



World Bank – Armenia Partnership: Country Program Snapshot

April 2012

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

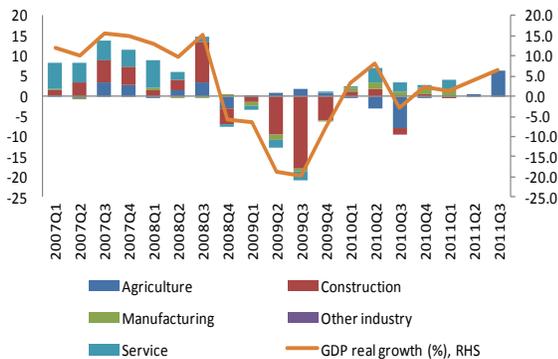
Growth Performance

The economy has continued to recover in 2011, led by the mining and agriculture sectors.

Economic growth (in year-on-year terms) picked up gradually from 2.1 percent in 2010 to 4.6 percent in 2011. Industry contributed more than half of the economic growth driven mainly by the mining sector and, to a lesser extent, agro-industries. The industrial output surpassed the level of December 2008 (in the pre crisis period) by 17.5 percent. Agriculture also contributed 8.1 percentage points to the growth in the third quarter. Continuing contraction in the construction sector, however, partly offset these achievements.

Figure 1: Economic growth and sectoral contributions

(Share in GDP and real GDP growth, %)



Downside risks remain given global economic uncertainties. But Russia's growth and the sustained inflow of remittances and FDI provide some economic stability. The economic outlook continues to largely depend on the tradable sectors' ability to recover and expand.

Inflation Developments

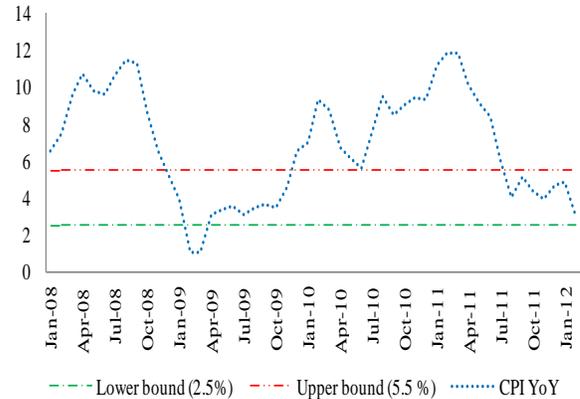
Inflation returned to the band targeted by the Central Bank in the second half of 2011.

Reflecting the slowdown in the rise of food prices in the local market, the 12-month inflation declined to 4.7 percent in December 2011, within the 4 ± 1.5 percentage point band set by the Central Bank. The average monthly inflation in 2011 was only 0.4 percent, or twice as low as the respective indicator in 2010.

The 12-month food price index was 6.1 percent in December 2011, as compared to 15.2 percent a year ago. The food prices, however, continued being the major driver for inflation, contributing around 2.9 percentage points to the overall price increase. Price environment remained favorable over the first two months of 2012, with 0.9 percent of monthly deflation in February, which brought 12-month inflation down to 3.0 percent, as compared to 11.8 percent in the same period a year before.

Figure 2: Inflation returned to the target band

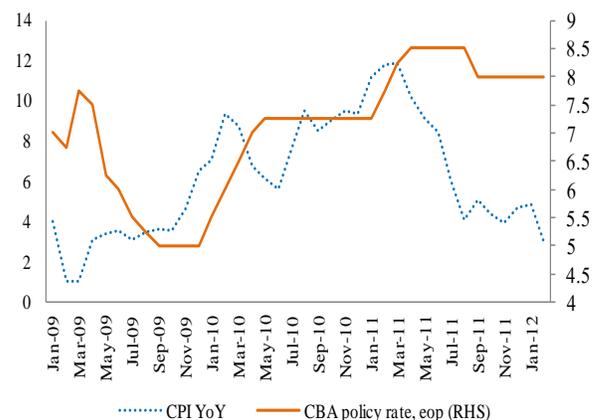
(Actual inflation and the target bounds, %)



Improving the inflation outlook allowed loosening monetary policy. Along with the slowdown of the monthly inflation, the Central Bank reduced its policy (refinancing) rate by 50 basis points (to 8 percent) in 2011. The reduction took place in September 2011, when the 12-month inflation of 4.1 percent almost reached the target level (4 ± 1.5 percentage point band). This policy rate remained unchanged since then.

Figure 3: Lower inflationary pressures allowed reducing the policy rate

(Actual inflation and the policy rate, %)



External Sector Performance

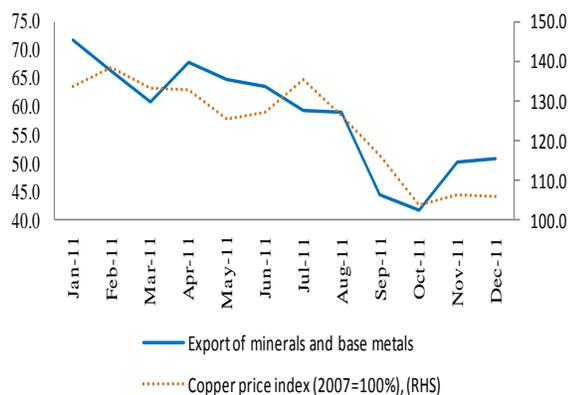
A favorable external environment helped reduce external imbalances. The mining sector and metallic manufacturing production accounted for more than half of merchandise exports. The export of minerals and metallic products follows London Metal Exchange (LME) spot price for copper very closely; decline in prices of base metals may entail contraction of these exports. Metallic minerals go primarily to the European Union (mostly Germany), but the share of EU in total exports declined slightly in 2011.

Exports expanded to relatively new markets, such as Switzerland and Canada. The share of exports to these countries increased by 3.4 percent in 2011. Merchandise exports and imports grew by 27.7 percent (to US\$ 1.3 billion) and 10.7 percent (to US\$ 4.2 billion), respectively. Since imports in dollar terms are three times higher than exports, the trade deficit widened by 4.2 percent and reached –US\$ 2.8 billion.

Remittances increased by around 20 percent and reached 12.1 percent of GDP in 2011 contributing to the improvement of the current account deficit by 2.6 percentage points.

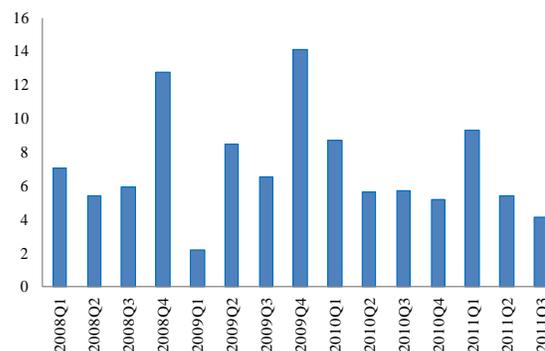
Figure 4: Export of minerals reflected the trend of copper prices

(Exports of mineral (mln USD) and the LME copper price index (2007=100%))



The medium term outlook for Armenia's current account deficit largely depends on global developments. With exports and remittances highly dependent on international prices for commodities, the Armenian economy might suffer from any adverse shock to terms of trade from global developments.

Figure 5: Net FDI remains moderate (Net FDI, % of GDP)



Further improvement of the business environment is necessary to step-up FDI inflows. According to the *Doing Business-2012* report, last year Armenia was among the top reformers worldwide improving its position by six points in the global ranking.

During the first nine months of 2011, the FDI inflows into the real sector amounted to US\$ 462.5 million; about 58 percent of which originated from Russia. Production of base metals, telecom, and energy attracted 29.3 percent, 21.5 percent, and 15.1 percent of the total FDI respectively in January-December of 2011. At about 6 to 7 percent of GDP, FDI inflows are quite respectable but have sizeable upward potential.

Fiscal Sector Performance

The fiscal deficit improved further from 5 percent in 2010 to an estimated 3 percent in 2011. After the sharp deterioration from 0.7 percent of GDP in 2008 to 7.6 percent of GDP in 2009, the overall deficit has gradually improved reaching 5.0 percent by the end of 2010. The deficit shrank further last year to 2.7 percent, due to economic rebound and an ambitious fiscal consolidation plan implemented.

Tax collections were in line with the planned amount, exceeding US\$ 2 billion in 2011, though the tax/GDP ratio declined to 19.3 percent due to higher-than-expected GDP and VAT refund. The tax collections in January-February are keeping up with the plan, and mild inflationary environment contributes to the growth of tax revenue in real terms.

The key focus of the fiscal policy in 2011 was the public finance consolidation on the background of maintaining the share of pro-poor social spending.

On the revenue side, the major policy change was bringing the import of petroleum and diesel under the general taxation regime, though the VAT rate for diesel was set at 0 percent. On the expenditures side, the Government managed to protect pensions and other priority social spending. In the 2011 budget the share of priority social programs increased to 29.6 percent, relative to 29.1 percent in the 2010 execution. The allocation to priority social programs also increased as a share of GDP, from 7.8 to 8.2 percent over the same period.

The 2012 approved budget continued addressing the fiscal consolidation agenda expected to be driven by the revenue collection efforts. The Government introduced a tax policy reform package targeted at increasing tax revenues by 100 billion AMD. The changes include bringing retail of fuel under the general taxation regime, introducing more progressive personal income taxation (introduction of additional bracket), increasing the minimum level of social contribution, introducing a new tax on luxury cars and premium alcohol, and increasing the presumptive tax for casinos. The priority social spending will continue to be protected, maintaining the share of about 29 percent in total expenditures. The share of deficit in GDP is also expected to stay below 3 percent.

