full achievement of the PDO. These factors are as follows:

1. **Political change** – in the middle of the Project, Armenia went through radical political changes. In May 2018, the Velvet Revolution took place followed by the Parliamentary elections in December 2018. The Government was fully changed, and the Project was on hold for almost a year.
2. **Varying expectations** - different ministries had varying expectations regarding the scope of analytical studies. The resulting terms of reference they produced were not always within the limits of the Project budget. The Government had quite unrealistic expectations from the firms hired to undertake sector specific assessments. This situation led to longer procurement processes, miscommunication, and, eventually, to different parties unhappy with the final outcomes.
3. **Change in priorities** – most of the ToRs were produced under the previous government, and the new government did not always agree with their priorities. That's why some of the expected results, specifically, those of the Economic Assessment, were not satisfactory for the incumbent government.
4. **Challenges to find good consultants** - i.e. either international consultants with thorough knowledge of international best practices and understanding of the Armenian context or local experts with adequate knowledge of international best practices. The Project could not find consultants who would be competent in both positions – the Environmental and Health Assessment was conducted by an international firm which was not able to develop proper understanding of the local context in absence of a local partner. The Economic Assessment was conducted by a local firm



which lacked global exposure to put the Armenian situation into the global context.

5. **Closing of the EGPS Trust Fund** – the Trust Fund under which the Armenia Mineral Sector Policy grant was financed will be closed on October 2020. All projects financed from the Trust Fund had to be closed six months earlier. So, the Government of Armenia request for extension and additional financing was rejected, and the project had to be closed.

IV. BANK PERFORMANCE, COMPLIANCE ISSUES, AND RISK TO DEVELOPMENT OUTCOME

Bank performance relating to the Project is rated as “Satisfactory”. The project team effectively engaged with the PM’s office and the DPM’s office to address the challenges and capacity constraints. The project implementation was carried out by two units: the PM’s Office which was responsible for the project context, and FFPMC which served as fiduciary unit. Effective communication between the units, as well as the Project team assured timely submission of all deliverables.

During implementation the Project team faced a number of challenges, including government change in the aftermath of Velvet Revolution, two changes of the project implementation unit (PIU), and the outbreak of COVID-19 pandemic. During three months after the Velvet Revolution, it was not clear who would take the lead of the Project. Then the Government decided to close the PIU - the Foreign Financing Projects Management Center – which was responsible for the fiduciary functions of the Project. A new Project Implementation Department was established under the MoF, taking up this role. The Grant Agreement was revised and countersigned. After six months, the Government, however, decided to close that PID as well, and manage the fiduciary function through the project implementing agency. This was again reflected in an amendment to the Grant Agreement.

With the outbreak of the COVID-19 pandemic, the last mission for the Project was not possible to carry out in April 2020. Instead, the Project team organized a virtual mission in June 2020 to discuss with the counterparts the outcomes and lessons learned. The Project team also was responsive to the Government request to allocate some funds for the COVID-19 impact evaluation and capacity building activities for doctors and nurses.

Having a dedicated short-term consultant in country who could track the progress and promptly respond to the Government requests has proven to be extremely helpful and effective.

Monitoring and evaluation, and supervision by the Project team was also satisfactory, including with regards to procurement and FM.

V. LESSONS LEARNED AND RECOMMENDATIONS

Project implementation for the kind of projects that require strong inter-ministerial coordination is more effective when it is coordinated from the central government. The Armenia Mineral Sector Policy grant was challenging from the beginning. It required active participation of various ministries and other stakeholders. Therefore, the Government decided to keep the project implementation under the PM’s, then DPM’s offices. It highlighted the Government commitment to the Project, as well as enabled more effective and productive discussion. The ministries did not try to reap the Project benefits for themselves – it was a



real collective effort with collective outcomes.

ToRs should be realistic, clear and well communicated to the consultant: It is quite important to have realistic ToRs, both in terms of scope and budget. The Government and other stakeholders would like to get most out of the Project and therefore tried to include as many elements as possible in each ToR. This resulted in ToRs that were very wide in scope and hard to realize within the constraints of time and budget. This was pointed out by the DPM's office, as well as identified as a lesson learned from the Project.

Moreover, ToRs should be clearly communicated and agreed upon with the consulting firms upfront. To ensure the acceptability of the results for the Government, ToRs should include detailed and clear description of the task, with the delivery agreed upon by the parties. Providing a thorough review and comments on the Inception report is an important step, too. Based on this experience, MTAI which will be responsible for the Mineral Sector Policy Grant II, has agreed to take this into account for the next phase of the Project.

Assessment, reports or Policy would be more useful/of higher quality, if developed by joint efforts of local and international experts: It is important to get a consultancy firm which has a balanced staff of local and international experts for developing an effective mineral sector policy. Local experts should have solid understanding of the local context, and international experts should know the international best practices.



ANNEX 1. RESULTS FRAMEWORK AND KEY OUTPUTS

A. RESULTS INDICATORS

A.1 PDO Indicators

Objective/Outcome:

The development of a National Mining policy through an inclusive multi-stakeholder process will help establish the appropriate policy framework for mineral sector governance in Armenia, while making

| Indicator Name | Unit of Measure | Baseline | Original Target | Formally Revised Target | Actual Achieved at Completion |
|---|-----------------|------------------|------------------|-------------------------|-------------------------------|
| A mineral sector Policy is developed through an inclusive multi stakeholder process that is in line with international good practices and standards for sustainable mineral sector governance | Yes/No | N 19-May-2017 | Y 19-May-2017 | Y 31-Mar-2020 | N 21-May-2019 |

