I. Project Context

Country Context

Despite a substantive recovery from the global economic crisis, unemployment and poverty remain higher than pre-crisis levels. The 2013 Country Economic Memorandum (CEM) emphasized that Armenia needs a new growth model led by services and manufacturing competing in international markets. The Information and Communications Technology (ICT) sector is particularly important due to its high productivity, fast growth (22.6 percent annually during 2008-11) and the fact that it has been able to draw major multinationals to the country to conduct high end Research & Development (R&D). Opportunities also exist to grow the manufacturing base, particularly in niche goods that can be priced to overcome the logistics impediments Armenia faces. Over the past few years, the Armenian government has developed strategies to support the manufacturing sector and build upon its growing ICT services sector. In 2010, the government developed an “Export-Led Industrial Policy Framework”, which led to the development of a set of strategies aimed at increasing international competitiveness of industries with export potential. The recently completed Armenia Development Strategy (ADS) 2014-2025 identifies the government’s priority to increase
employment opportunities by facilitating the creation of high value added jobs with the long-term strategic objective of transitioning from a resource-based to a knowledge-based economy.

**Sectoral and institutional Context**

Armenia has historically had a relatively low export base, a situation that was exacerbated in the period before the financial crisis. The dominant export sectors for products and services have remained constant for almost a decade while the sophistication of Armenia’s export products has declined significantly over the years. Furthermore, the quantum of FDI arriving into Armenia has been stagnating in recent years. Left unchanged, the structure of Armenia’s export basket will do little to mitigate Armenia’s vulnerability to global competition and will confine the country to a lower growth trajectory.

Recognizing the dire state of the Armenian export basket, the government developed the Export-Led Industrial policy to facilitate the improvement of the global competitiveness of Armenian firms. The government subsequently established industry-specific sector boards as a platform for Public-Private-Dialogue. The sector boards initiated increasing industry coordination, a positive development that needs to be encouraged. Prior to the sector boards, there was little communication within sectors in most industries; however several industry associations have been set up as a result of the sector boards. Enterprises participating in a survey commissioned during the preparation of the loan expressed interest in opportunities for horizontal cooperation within the industry to reduce their operational costs and increase their productivity.

Presently, Armenia receives a preponderance of market-seeking FDI with minimal impact on exports and has only been able to attract efficiency-seeking FDI in a few sectors most notably ICT. The government can play a pivotal role in accelerating the level of efficiency-seeking FDI by expanding current initiatives that have worked in the IT sector; support the development of an image building and marketing campaign to enhance the global view of Armenia and inform potential investors of the country’s success stories; and, develop the capabilities to fully support existing investors (in Armenia as in many countries over 50 percent of new FDI comes from existing investors).

Given that it is a small and landlocked economy with significant connectivity and political impediments, it is imperative for Armenia to develop an Investment Policy to build its value proposition for receiving efficiency-seeking FDI. Furthermore, to succeed in supporting the increase in FDI and exports, Armenia will need a strong institutional framework, which is currently lacking.

Given the high level of uncertainty relating to Armenia’s relationship with Russia vis-à-vis the West, the impetus for Armenian firms to meet global quality standards is more crucial than ever. However, Armenia’s national quality infrastructure suffers from significant weaknesses that hinder technology upgrading and undermine the competitiveness of its exports. Significant reforms have taken place in the National Quality Infrastructure in recent years. A National Metrology Strategy has been developed by the government to define the objectives, actions, resources and division of responsibilities needed for a modern metrology system in Armenia. The newly created National Accreditation Body is not able to fulfill its mandate and needs financial help as well as technical assistance to achieve its goal of International recognition in the future.

For Armenia to successfully increase exports and attract foreign investment it will need to: (i)
develop policies and an institutional framework conducive to trade and investment; (ii) develop effective export and investment promotion programs to promote both exports and inward FDI; and (iii) modernize its quality infrastructure to support the upgrading of firms.

II. Proposed Development Objectives
The project’s objective is to strengthen the enabling environment and firm capacity to increase private investments and exports. The Project’s direct beneficiaries include both existing and potential exporters, who will benefit from an improved quality of programs and services provided under a more efficient trade promotion and quality system.

III. Project Description

Component Name
Component 1: Improving the Effectiveness of the Trade Promotion and Quality System
Comments (optional)
The objective of this Component is to promote reforms aimed at improving the Trade Promotion and Quality Infrastructure system.

Component Name
Component 2: Promoting Investment and Exports
Comments (optional)
The objective of this component is to strengthen government’s capacity to actively increase the export competitiveness of local firms and attract efficiency seeking FDI.

Component Name
Component 3: Modernizing the National Quality Infrastructure
Comments (optional)
The objective of this component is to modernize metrological, accreditation and standards services in order to provide relevant quality assurance services to industry.

Component Name
Component 4: Project Management and Monitoring and Evaluation
Comments (optional)
The objective of this component is to finance the operations and monitoring of the program.

IV. Financing (in USD Million)

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V. Implementation

VI. Safeguard Policies (including public consultation)
Safeguard Policies Triggered by the Project

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Comments (optional)

VII. Contact point

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