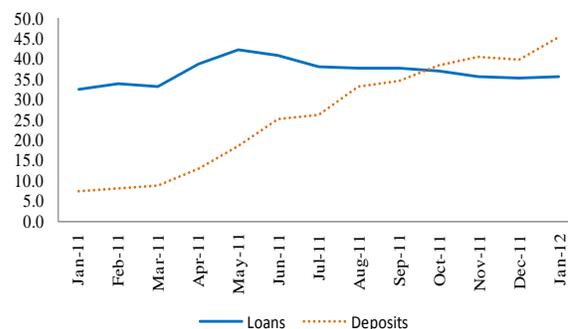
Financial Sector Developments

The Armenian banking sector is dominated by foreign banks. The banking system comprises 22 banks operating with 432 branches. Fifteen of them are majority-foreign-owned, accounting for about 69 percent of total banking sector assets. The banking sector is highly fragmented given the small size of the country. The largest bank (ACBA-Credit Agricole) held 10.5 percent of assets, 11.6 percent of loans, and 7.8 percent of deposits at end-2011. The banking sector is small in size, and financial penetration remains low, despite rapid credit expansion in recent years.

Credit to the private sector grew by around 30 percent in 2011. Before the 2009 crisis, the financial depth indicators in Armenia were low even for developing countries' standards, with the credit-to-GDP ratio standing below 10 percent while the economy was growing by double-digits. This was attributed to both a conservative banking system and reliance on remittances rather than on loans as a source of financing. By 2011, financial intermediation deepened to 30 percent.

Figure 6: Growth in lending was relatively stable around 30 percent, and growth of deposits accelerated during the year.

(Growth of lending and deposits (year-on-year),%)



At end-2011, total banking sector assets amounted to US\$ 5.4 billion, or 59 percent of GDP. Dollarization remains high. Despite higher risk weights and provisioning on foreign exchange (FX) loans, FX credit continues to grow twice as fast as dram lending, as banks continued to draw down excess reserves at the CBA and accessed credit lines with International Financial Institutions (IFIs) and parent banks. To address this dollarization, the Central Bank gradually changed the provisioning for the foreign exchange-denominated deposits, moving from the foreign currency to fully local currency-denominated provisioning. Despite this policy measure, the situation remained almost unchanged, and as of January 2012 the foreign exchange-denominated deposits increased by 36 percent and still accounted for about 70 percent of total deposits.

Figure 7: Dollarization remains high

(Share of foreign currency-denominated deposits, %)



The banking sector loan portfolio grew by about 35 percent and deposits by 40 percent (net of FX effects) during 2011. Nevertheless, banking sector non-performing loans (NPLs) show a stabilizing trend after reaching a peak in the middle of 2009. On average, NPLs were 5.32 percent at the end of 2011, compared to 6.31 percent in 2010 and 6.6 percent in 2009.

The Armenian banking system remains well capitalized and profitable: aggregate capital adequacy ratio (CAR) remained relatively high at 19.6 percent and return on equity (ROE) reached 9.8 percent at end-2011. Owing to a rise in economic activity and a rebound in remittance flows, the Armenian banking system continued to show signs of recovery in 2011 (including strong lending and deposit growth, lower non-performing loans, and improving profitability).

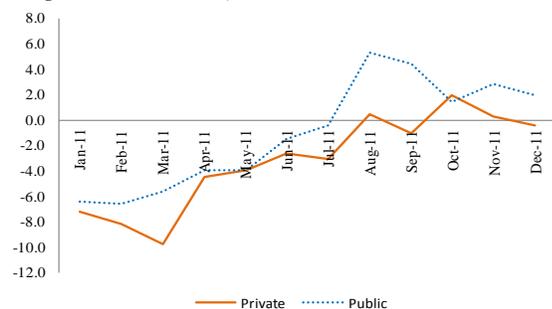
Labor Market and Poverty Developments

In 2011, employment and wage growth were marginal. Officially, registered unemployment declined from 6.7 percent in January 2011 to 5.9 percent in December 2011. In absolute numbers, the reduction in the number of registered unemployed people was 10,500 while the increase of employment was only 4,800 people. This suggests that the reduction of the unemployed might have been partially induced by people that had to unregister from the system due to existing limitations on eligibility for unemployment benefits. Furthermore, the official employment figures do not fully capture the real situation of the unemployment, which has been estimated at 19 percent in 2010 based on the International Labor Organization (ILO) methodology.

Wages increased by only 0.8 percent in real terms throughout 2011. The increase of wages during 2011 was higher in the public than in the private sector. This partly reflects the automatic mechanism for wage increases embedded in the government pay system. Another reason might have been the poor performance of the construction sector. In particular, the monthly wages in construction and real estate transactions declined by 3.3 percent and 4.3 percent, respectively. The inflation, although moderate by the end of 2011, largely offset the increase of wages.

Figure 8: Private sector monthly wage growth lagged behind public sector

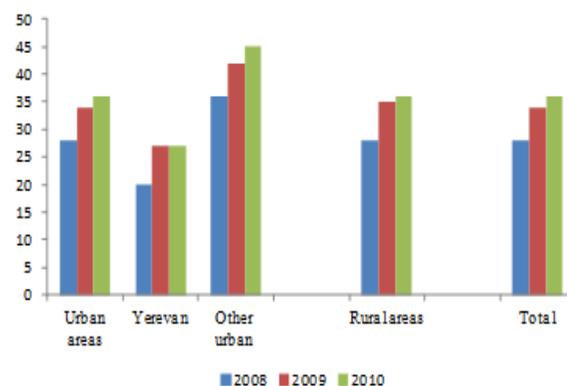
(Real year-on-year growth of monthly wages in public and private sectors, %)



Armenia's recent gains in living standards and poverty reduction have been partly offset by the financial crisis. Between 1999 and 2008, poverty incidence was halved, from 56 percent to 27.6 percent, lifting over one million Armenians out of poverty. But in just two years, about 30 percent of this reduction has been reversed. The effect of the crisis on poverty has been dramatic, with 270,000 more people joining the ranks of the poor between 2008 and 2010, raising the number of the poor in 2010 to around 1.2 million. The poverty headcount increased from 27.6 percent in 2008 to 35.8 percent in 2010, an increase of 8.2 percentage points. Both rural and urban areas saw these trends.

Figure 9: Changes in rural and urban poverty in the aftermath of the crisis

(Share of population, %)



However, as growth picks up, poverty will likely start falling. Growth prospects are directly linked to the global economic recovery as well as to the deepening of domestic reforms. Targeted social expenditures and pension increases have supported incomes of the poor.

Public Sector/Governance

The civil service system was established in Armenia in 2002 with the adoption of the Law on Civil Service. The reform supported the clear separation of the administrative and political offices. Several strategic papers were developed to inform the public sector reform process.

Starting in 2011, the state budget is planned in a program-based budgeting format. Public financial management reforms are progressing in several other areas, in particular internal and external audits, public accounting, public procurement and treasury administration. The Public Financial Management Strategy was approved by the Government in October 2010 to further advance the reforms in this

area. Separate strategies for tax policy and tax administration are being updated on rolling bases.

The Law on Public Service adopted in May 2011 rolled out human resource management principles originally introduced in core Civil Service (about 45 civil service bodies) to cover other fragments of public service. The law also introduced common rules for conflict of interest management in the public sector. Following the adoption of the Law on Public Service, the Commission on the Ethics of High-Ranking Officials was established in January 2012 to be in charge of conflict of interest, income and asset declarations from about 500 highest level officials from all the branches of power, independent commissions, and local governments with population above 50,000.

The Government has recently established a special Regulatory Reform Unit to perform a regulatory guillotine exercise. The Regulatory Guillotine initiative is a multi-donor project and will support the Armenian Government during the initial round of simplifying and streamlining the legal framework and regulations. The World Bank is supporting this through an Institutional Development Fund (IDF) grant.

A significant reform agenda was set in the judicial sector with the adoption of the Judicial Code in 2006. Among the key changes made, it is necessary to highlight that (i) ensuring consistent interpretation of laws became the main function of the Cassation Court, decisions of which are now binding for lower instance courts hearing similar cases, and (ii) the Judicial Department has been established as the main institution responsible for court administration and the newly introduced professional judicial service at courts. The mid-term priorities of judicial reforms were reflected in the 2009-2011 Judicial Reform Strategy. The 2012-2016 Judicial Reform Strategy with the 2012-2014 Action Plan is pending adoption, and will be further updated on rolling bases.

E-government is an overarching direction in all public sector reforms supported by the World Bank, European Union and other donors (both the executive and judicial branches of power have introduced their own e-government portals, with growing number of services and information available on-line).

The World Bank has been supporting the ongoing reforms in the area of public administration in the executive branch through the *Public Sector Modernization Projects 1 and 2* (PSMP 1-2), Development Policy Operation (DPO) series and

various Institutional Development Fund grants. The ongoing judicial reforms have been supported through the *Second Judicial Reform Project* and Dutch/Japanese Policy and Human Resources Development (PHRD) co-financing grants.

Infrastructure Development

Energy

Armenia's energy sector has moved from severe crisis to a current state of stability that is more characteristic of developed countries than emerging markets. A combination of policy, legal, regulatory and institutional reforms has rendered remarkable results: improvements in operating efficiency have helped create commercially viable service providers, technical and non-technical line losses have decreased, while collections have increased to nearly 100 percent of sales.