Comments (achievements against targets):

as per the ICR, The Armenia Mineral Sector Policy project was not fully finalized under this grant. All planned activities under the grant were not completed upon the project closing date for the following reasons: Firstly, during the period of the development of the Mining Policy, Armenia went through radical political changes. Armenia’s ‘velvet revolution’ took place in the middle of the project implementation period. This resulted in a complete overhaul of the government, followed by the Parliamentary Elections in 2018. Most government representatives were replaced, with a new group of people including civil society representatives and journalists, many of whom did not have extensive government experience. This created quite some delays. An additional cause of delays was connected to difficulties to find the right consultants for the planned analytical works. The last complicating factor was the closing date of the Mother Trust Fund. Because of the political changes, the Government of Armenia requested an extension and additional financing for the Mineral



Sector Policy Grant. The Bank was however not able to satisfy the request for administrative reasons, and, based on the discussions with the EGPS, agreed to allow for a new grant instead, to allow for the completion of the work. A new project grant was put in place in May 2020 to assist the government of Armenia with the finalization and implementation of this important process.

Unlinked Indicators

| Indicator Name | Unit of Measure | Baseline | Original Target | Formally Revised Target | Actual Achieved at Completion |
|--|-----------------|---------------------|----------------------|-------------------------|-------------------------------|
| Representatives from communities affected by mining (both men and women)participate actively in a dialog onthe future of the sector | Percentage | 0.00 19-May-2017 | 80.00 19-May-2017 | 80.00 25-Dec-2019 | 10.00 21-May-2019 |

Comments (achievements against targets):

The indicator is met partially. The largest part of consultations, especially with the affected communities should happen during the discussions on the actual policy, not during the analytical phase. So, the large majority of the discussions will be organized under the new Mineral Sector Policy Grant II. The Stakeholder Engagement Plan has been prepared by the client, and has identified all key stakeholders and ways of communication with each.

| Indicator Name | Unit of Measure | Baseline | Original Target | Formally Revised Target | Actual Achieved at Completion |
|--|-----------------|------------------|------------------|-------------------------|-------------------------------|
| A permanent dialog forum for key stakeholders within the mining sector is put in place and allows for better knowledge and access to | Yes/No | N 19-May-2017 | N 19-May-2017 | Y 31-Mar-2020 | Y 21-May-2019 |



information on the sector and its impacts

Comments (achievements against targets):

This indicator has been met. The Multi Stakeholder Group formed for the EITI implementation in Armenia has become a main platform for all mining sector related discussions. The Group enlarged its activities especially under this Project. The EITI MSG consists of 15 members including 6 representatives of government (deputy ministers of MTAI, MoE, MoJ, SRC, MoF), 4 business representatives and 5 CSO representatives (including 1 academia member and 1 mining region representative). Each constituency consists of many members who also are able to participate in meetings and documents reviews through different channels. Especially the CSO group always involve their other members and share with them documents for comments.

A.2 Intermediate Results Indicators

Component: Component 1: Analytical Underpinnings: Three assessments done under this component summarized the state of affairs and key challenges facing the mining sector, based upon existing analytical work and

| Indicator Name | Unit of Measure | Baseline | Original Target | Formally Revised Target | Actual Achieved at Completion |
|-----------------------------|-----------------|------------------|------------------|-------------------------|-------------------------------|
| Analytical reports Produced | Yes/No | N 19-May-2017 | Y 19-May-2017 | Y 16-Dec-2019 | Y 21-May-2019 |

Comments (achievements against targets):



B. ORGANIZATION OF THE ASSESSMENT OF THE PDO

| | |
|---|--|
| Objective/Outcome 1: A Mineral Sector Strategy/Policy is developed, based on solid analytical work and through an inclusive multi stakeholder process that is in line with good international practices and standards for sustainable mineral sector governance. | |
| Outcome Indicators | Policy is not fully ready. The Policy and Action Plan will be finalized under the new Mineral Sector Policy Grant II |
| Intermediate Results Indicators | 1. Two analytical works were provided that will feed the Policy discussions: Economic Assessment of Mining Sector and Environmental and Health Assessment of Mining Sector. As a quick reaction to COVID 19 outbreak, a report on the economic impact of COVID-19 on the Armenian mining sector was produced. |
| Key Outputs by Component (linked to the achievement of the Objective/Outcome 1) | 1. Component 1: Analytical Underpinnings: Three assessments conducted under this component summarize the previous analysis of the mining sector, bring up new problems identified by various stakeholders, and based on the current situation and international best practices provide recommendations that largely will be used in the policy development process. Assessments included literature review, meetings and consultations with the key stakeholders, including affected communities, and case studies of large and small mining companies. |



ANNEX 2. PROJECT COST BY COMPONENT

| Components | Amount at Approval (US\$M) | Actual at Project Closing (US\$M) | Percentage of Approval (US\$M) |
|--|---------------------------------------|--|---|
| Analytical underpinnings | 0,230 | 0,181 | 79% |
| Outreach and Consultations and Policy Development | 0,200 | 0,004 | 2% |
| Capacity Building | 0,020 | 0,053 | 265% |
| Total | 0,450 | 0,237 | 53% |



ANNEX 3. RECIPIENT, CO-FINANCIER AND OTHER PARTNER/STAKEHOLDER COMMENTS

The Recipient's letter about the project importance for the country is attached.



ANNEX 4. SUPPORTING DOCUMENTS (IF ANY)

Under the project for main documents were produced which are attached to the ICR.

1. **Economic Assessment of Mining Sector (Armenian - as the document was not finalized it also was not translated into English)**
2. **Environmental and Health Assessment (English)**
3. **COVID-19 Impact on the Armenian Mining Sector (English)**
4. **Implementation Report on Doctors and Nurses Training on COVID-19 (Armenian)**