



1. Project Data:		Date Posted : 07/23/2003	
PROJ ID: P051026		Appraisal	Actual
Project Name: SATAC 2	Project Costs (US\$M)	5.0	4.4
Country: Armenia	Loan/Credit (US\$M)	5.0	4.4
Sector(s): Board: EP - Central government administration (51%), Capital markets (19%), Banking (14%), Other social services (10%), Health (6%)	Cofinancing (US\$M)		
L/C Number: C2981			
	Board Approval (FY)		98
Partners involved :	Closing Date	06/30/1999	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
The objective of SATAC 2 was to enhance the government's capacity to implement the structural reform program supported (at the time of approval) by the SAC 2 project. (SATAC 2 was extended considerably and also supported reform measures under 3 subsequent adjustment operations)

b. Components
(1) Resource Mobilization : Improve tax administration; increase tax revenue; provide automation assistance to Treasury. **(2) Energy Sector Reform** : Redefine the role of the Minister of Energy; facilitate privatization of energy distribution companies (EDCs); strengthen Energy Regulatory Commission (ERC); **(3) Public Information and Judicial Reform** : Implementation of public information strategy to support reform; TA for strengthening court administration. **(4) Privatization** : Assistance for IPOs. **(5) Capital Markets Development** : Assessment of institutional capacity and need for regulatory capacity; establishment of national depository institution (NDI). **(6) Financial Sector** : Introduce IAS to banks; privatization of Armenian Savings Bank. **(7) Social Protection** : Study of consolidation and targeting of poverty benefits; consultancies on pension reform; pension automation assistance. **(8) Health** : Development of sector consolidation strategy. **(9) Education** : Studies in support of system restructuring; support for greater autonomy for local schools. **(10) Private Sector Development** . Assistance for WTO Notification Center and Armenian Development Agency (ADA), which served as investment promotion agency and focal point for efforts to improve business environment; assistance in enterprise privatization, liquidation, and restructuring. **(11) National Census**: Funding to National Statistical Service (NSS) to initiate plans for national census.

Components (10) and (11) were added to the project during implementation and financed with funds shifted from other components, including (1), which used only 3% of the funds originally allocated, and (4), which used 26% of the original allocation.

c. Comments on Project Cost, Financing and Dates
The project was originally scheduled to close on June 30, 1999, but was extended 4 times and actually closed on December 31, 2002. A key factor in the underutilization of project resources in some sectors was the frequent availability of grant funding from other donors.

3. Achievement of Relevant Objectives:

(1) Resource Mobilization : The project was largely unsuccessful at improving tax administration, increasing tax revenue, or providing automation assistance to Treasury. Only 3% of project funds in this area were disbursed, in part because of the availability of grant funds from USAID. **(2) Energy Sector Reform** : Successful at supporting reorganization of Ministry of Energy, facilitating EDC privatization, and strengthening Energy Regulatory Commission (ERC). **(3) Public Information and Judicial Reform** : Generally successful at implementing public information strategy to support reform, and strengthening court administration. **(4) Privatization** : Successful at funding pilot program to develop IPOs (further work was funded by USAID); facilitated sale of Armenian Savings Bank. **(5) Capital Markets**

Development: Most planned activity in this area was completed with grant funding . **(6) Financial Sector :** IAS along with initial training were introduced to all banks and 200 joint stock companies; (IAS were implemented under SAC 2.) **(7) Social Protection :** Highly successful: a wide range of benefits and subsidies were consolidated into a single, means-tested poverty benefit; consultant assistance was made available for development of new pension law (adopted under SAC 5) and IT assistance for pension administration . **(8) Health:** Generally unsuccessful: The project was originally intended to fund sectoral consolidation, but resistance to retrenchment resulted in development of a simple inventory of hospital capacity; minimum health benefit package not well suited to a country with stringent budget restrictions; USAID provided funding for hospital optimization . **(9) Education :** Project partially funded highly-successful reform program which devolved responsibility to local level, developed innovative textbook funding program, developed new financing system for general education . **(10) Private Sector Development .** Component was highly successful: Made available support for WTO Notification Center and Armenian Development Agency (ADA), which served as investment promotion agency and focal point for efforts to improve business environment . Assistance with enterprise privatization, liquidation, and restructuring also provided . **(11) National Census :** Project made available US\$30,000 to National Statistical Service (NSS) to initiate plans for national census, which became catalyst for implementation of census, which was funded by other donors .

4. Significant Outcomes/Impacts:

- TA provided under the project facilitated the privatization of Armenian Savings Bank .
- Project supported educational reforms including devolution of power to local authorities and an innovative textbook financing scheme; Armenia is a CIS leader in educational reform .
- A single, means-tested poverty benefit replaced a range of poorly targeted benefits, and beneficiary assessments suggest high targeting efficiency
- Support for the Armenian Development Agency facilitated the Government's efforts to improve the business climate.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Lack of cooperation from customs and tax authorities was a principal reason that resource mobilization efforts were unsuccessful.
- The minimum health benefits package developed under the project was not well suited to a country such as Armenia with its extremely limited budgetary resources .
- In retrospect, the project should have included a component to strengthen the telecom regulatory framework (the telecom company was privatized in late 1997).

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Exemplary	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Stronger Government leadership of the aid coordination process would enhance efficiency and assure that donor assistance is fully consistent with PRSP goals .
- TA provided under SATAC 2 was key to reform progress . The project supported work under 4 adjustment operations and was important across a number of sectors .
- A TA project can catalyze significant resources . SATAC 2 stimulated, or at least facilitated, expenditures by other donors in numerous areas, most notably regarding the census .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR is excellent. It is well written, concise, and frank. The report is also well-organized and presents ample evidence of project achievement.