However, Armenia faces three principal challenges in meeting these energy sector objectives: **(i) An emerging supply gap:** Armenia will need at least 800 MW of new generating capacity by 2017 as the old, under-maintained energy infrastructure is retired and demand continues to grow steadily; **(ii) Maintaining energy supply reliability:** Heavy reliance on imported fuels and underdeveloped regional interconnections put Armenia at risk of supply interruptions, price fluctuations, and possible outages. Fuel for more than 90 percent of Armenia's energy needs is imported. Armenia is dependent on the import of hydrocarbons for all of its transport fuel, all gas used for heating (whether industrial or residential) and cooking, and all of the gas used for generating one-third of the country's electricity; **(iii) Maintaining affordable tariffs:** Rising fuel prices and the need for new, more expensive generating units may jeopardize the affordability of electricity for low-income consumers. In 2009, Armenian households spent roughly 8 percent of their total budgets on electricity and gas. This percentage has already increased because of the increase in energy tariffs and the decline in GDP per capita.

The World Bank's assistance in this area aims at helping Armenia meet the above challenges and build on the current support. The Bank supports improvement of electricity supply reliability by contributing a US\$ 39 million IBRD loan to rehabilitate around 230 km section of the electricity transmission network backbone. The Bank is also supporting improvement of energy efficiency of social and other public facilities (e.g. schools, kindergartens, hospitals, municipal buildings) through a US\$ 1.82 million Global Environmental

Facility (GEF) grant. The grant, coupled with US\$ 8 million of Government co-financing, will support energy efficiency investments in social and other public facilities as well as the creation of enabling environment for energy efficiency for the public sector.

The Bank also administers a US\$ 1.5 million GEF grant that finances investigation works in potential geothermal sites in Armenia. In 2006-2011, the Bank has also been supporting the development of renewable energy in Armenia by contributing US\$ 8 million (US\$ 3 million GEF grant and US\$ 5 million IDA credit) to a US\$ 25 million multi-lateral financing package for technical assistance to remove institutional and regulatory barriers to small scale renewable projects, and for on-lending for small hydropower and wind power projects.

The World Bank also supported Armenia in increasing access to safe, clean, and affordable gas-based heating in urban multi-apartment buildings and schools through a US\$ 15 million IDA credit.

Transmission line supporting a newly constructed hydro power plant in Garni area, Kotayk region



Roads

The road network is essential for the country's sustainable economic development, since Armenia is a land-locked country with limited transport routes. The road transport network has significant impact on the country's economic competitiveness, and to a large degree determines the success of the export orientation of the economy.

The Government has prioritized the rehabilitation and reconstruction of 7,704 km of roads as reflected in the Transport Sector Strategy and the Sustainable Development Program. In the past five years the Government significantly increased the state budget

allocations for financing the construction, rehabilitation and maintenance of the road network.

Improvement of the road network for rural communities has been one of the key objectives of the Government in the transport sector. These roads are called "lifeline" roads and comprise some 3,014 km of Armenia's 7,704 km non-urban roads. As part of its anti-crisis policy aimed at creating temporary employment through investment in public works, the Government embarked on a program to make significant investments in the improvement of the "lifeline" road network. The World Bank is supporting the Government with the improvement of the rural road network through the *Lifeline Roads Improvement Project* and two additional investments with total Bank financing of US\$ 101.6 million.

The Bank also provides technical assistance to strengthen the in-house technical capacity of the Armenian Roads Directorate, upgrade the road construction standards, improve the road safety, enhance the sustainability of road financing and management and adopt new road design and maintenance technologies and approaches.

The Lifeline Roads Improvement Project has reconnected Armenia's isolated rural communities to their urban centers.



Water

Over the past decade, the Government has strived to improve access, reliability and quality of the drinking water and its infrastructure. Considerable progress has been made in reforming the sector. However, non-revenue water remains high and is still a concern. Cost recovery is the long-term development issue of the drinking water system. Currently drinking water and sanitation tariffs do not cover the costs, and in all areas except Yerevan, they do not even cover the recurrent costs.

Affordability is the main reason for not switching to cost recovery tariffs.

In recognition of the water sector’s strong potential and the vital role it plays in the social safety net, the World Bank has attached special attention to reforms in the sector. The Bank has supported Armenia’s efforts to provide safe and constant water supply and reduce environmental pollution through water and wastewater management projects (US\$ 50 million for Yerevan and US\$ 58 for the areas outside Yerevan). Over 332,000 households in Yerevan and 264,000 households in the regions have benefitted from improvements in the duration of water supply and water quality.

The use of Public Private Partnerships (PPP) in the water and wastewater sector in Armenia has been an example of progressive sector development. While recognizing that the main reason for the poor water services was the management of the available water resources, the World Bank and the Government of Armenia introduced an example of a performance-based management contract for Yerevan. Building on the success of this, the Government opted for increased private sector participation – a lease contract for ten years, supported by the second IDA project in Yerevan. Later a PPP model for urban areas outside Yerevan was introduced, covering about 33 percent of the population. Upon completion of the management contract in 2013, the Government plans a lease contract for the Armenia Water Sewage Company.

continue the reforms started in the sector and place larger focus on water management issues, including wider use of modern irrigation techniques and more efficient use of water. This may help reduce water delivery costs and increase sustainability of the irrigation sector.

The World Bank supports Armenia’s I&D sector through the *Irrigation Rehabilitation Emergency Project* (IREP) and its *Additional Financing* effective since December 2011.

Temporary employment under IREP generated an estimated US\$ 5.4 million in wages.

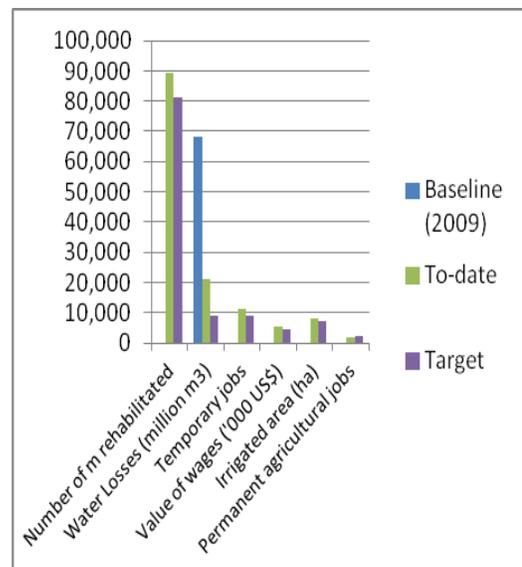


Irrigation and Drainage

The Government is working towards increasing irrigated areas, and consequently rural incomes, by rehabilitating the country’s irrigation and drainage (I&D) infrastructure. Agriculture is an important source of livelihood, employing 40 percent of the population and contributing about 20 percent of the GDP. More than 80 percent of agricultural GDP is generated from irrigated lands. Thus, deterioration of the irrigation infrastructure threatens rural employment and rural incomes. Rural poverty, at 34.9 percent¹, is higher than in urban areas.

The Irrigation and Drainage sector continues to be a major development challenge for the Government. While much has been achieved, the needs for irrigation rehabilitation investments in Armenia remain high. Future irrigation projects should

**Figure 10
Key Achieved and Expected Results**



¹ According to the recent Poverty Update (March 2011), rural poverty is estimated at 40 percent at the end of 1st half of 2010.

Agriculture

Due to weather vulnerability and marketing challenges, agriculture growth rates fluctuated considerably over the last decade, contrary to the steady growth pattern of the whole economy. However, agriculture has maintained its central importance to employment and rural incomes, as well as to domestic food supply, and as a source for expansion of exports in food products.

Some 335,000 households are involved in the sector, with an average landholding of around 1.4 hectares per household and a diversified production system involving both crops and livestock. The Agro-processing sub-sector is the main employer in rural areas.

The economic downturn increased the vulnerability of small-scale operators, by making them more dependent on livestock and natural resources for their livelihoods. Besides, the livestock sector is facing serious challenges such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. Additionally, there are huge fluctuations in supply of dairy products, with most milk produced in the summer months and almost no production in winter and spring.

These challenges limit Armenia's capacity to exploit opportunities stemming from increasing domestic demand. Imported meat now accounts for half of national meat consumption due to low livestock sector productivity, and an unreliable supply of meat and milk. The dairy and meat sectors are competitive on the domestic markets. However there is scope for strengthening their competitive position through addressing productivity and supply constraints.

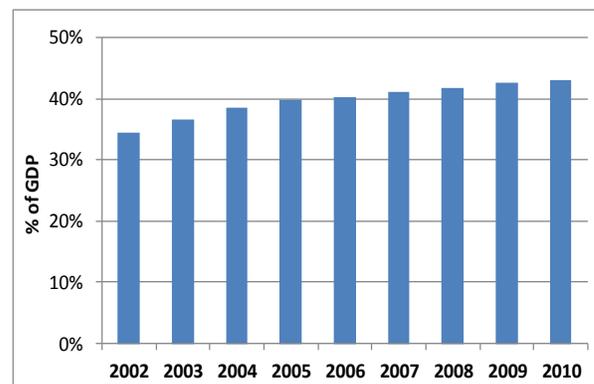
The Bank's portfolio includes *Community Agriculture Resource Management and Competitiveness Project* (CARMAC) effective since July 2011.

Private Sector Development

The Small and Medium Enterprise (SME) sector continues to be one of the major development issues for the Government, as SMEs play an important role in the economy of Armenia. According to the calculations of the Development National Center (DNC) in 2010, SMEs contributed about 43 percent of the country's GDP, in comparison to 42.5 percent in 2009 and 41.7 percent

in 2008. Also, the role of SMEs is crucial in ensuring the high level of employment in the economy. In 2010, the SME sector employment as percent of total employment was slightly increased to 42.2 percent and remained almost at the same level in 2010.

Figure 11
Share of SME sector in GDP (%)

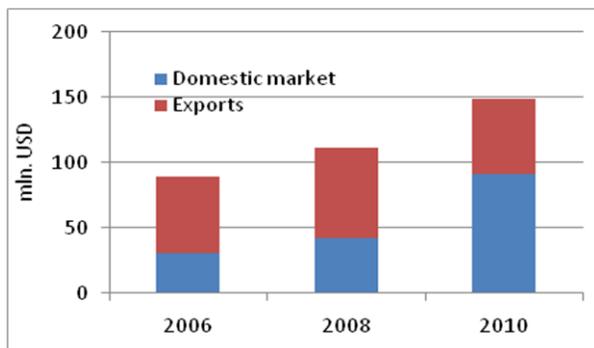


The World Bank supports SME development through providing financial resources to the banking system. The Bank's *Access to Finance for SMEs (AFSME) Project* makes available additional resources for banks to lend to SMEs. Since the launch of the AFSME project in April 2009, AMD 21.3 billion have been disbursed cumulatively (as of end-2011); about 60 percent of this is addressed to widening access to finance for SMEs in the regions.

ICT sector and innovation

Information Technology (IT) has become one of the important sectors of the Armenian economy, contributing to the technological innovation and productivity growth in the country. In 2008, the Government adopted the IT sector development strategy, which aims to expand telecommunications and business incubation infrastructure, improving the productivity and expanding support and financing mechanisms for Information and Communication Technology (ICT) start-ups. In 2010, the turnover of the Armenian software and services sector reached around US\$ 150 million resulting in 25 percent Compound Annual Growth Rate (CAGR) during 1998-2010. This turnover figure constitutes 1.7 percent of Armenia's nominal GDP.

Figure 12
Armenian IT industry turnover



The World Bank is supporting the development of the ICT sector under the *E-Society and Innovation for Competitiveness (EIC) Project* through improvement of the ICT infrastructure and enabling enterprise innovation on the basis of a competitive national IT/knowledge-intensive industry and an ICT-equipped and adequately skilled society, including citizens, businesses and government.

Human Development

Education

Quality is a lynchpin of education reforms, and the Government has already made considerable progress by addressing structural reform needs.

The establishment of a fully functional Assessment and Testing Center (ATC) allowed the introduction of a centrally-administered unified examination system, which resulted in a more equitable and transparent system for university entrance. The education reforms also included the new National Curriculum, school-based assessment, use of Information and Communication Technology (ICT) in schools, and effective in-service training system.

Such approach to quality reforms provided some early improvement of learning outcomes. The Trends in International Mathematics and Science Study-2007 (TIMSS-2007) showed that the quality of the education system had increased – Armenia was the only country in Europe and Central Asia region that obtained significantly better scores in all four categories in comparison to the results of 2003. The World Bank supports the education sector through the *Education Quality and Relevance Projects* (APL 1-2, US\$ 44 million) and DPO. The first phase of the Education Quality and Relevance (EQR) Project supported the design of a new Curriculum and Assessment system, provided teachers with training on new trends and changes in teaching methodology and using ICT in education, as well as

contributed to the establishment and strengthening of the necessary infrastructure for the ongoing reforms.

The current project contributes to aligning the Higher Education System to the Bologna requirements by establishing and strengthening the National Education Quality Assurance System and developing a tertiary education management information system (TEMIS).

Other important aspects of the project include supporting improvements in the quality of education through improved in-service teacher training and professional development, including training of school principals in effective leadership and management; supporting the implementation of high school reform by providing computer literacy training to librarians of 107 high schools, as well as reforming pre-service teacher education through the university academic partnership program between the Armenian State Pedagogical University and University of Oulu of Finland.

In addition, the Bank helps facilitate one year preschool education for four-and-a-half to five-and-a-half year-old children to promote school readiness and equal opportunities at the start of general education. The project strengthens the quality and finance of higher education through the establishment of a *Competitive Innovation Fund* to promote implementation of innovative and enhancement projects, thus improving the capacity of higher education institutions. Expansion of access to preschool education is critical for enhancing pro-poor outcomes in the sector. As of February 2012, 83 preschool facilities operated in different communities throughout Armenia. The project will contribute to creating preschool classes in 170 communities.

Health

The Government is in the midst of major healthcare reforms focusing on strengthening Primary Health Care (PHC), optimizing the extensive health services networks, enhancing the health system governance and improving the provider payment methods. The ultimate goal is to improve the key health indicators of the population, in which important steps have been taken but further progress is needed.

The high level of private expenditures on health remains a challenge. 50 percent of expenditures on health (year 2009) are out-of-pocket payments. This is partly caused by low public expenditures on

health, which accounted for only 1.4 percent of GDP in 2010.

The Bank supports the health sector through three *Health System Modernization Projects* (APL 1-2 and AF for APL 2, in the total amount of US\$ 60 million), with the objectives of providing more accessible, high quality and sustainable health care services to the population. The second phase of APL 2 continues supporting the Government in: (i) completing the family-medicine based PHC reform to ensure that every Armenian citizen will have

access to a qualified and well-motivated family doctor and nurse of his/her choice; (ii) consolidating the hospital sector to minimize waste of scarce resources and improve quality of care; and (iii) strengthening the Government's competencies for effective stewardship in policy making, regulation, oversight and public accountability to ensure targeted use of public resources in accordance with the healthcare needs of the population.

IRRIGATION REHABILITATION EMERGENCY PROJECT - ADDITIONAL FINANCING

Approved: October 25, 2011
Effective: December 13, 2011
Closing: June 30, 2013

Financing in million US Dollars:

Financier	Financing	Disbursed*	Undisbursed
IBRD Loan	18.00	6.90	11.10
Government of Armenia	3.40		
Beneficiaries	0.20		
Total	21.60	6.90	11.10

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The Bank has been supporting the rehabilitation of the irrigation and drainage (I&D) infrastructure and institutional development process in the subsector in Armenia since 1995. While much has been achieved, irrigation rehabilitation investments in Armenia remain important and currently the Bank is the only donor in the sector.

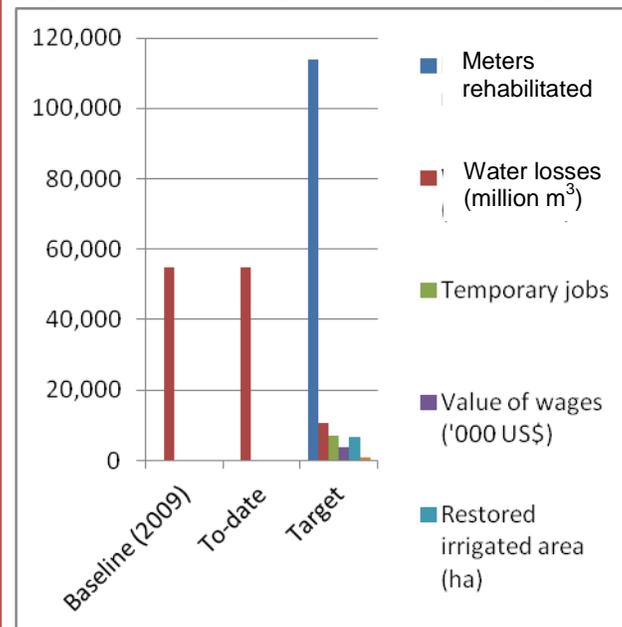
Project Objective

The project is aimed at improving water-use efficiency in the selected irrigation schemes while also fostering immediate rural employment. These objectives can be achieved by rehabilitating around 50 km of main and secondary canal sections and another 63 km of tertiary networks to reduce water losses and, at the same time, providing limited assistance to strengthen the institutions managing the irrigation infrastructure.

Key Achieved and Expected Results:

- ✓ 50 km of all identified sections of the selected main and secondary canals in Aragatsotn, Kotayk, Shirak, Lori, Ararat, and Armavir regions to be rehabilitated. As a result, water losses between primary intake and on-farm system will be reduced by 34.4 million cubic meters improving irrigation on about 52,000 hectares (ha) of land.
- ✓ 63 km of tertiary networks in 19 communities of Lori, Shirak, Gegharkunik, and Armavir regions to be rehabilitated. As a result, water losses will be reduced by 9.9 million cubic meters improving existing irrigation water services on over 2,500 ha of land.
- ✓ In total, the project rehabilitation activities will generate 7,000 person-months of temporary jobs. The value of wages generated by this temporary employment is estimated to be in the range of US\$ 3.7.
- ✓ About 2,100 agricultural jobs are estimated to be created in two years after project completion when higher-value crops will replace low-value crops.
- ✓ It is estimated that the total area returned to irrigation as a result of project interventions may reach about 6,500 ha.

Key Achieved and Expected Results in Graph



Key partners

The World Bank team had developed a long-standing partnership with the Millennium Challenge Corporation (MCC), since the Bank assisted MCC's efforts to enter the Irrigation and Drainage (I&D) sector by providing plans, analyses and other documents that had been developed under an earlier irrigation project. But due to increase of costs of construction materials and labor, MCC could not finance the rehabilitation of all systems for which it had prepared the technical designs, and re-scoped its program in November 2008. MCC shared the technical designs with the Bank, which formed the basis for the project.

LIFELINE ROADS IMPROVEMENT PROJECT

Key Dates:

LRIP Approval: February 24, 2009

LRIP Closing: December 31, 2010

LRIP Additional Financing I Closing: December 31, 2011

LRIP Additional Financing II Closing: December 31, 2013

Financing in million US dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	25.00	24.99	0.001
IBRD Loans	76.60	59.33	17.27
Government of Armenia	24.48		
Total	126.08	84.32	17.271

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The accessibility of roads connecting the rural settlements to the major road networks is limited, reducing the economic and social development opportunities of rural communities. Thus, the Government of Armenia decided that each community should have at least one “lifeline road” connected to an interstate highway. The total length of the lifeline road network is 3,014 km, and over 60 percent of those roads are in poor condition. Moreover, the recent crisis resulted in a significant increase of unemployment in rural areas, where a handful of industrial companies scaled back their operations, thus necessitating the Government’s intervention to create rural jobs.

Project Objective

The Lifeline Roads Improvement Project aimed at rehabilitating a total of 430 km of lifeline roads in 12 regions of Armenia in order to reduce the time required for travelling on those roads, and to generate local employment through use of labor-intensive construction technologies. The project used cost-effective designs in accordance with actual traffic needs to ensure that longer lengths of roads can be rehabilitated without compromising technical integrities.

Key Results

- ✓ A total of 290 km of lifeline roads with lengths of 1 to 14 km rehabilitated.
- ✓ Over 27,000 person-months of employment created.
- ✓ Transfer of knowledge and technologies. The local contractors gained experience in designing and rehabilitating low-volume rural roads in accordance with international standards for such roads.
- ✓ Improved road safety. All roads passing through residential areas were provided with sidewalks and designs to allow the use of facilities by disabled people.

Key Partners

The Bank team works closely with the (i) **Ministry of Transport and Communication (MoTC)**, which is responsible for overall policy setting and for overall implementation of the Project; (ii) **Transport Project Implementation Unit State Institution (Transport PIU)**, charged with coordination and management of implementation activities on a day-to-day basis; and (iii) **Armenian Roads Directorate State Non-Commercial Organization (ARD)**, which is responsible for the technical aspects of the project implementation.

Key Development Partner includes the Asian Development Bank (ADB), which is implementing a similar project and with whom the Bank team coordinated closely on policy issues.

MUNICIPAL WATER PROJECT

Approved: February 21, 2012
Effective: Expected end-March, 2012
Closing: June 30, 2015

Financing in million US Dollars:

Financier	Financing	Undisbursed*
IBRD Loan	15.00	
Government of Armenia	3.00	
Total	18.00	18.00

*World Bank disbursements as of March, 2012.



Challenge

For many years after the collapse of the Soviet Union, most of the water supply and sanitation systems in Armenia were in a serious state of disrepair. Despite an abundance of water in the country, water was available only a few hours a day in most cities and villages and at low pressure. Over the past decade, GoA has succeeded in improving access, reliability and quality of drinking water service with increased use of public-private partnerships (PPP), which has brought about higher efficiency and improvements in quality of service to customers. Considerable progress has been made in the delivery of water services in small and medium-sized towns in Armenia. Despite such improvements, the sector is still facing some challenges.

Project Objective

The Project Development Objective is to support improvement of the quality and availability of water supply in selected service areas of the Armenian Water and Sewerage Company (AWSC).

Key Expected Results:

- ✓ Increase weighted average daily supply of drinking water service in selected areas from 12.30 hours daily to 16.60 hours daily.
- ✓ Decrease weighted average non-revenue water in selected areas from 83.50 percent to 70 percent.
- ✓ Increase ratio of billing and collection from 93.50 percent to 98 percent.
- ✓ Decrease annual electricity consumption from 0.23 to 0.17 KW/m³.
- ✓ Decrease amount of water production from 752 l/c/d to 489 l/c/d.

International Development Agency (IDA) Core Indicators:

Expected in 2015:

- ✓ The number of piped household water connections benefiting from the rehabilitation works undertaken by the project is 33,609.
- ✓ The number of people in rural areas provided with access to improved water sources under the project comprises 33,328 people.
- ✓ The number of people in urban areas provided with access to improved water sources under the project reaches 99,263 people.

Key Partners: The Bank team works closely with the (i) State Committee on Water Economy (SCWE) and the Ministry of Territorial Administration. SCWE reports to the Ministry and is responsible for overall policy setting in water and irrigation sectors; and (ii) Armenia Water and Sewerage Company, a water utility outside the Yerevan service area, which covers about 33 percent of the country's population, and implementer of the MWP.

Key Development Partners included the Asian Development Bank (ADB), KfW, and USAID. The Bank coordinates with ADB on the water sector reforms, particularly on exchange of information on mutual efforts in AWSC service area. EBRD invests in five treatment plants in Sevan region. KfW is financing water supply investments in the cities of Armavir, Vanadzor and Gyumri. The Bank works closely with many donors to coordinate investments in the water and wastewater sector, and these efforts bode well for significant future improvement of the sector.

MUNICIPAL WATER AND WASTEWATER PROJECT- ADDITIONAL FINANCING

Key Dates:

Approved: October 30, 2008

Effective: April 20, 2009

Closing: February 28, 2012

Financing in million US Dollars:

Financier	Financing	Disbursed*	Undisbursed
IDA Credit	20.00	19.84	0.04
Government of Armenia	6.80		
Total	26.80	19.84	0.04

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

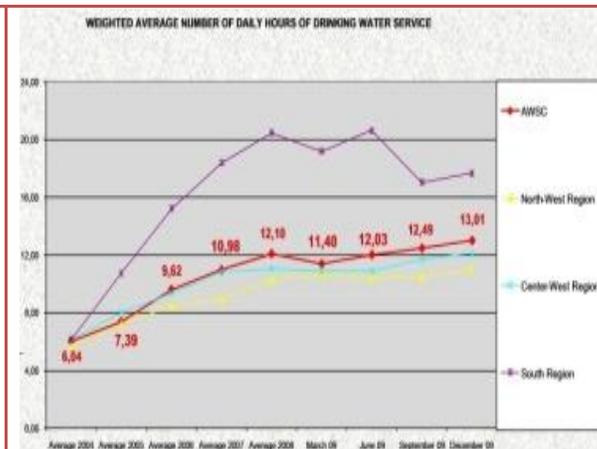
The water supply system in Armenia suffered from systemic problems, associated with the poor condition of water and wastewater networks, limited institutional capacity, and weak financial performance of water supply and sanitation utilities. Over the past decade, the Government of Armenia has strived to improve access, reliability and quality of the drinking water and its infrastructure. Considerable progress has been made in reforming the sector. Nevertheless, most of the water supply and sanitation systems in Armenia are still in a state of disrepair. Although the water resource balance in many parts of the country has improved since the 1980s, and despite the progress in improving water supply in the areas supported by private sector participation, the institutional framework for sustainable water supply delivery in most parts of Armenia remains poor.

Project Objective

The project objective is to improve the quality of water and wastewater services in the Armenia Water and Wastewater Company (AWSC) Service Area by providing efficient and sustainable water and wastewater services and strengthening the capacity and sustainability of AWSC.

Key Results:

- ✓ The average number of daily hours of drinking water service increased significantly, from the average 6 hours/day in 2004 to 15 hours/day (end of project target met).
- ✓ Percentage of cities with minimal daily hours of water supply service increased from 68 percent at baseline to 94 percent now (end of project target is 90 percent).
- ✓ AWSC and its branches improved financial sustainability; revenue collection increased significantly (from 47.9 percent in 2004 to over 100 percent in February, 2012).
- ✓ Percentage of individual subscribers billed on the basis of metered consumption increased from 40 percent at baseline to 82.2 percent now (end of project target is 77 percent).
- ✓ The bacteriological safety compliance increased from 93 percent at baseline to 98.2 percent now (end of project target met).



Key Partners

The Bank team works closely with the (i) **SCWE** and the **Ministry of Territorial Administration**. SCWE reports to the Ministry and is responsible for overall policy setting in water and irrigation sectors; (ii) **Armenia Water and Sewerage Company**, a water utility outside the Yerevan service area, which covers about 33 percent of the country's population, and implementer of the MWW Project; (iii) **Water Sector Development and Institutional Improvements Project Management Unit**, charged with monitoring of the Management Contract and coordination of implementation activities and procurement and financial management of the MWW Project.

Key Development Partners included the Asian Development Bank (ADB), KfW, EBRD and USAID. The Bank coordinates with ADB on the water sector reforms, particularly on exchange of information on mutual efforts in AWSC service area. EBRD invests in five treatment plants in the Sevan region. KfW is financing water supply investments in cities of Armavir, Vanadzor and Gyumri.

ELECTRICITY SUPPLY RELIABILITY PROJECT

Key Dates:

Approved: May 26, 2011

Effective: By Sep. 29, 2011 (estimated)

Closing: June 30, 2016

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	39.00	0.75	38.25
Government of Armenia	13.00		
Total	52.00	0.75	38.25

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

Armenia's power transmission infrastructure is old and under-maintained. The average age of transmission assets is 45 years. Some sections of the 220 kilovolt power transmission backbone are in urgent need of rehabilitation. The Government's Energy Sector Strategy and the Sustainable Development Program recognize this challenge. Thus, increase of the power supply reliability is among the key strategic objectives of the sector. Therefore, the Government prioritizes the replacement of a section of the power transmission backbone, the transmission line connecting two key generation centers in the central part of the country (Hrazdan Thermal Power Plant) and in the South (Vorotan Cascade of hydro power plants), and serving large electricity consumers in the Central-Eastern part of the country. Replacement of the targeted section of the transmission line is critical since it is in extreme disrepair and jeopardizes reliability of power supply and overall network stability. The line was constructed in 1956-1958 and has been in service since then. Conductors, pylons, insulators and other key pieces of infrastructure are obsolete and need replacement.

Project Objective

The project development objective is to increase the reliability and capacity of the transmission network.

Key Results

The project became effective in November 2011. The procurement of the contractor for design, supply and installation of the targeted section of the transmission line is underway and expected to be completed by the end of June 2012.

Key Partners

The Bank team works closely with the (i) **High Voltage Electric Networks of Armenia**, the power transmission company responsible for construction, operation and maintenance of the high-voltage power transmission network of the country; (ii) **Ministry of Energy and Natural Resources**, which is responsible for overall policy setting.

COMMUNITY AGRICULTURAL RESOURCE MANAGEMENT AND COMPETITIVENESS PROJECT

Key Dates:

Approved: March 22, 2011

Effective: July 26, 2011

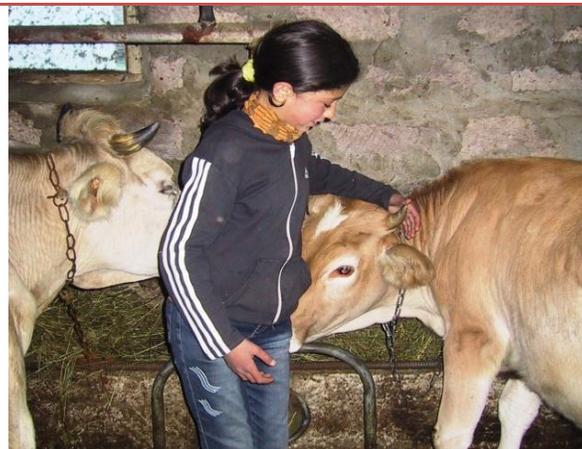
Closing: September 30, 2016

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	16.00	6.97	9.03
Government of Armenia	5.33		
Total	21.33	6.97	9.03

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The livestock sector in Armenia faces serious challenges such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. This project builds on the World Bank experience and successes in agriculture, rural development, pastures and livestock management, and participatory community development to help Armenia address these urgent challenges and provide investment support.

Project Objective

The project development objective is to improve productivity and sustainability of pasture/livestock livelihood systems in selected communities. This would be evidenced by: (i) increased livestock productivity as measured by milk productivity and increase in daily animal weight gain; (ii) increased efficiency of communal pasture management, as measured by increased communal budgetary revenues from lease of pastures; (iii) increased farm sales from livestock; and (iv) increased pasture management effectiveness.

Key Achieved and Expected Results:

- ✓ Supporting services for farmers involved in livestock production are being improved and as a result livestock productivity measured by milk productivity and by growth rates of animals will increase.
- ✓ Efficient and sustainable community-managed pasture/fodder-based livestock production systems are introduced in selected mountainous communities through establishing farmers associations and leasing pastures and grasslands. 38 Pasture Users Associations (PUAs) out of an expected 55 have been established and registered. Preparation of 21 pasture management plans has been completed and development of 17 is underway. Community funds for the implementation of these plans are being established.
- ✓ Community animal health services are being improved through the mobilization of veterinarians with the provision of training. Disease control strategies are being implemented.
- ✓ Activities for the Technology Assessment Program (TAP) are making good progress: 32 topics were selected, of which 31 have been completed successfully, with the other TAP terminated due to unfavorable weather conditions.
- ✓ The first call for the Competitive Grant Program (CGP) proposals was made, and a total of 37 applications were submitted and eight were approved and received funding. In the second round, a total of 41 applications were received and nine were approved.

Key Partners

The Bank works closely with the **Ministry of Agriculture, Ministry of Territorial Administration, Regional Governors**, as well as **Village Mayors** and farmer groups.

The Project is coordinated and implemented in close collaboration with a similar project – Rural Areas Development (RAD) financed by IFAD. The analytical work for the preparation of the Project served as the main basis for developing the Millennium Challenge Corporation (MCC) Program's Water-to-Market Component.

ARMENIA GEOTHERMAL ENERGY PROJECT

Key Dates:

Approved: February 26, 2009

Effective: April 28, 2009

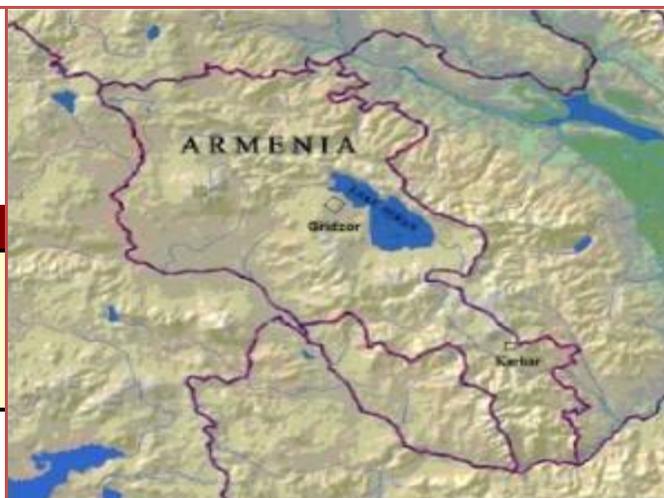
Closing: April 30, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
GEF Grant	1.5	0.63	0.87
Government of Armenia	0.3		
Total	1.8	0.63	0.87

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The Republic of Armenia has limited energy resources to satisfy its needs and does not have fossil fuel reserves. Thermal and nuclear power generation account for about 70 percent of the total electricity generation and the country imports all of the fuel required for the operation of thermal and nuclear plants. Thus, the government prioritizes development of indigenous renewable energy resources as a means to increase energy diversification and achieve a higher degree of energy security. Armenia has an estimated 740 megawatt (MW) of small hydropower, wind and geothermal resources. The results of studies to estimate geothermal potential of the country suggest a high likelihood of the existence of geothermal resources, which could be used for electricity generation purposes. The optimism is justified by the broad presence of young volcanic areas, numerous outcrops of mineral waters and the activity of tectonic-magmatic processes with relatively small geological age. While the above-mentioned preliminary studies are encouraging regarding the overall potential of the country for development of geothermal resources, actual field investigations of specific sites either have not been undertaken or have been very limited in scope. Therefore, because of the lack of thorough site investigation works and no confirmed deposits, the private sector's interest in the development of geothermal energy resources in Armenia has been very limited to date. The following prospective sites for further comprehensive field investigation works were proposed: (1) Karkar site, located on the Syunik plateau in the South Eastern part of Armenia, and (2) Gridzor site, located on the Gegham mountain plateau along the Western shore of Lake Sevan.

Project Objective

The project development objective is to assess the feasibility of exploratory drilling of one geothermal site with the estimated highest geothermal potential through comprehensive field investigation works.

Key Result

- ✓ Karkar was identified as the prospective geothermal site based on the results of the geological field investigation works and the magneto-telluric sounding works for Gridzor and Karkar sites.
- ✓ A sophisticated three-dimensional magneto-telluric sounding study was conducted for Karkar site, which provided additional information and data on the potential geothermal resource. The results of this study will be used for assessment of economic and financial viability of the site, which combined with the results of the above study, will help to assess feasibility of exploratory drilling.

Key Partners

The Bank team works closely with the (i) **Ministry of Energy and Natural Resources**, which is responsible for overall policy setting; and (ii) **Renewable Resources and Energy Efficiency Fund**, which is in charge of the implementation of the project.

ACCESS TO FINANCE FOR SMALL AND MEDIUM ENTERPRISES PROJECT

Key Dates:

Approved : February 24, 2009

Effective: April 16, 2009

Closing: December 30, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	50.00	45.12	4.88
Total	50.00	45.12	4.88

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The financial crisis and the resulting global liquidity squeeze have effectively blocked external borrowing for banks in many emerging markets, including Armenia. Foreign banks operating in Armenia did not continue funding their subsidiaries at prior levels. Many internationally-active banks were in the process of re-building capital and liquidity in their home markets. The loss of access to funds has reduced the ability of Armenia to sustain growth. As a result, domestic banks have become more reluctant to lend to Small and Medium Enterprises (SMEs). The rationale for advancing this wholesale credit line operation to SMEs is centered on strengthening their access to finance and improving the resilience of both Armenia's private and financial sectors in the face of the impacts of the global financial crisis, declining economic growth and a sharp decline in remittances.

Project Objective

The project's development objective is to maintain or increase access to medium-term finance for Armenian small and medium enterprises. The project will positively impact SMEs and participating banks both during and beyond the implementation period (2009-2012). As a revolving facility with an initial five-year maturity, Participating Financial Institutions (PFIs) may recycle loans to additional SMEs before repayment to the Central Bank of Armenia (CBA). This will enable PFIs to finance a large number of sub-loans through the life of the AFSME facility.

Key Results

- ✓ The project implementation to date suggests that the objective to maintain SME access to medium-term finance through providing local currency denominated lending is being met. During the 2009 crisis, this credit line facility helped local banks maintain comfortable liquidity cushions with the share of liquid assets to total assets at 34 percent at end-2009 (29.5 percent and 28 percent as of end-2010 and end-2011, respectively). The AFSME project provided medium-term financial resources in Armenian Drams that allowed keeping dram-denominated lending at the same level during 2010, and the increase of it by 25 percent in 2011 made lending available to SMEs with more acceptable terms.
- ✓ As of end-2011 loans have been provided cumulatively to about 3,830 SMEs across all regions and operating in trade, agricultural, production, and services sectors for both investment and working capital needs.
- ✓ From the beginning of the Project, SMEs have received cumulatively more than US\$ 55 million equivalent in local currency loans.
- ✓ More than 60 percent of SMEs financed are from regions, or outside the capital city, with about 79 percent of total amount lent to small and micro borrowers (loan size less than AMD 33 mln).
- ✓ The SME share in GDP has increased by 0.8 percent during the 2009 crisis to 42.5 percent and reached 43 percent in 2010.

Key Partners

The Bank team works closely with the (i) **Central Bank of Armenia**, which is responsible for overall policy setting in financial sector, (ii) **German-Armenian Fund (GAF)**, the project implementation unit, and (iii) ten participating financial institutions.

Key Development Partners included the USAID Financial Sector Deepening Project (FSDP) that supported the Project at the early stages during due-diligence of banks and providing a series of trainings on SME lending to the participant banks.

E-SOCIETY AND INNOVATION FOR COMPETITIVENESS (EIC) PROJECT

Key Dates:

Approved: November 30, 2010

Effective: May 18, 2011

Closing: December 31, 2014

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IBRD Loan	24.00	0.57	23.43
Government of Armenia	6.00		
Total	30.00	0.57	23.43

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

While much has been achieved, the main challenge in the sector remains the lack of coordination of Information and Communication Technology (ICT) development efforts. Low level of Internet and PC penetration is still an issue for Armenia, causing major inequalities in access to modern ICTs between the capital city and rural areas. From the sector development perspective, the main constraints for the ICT business development and innovations generation are still the lack of adequate infrastructure for business incubation and low access to credit and commercial investments, particularly in the regions of Armenia.

Project Objective

The Project Development Objective is to address the constraints to competitive e-Society and enterprise innovation in Armenia by strengthening the underlying infrastructure and enabling environment. E-Society in the context of this project is defined as a society with greater access to ICTs (computers, broadband), improved enterprise-level ICT skills, growing and more competitive local knowledge and technology intensive industry.

Key Expected Results:

- ✓ Increased access to affordable broadband services for citizens, businesses and public institutions.
- ✓ Citizens and businesses equipped with a tool for identification and authentication for electronic transactions.
- ✓ Increased access to affordable computers, content and e-services for citizens.
- ✓ Support innovation and technology start-ups through improved access to finance.
- ✓ Gyumri Technology Center (GTC) established and contributing to the region's enterprise innovation.
- ✓ Enhanced capacity and growth of the IT/Knowledge-intensive sector.

Key partners

The World Bank team works closely with the **Ministry of Economy** and the **PIUs** - Enterprise Incubator Foundation (EIF), E-Governance Infrastructure Project Implementation Unit (EKENG), Foreign Financed Projects Management Center (FFPMC), National Competitiveness Foundation of Armenia (NCFA), which are responsible for implementation of the project.

Key development partners

Other donors currently do not have major specific projects in these areas but some of their projects have an indirect relation to the mentioned area, such as cluster development, SME development, improving regulatory environment, community building, etc. Particularly, the USAID-funded Competitive Armenian Private Sector (CAPS) Project that was completed recently supported the IT industry, as one of the identified competitive clusters, with a series of trainings, consultancy and other capacity-building activities.

SECOND JUDICIAL REFORM PROJECT

Key Dates:

Approved : March 8, 2007

Effective: July 5, 2007

Closing: December 31, 2012

Financing in million US Dollars:

Financier	Financing	Disbursed*	Undisbursed
IDA Credit	23.48	23.17	0.30
PHRD co-financing Grant	3.00		
Dutch co-financing Grant	4.84		
Government of Armenia	7.60		
Total	38.92	23.17	0.30

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

While much has been achieved in the area of court administration, sustaining the introduced innovations is critical. To do so, the Republic of Armenia needs to invest necessary resources for the maintenance and service of the introduced systems and infrastructure. Nevertheless, the biggest challenge is still the change of mentality and improved capacity of judges to make the courts more efficient and transparent.

Project Objective

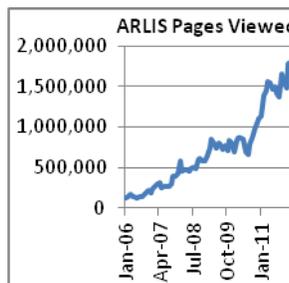
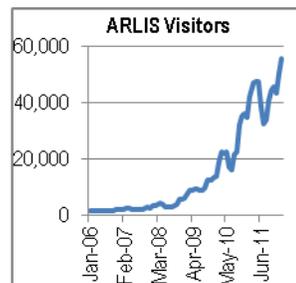
The project objectives are to improve the efficiency, reliability and transparency of judicial operations and services, and to further improve awareness of judicial services and access to legal and judicial information.

Key Results

- ✓ About 45 times more people have on-line access to the Armenian legislation through ARLIS legal database.
- ✓ 14 courthouses totaling 19,000 sq/m area have been rehabilitated under JRP-2.
- ✓ 30 public information kiosks providing access to judicial services and information were installed in Yerevan courts and selected administrative buildings. An additional 50 kiosks for the regions are procured and are being installed at additional locations.

Since the introduction of the Datalex portal in late 2010 all relevant usage statistics (visits, users and pages viewed) grew more than 8 times.

Key Results in Graph (monthly statistics)



Key Partners

The Bank team works closely with the (i) **Ministry of Justice of the Republic of Armenia**, which is responsible for overall policy setting, and its subordinate **Enforcement Service Department (ESD)** benefiting from the capacity building for enforcing judicial decisions; (ii) **Council of Justice (CoJ)** and **Judicial Department (JD)**, main recipients of credit resources respectively in charge of judicial career and resource administration; and (iii) **Judicial School (JS)** to be reorganized to Academy of Justice, charged with training of judges and judicial servants, etc.

Key Development Partners included Governments of Japan and Netherlands who co-financed the project, and the EU, EC and USAID, with whom the Bank Team coordinated closely on activities supported under separate project components.

SECOND PUBLIC SECTOR MODERNIZATION PROJECT

Key Dates:*

Approved: March 16, 2010

Effective: July 26, 2010

Closing: July 31, 2015

Financing in million US Dollars:

Financier	Financing	Disbursed**	Undisbursed
IBRD Loan	9.00	1.37	7.63
Government of Armenia	2.54		
Total	11.54	1.37	7.63

* Information refers to PSMP II. First PSMP was closed on February 28, 2011

** World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The basic challenge has been the change management. Civil service management became possible only due to strong government ownership, further progress towards introduction of work planning and performance and information management systems. The low level of public salaries remains the major challenge that will hinder the efficiency gains from introducing performance appraisal and pay systems.

Project Objective

The objective of the Project 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 capital; and
- iii) developing information systems for internal work flow and external communication.

Key Results

At the current stage of project implementation the most visible results include:

- ✓ The Commission on Ethics of High-Ranking Officials was established in January 2012 as part of policy dialogue on conflict of interest management reform.
- ✓ Automated Information Retrieval System in Traffic Police Service will be launched in April 2012.
- ✓ Activities are to start on the introduction of an archiving system for the electronic document management system (Mulberry) operational in all ministries, all Governors offices, and in other public administration bodies (total 50 entities).

Towards paperless office



Key Partners

The Bank team is working closely with the (i) **Office of the Government of the Republic of Armenia**, which is the main project counterpart and has been leading the policy on public administration reforms; (ii) **Civil Service Council of the Republic of Armenia (CSC)** in charge of civil service reform and administration; (iii) **Commission on Ethics of High-Ranking Officials**, and (iv) **Ministry of Territorial Administration, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Energy and Natural Resources**, selected service delivery units of Police where project will support functional reviews and business process reengineering. The ongoing PSMP II is rolling-out the main achievements under the first Project with greater emphasis on policy analyses and formulation.

Key Development Partners include the EU (including advisory group), UNDP and USAID, which support related activities in the areas of electronic government, civil service reform, and regulatory guillotine.

SOCIAL INVESTMENT FUND III

Key Dates:

Approved: October 26, 2006

Closing: June 30, 2011

First Additional Financing Closing: June 30, 2011

Second Additional Financing Closing: March 31, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	25.00	26.12	0.00
IDA Credit	8.00	8.08	0.00
IBRD Loan	7.00	5.76	1.26
Government of Armenia	6.67		
Communities	1.50		
Sponsors	0.13		
Total	48.3	39.96	1.26

***World Bank disbursements as of March, 2012.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The Armenia Social Investment Fund (ASIF) III project was designed to support the Government in its continuing commitment to raise the living standards of the poor and vulnerable groups and fill up the major infrastructure gaps in order to have the poor receive the benefits from economic growth. Despite the strong economic growth before the crisis, Armenia was facing several critical vulnerabilities stemming from the global economic and financial crisis. To help respond to it, the authorities requested urgent support for small-scale infrastructure that would help generate employment. The Bank proposed to address the Government's request to help mitigate the impact of the crisis by supporting activities that can be quickly and effectively scaled-up and implemented under the existing ASIF III Project.

Project Objective

The aim of the Project is to support the Government's policy to raise living standards of poor and vulnerable groups through: i) Improving the quality and access, and increasing the coverage of community services and infrastructure in poor communities; ii) Promoting complementary institutional capacity building at the community and municipal level so as to improve the quality and sustainability of community investments and service delivery, increase accountability, and enhance greater stakeholder empowerment at the local level; and (iii) Creating employment associated with the provision of community infrastructure and services.

Key Results

- ✓ 236 community infrastructure micro-projects (MPs) are completed, and another 29 are on-going. The completed and ongoing MPs and furniture production have so far created 519,000 job days of employment and US\$ 8.7 million wage income. The total number of beneficiaries of completed MPs is estimated at about 1,062,974.
- ✓ 4,676 local community members (334 communities) received training on investment planning and management, 515 municipal officials from 105 communities received training on financial management.
- ✓ Poverty mapping and ranking were last updated for 911 communities (871 rural and 47 urban) in December 2011.

Key Partners

The Bank team works closely with the (i) **Ministry of Territorial Administration** responsible for overall policy setting and providing implementation support; (ii) **Ministry of Finance** contributing to policy dialogue and ensuring the proper flow of funds and carries out financial monitoring of project activities; (iii) **Ministry of Labor and Social Issues** involved in policy dialogue and providing implementation support.

Key Development Partners included UNHCR, All Armenian Fund, Armenian General Benevolent Union (AGBU), Aznavour pour l'Armenie (APA), IFAD, Kniths of Vardan (KoF), which have been involved under both matching fund arrangements and partial or full financing of community contributions.

HEALTH SYSTEM MODERNIZATION PROJECT APL 2

Key Dates:

Approved: March 08 , 2007

Effective: June 06, 2007

Closing: December 31, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	22.0	22,64	0.3
Government of	7.17		
Armenian communities	0.15		
Yerevan State Medical	0.30		
University			
Total	29.62	22,64	0.3

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges

There is a concern that people may postpone seeking medical care and use of services because of lack of resources, high out-of-pocket payments and perceived low quality of care, especially in rural areas. The main challenges in the health system are to ensure better access to health services, particularly for poor groups and regions, reallocation of the health budget towards Primary Health Care (PHC) and health service rationalization, including optimizing excess capacity in the hospital sector.

Project Objective

The APL2 of HSMP is focused on completing the family-medicine based PHC reform (launched in 1996) to ensure that every Armenian citizen will have access to a qualified and well-motivated family doctor and nurse of his/her choice; consolidating the hospital sector to minimize waste of scarce resources and improve quality of care; strengthening the Government's competencies for effective stewardship in policy making, regulation, oversight and public accountability.

Key Results

- ✓ 1,433 physicians were re-trained as family physicians. 1,592 nurses were re-trained as family nurses. About 90 percent of the population is covered with re-trained family medicine providers.
- ✓ Infrastructure of 70 PHC facilities was improved (26 new constructions and 44 renovations) in rural areas.
- ✓ 200 PHC facilities were provided with a standard set of medical equipment, supplies, furniture and IT equipment.
- ✓ Space vacated as a result of modernization in Yerevan hospitals is 15,577 sq/m, in regional hospitals – 13,303 sq/m.
- ✓ 726 managers of hospital facilities participated in management training courses. As a result, 48 regional hospitals have trained key management personnel.
- ✓ 7 regional Medical Centers (MCs) - Kotayk region Hrazdan MC (105,300 population), Tavush region Ijevan MC (49,200 population), Armavir region Armavir MC (121,500 population), Ararat region Ararat MC (95,300 population), Syunik region Goris MC (44,700 population), Aragatsothn region Aparan MC (22,300 population) and Gegharkunik region Gavar MC (57,800 population) were renovated and provided with modern medical equipment and furniture. Also the Lori region Alaverdi MC (47,600 population) was provided with modern medical equipment and furniture. Civil works are currently in process in Shirak region Gyumri new Medical Center (146,000 population).

Key Partners

The Bank team works closely with the (i) **Ministry of Health** responsible for overall policy setting as well as for the implementation of the Bank financed projects; (ii) **Ministry of Territorial Administration** responsible for the programs on regional developments; **local authorities** and (iii) **Ministry of Finance** responsible for the Poverty Reduction Strategy/Sustainable Development Program as well as for mid-term expenditures projections and programmatic budgeting.

Key Development Partners: The HSMP APL project team successfully collaborates with the USAID-funded project in the area of performance-based contracting for the Primary Health Care providers, improvement of Health Financing Management Information System (HFMS) and quality assurance mechanisms. With the WHO, the project team collaborates in the development of Health Care Performance Assessment reports and co-payment strategy. UNICEF is a traditional partner in supporting the Mother and Child Health (MCH) programs.

SECOND EDUCATION QUALITY AND RELEVANCE PROJECT

Key Dates:

Approved: May 12, 2009

Effective: October 2, 2009

Closing: November 30, 2014

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	25.00	5.53	19.47
Government of Armenia	6.26		
Total	31.26	5.53	19.47

***World Bank disbursements as of March, 2012.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

Education has been a priority sector for public investment in Armenia since the late 1990s. The government has aimed to reduce poverty by increasing access to and improving quality of general secondary education, and boosting public spending on that sub-sector. The focused investment has contributed considerably to the development of general secondary education, but has also resulted in the relative neglect of other sub-sectors, i.e., preschool and tertiary education. The challenge the project addresses is to sustain and extend the accomplishments in general secondary education, which had been achieved under the first APL phase, through second-generation quality-oriented reforms, at the same time addressing equity and quality concerns in both preschool and tertiary education.

Project Objective

The second phase of the Education Quality and Relevance Project (EQRP) continues focusing on the reforms of the general secondary education system, also addressing key policy issues in both higher education and preschool education through: (i) enhancing school learning in general education and improving the school readiness of children entering primary education; and (ii) supporting the integration of the Armenian tertiary education system into the European Higher Education Area. More specifically, the project will support the increase in preschool enrollment for equal primary education start; improve quality of education through improved teacher education and professional development and continued integration of ICT in education; complete transfer to 12-year general education; establish and strengthen national quality assurance system for tertiary education; develop tertiary education management information system and strengthen the capacity to implement a sustainable higher education financing system.

Key Results

- ✓ Throughout 2010, 41 preschool micro-projects were established and made operational benefiting 1,250 students. During 2011, 83 additional preschool micro-projects have been signed with the potential of benefiting 1,300 additional students.
- ✓ The project has supported the efforts to extend the existing school computer network to include 459 new schools in remote areas.
- ✓ International Competitive Bidding (ICB) procurement has been conducted for the provision of hardware to the total of 1,360 schools, and results of ICB have been approved by the World Bank and the Government during 2011.
- ✓ The project supported the Ministry of Education and Science in undertaking training of 6,000 teachers during 2011.
- ✓ In June 2011, the Government adopted the higher education financing strategy designed with the technical support from the Project.
- ✓ The need analysis of the Tertiary Education Management Information System (TEMIS), together with technical specifications for hardware equipment and software packages has been completed.
- ✓ The Government decided to move forward with the implementation of the Competitive Innovation Fund (CIFT) designed under the project.
- ✓ A long-term twinning arrangement has been made between the Armenia State Pedagogical University (and the Consortium of Pedagogical Institutes, including Yerevan State University) and the Oulu University from Finland for Technical Assistance for reforming pre-services teacher education in Armenia.

Key Partners

The Bank team works closely with the (i) **Ministry of Education and Science** responsible for overall policy setting as well as for the implementation of the Bank-financed Projects; (ii) **Ministry of Finance** responsible for deepening policy dialogue on financial implications of the proposed project as well as for ensuring the proper flow of funds and financial monitoring of project activities.

Key Development Partners included UNICEF, which financially contributed to the project through preschool teachers' training; Open Society Institute Armenia Foundation (OSIAF), which supported the Project's focusing on integration of ICT in teaching and learning.

SOCIAL PROTECTION ADMINISTRATION PROJECT

Key Dates:

Approved: June 10, 2004

Closing: May 31, 2013

Additional Financing: Approved February 25, 2010

Closing: May 31, 2013

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed*</i>	<i>Undisbursed</i>
IDA Credit	5.15	5.53	-
Government of Armenia	0.56		
IBRD Loan	1.10	0.45	4.55
Government of Armenia			
Total	11.81	5.98	4.45

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenge

The main challenge is the creation of a modern social protection administration, which will provide not only effective administration and management of public social programs, but also become a basis for improved social services delivery to poor families and population groups.

Project Objective

The development objective is to improve the effectiveness (including quality, efficiency, user satisfaction, and financial viability) of the public employment, pension and social assistance systems through introduction of improved business processes, administrative procedures and techniques designed to enhance the social protection of the poor and vulnerable population groups.

Key Results:

- ✓ Social assistance benefits and pensions are paid in a timelier manner reaching accordingly 95.8 and 97.9 percents of recipients (2011 survey data).
- ✓ Targeting of social assistance benefits and services is improved.
- ✓ The Gyumri Center for the Disabled is functional.
- ✓ Overall satisfaction of beneficiaries with social service and benefits is improved reaching to 94.8 percent (2011 survey data).
- ✓ 27.5 percent of system participants (pensioners) are aware of their rights and 29.4 percent - of their responsibilities.
- ✓ Development of a structural-functional model of Integrated Social Service (ISS) centers, and rehabilitation of facilities is underway.
- ✓ Better performance by the public employment, pension and social assistance agencies in providing services to the population.



Key Partners

The World Bank team closely collaborates with the (i) **Ministry of Labor and Social Issues**; (ii) **State Employment Service**; (iii) **State Social Security Services**; **State Revenue Committee (SRC)**; and (iv) **Foreign Financing Project Management Center (FFPMC)**, which is responsible for the implementation of the project.

Key Development Partners

The project collaborates with the USAID-funded project in the area of pension reforms and employment generation, and with UNICEF in the development of integrated social services.

PROGRAMMATIC DEVELOPMENT POLICY OPERATION

Key Dates:

DPO-I Approved: July 2, 2009

DPO-II Approved: January 11, 2011

DPO-III Approved: February 14, 2012

Financing in million US Dollars:

DPO	I (2009)	II (2011)	III (2012e)
IDA Credit	60	21	50
IBRD Loan		4	30
Total (\$165mln)	60	25	80

Financier (DPO III)	Financing	Disbursed	Undisbursed*
IDA Credit	50	-	
IBRD Loan	30	-	
Total	80	-	80.4

*World Bank disbursements as of March, 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Challenges

The global economic crisis revealed the vulnerabilities of the Armenian economy and posed several challenges needing an immediate response of a more structured nature, to be addressed throughout the medium- to long-term period.

Project Objective

The budget support operation – DPO supports the Government’s three strategic objectives of:

(i) mitigating the social impact and Armenia’s vulnerability to external shocks; (ii) strengthening competitiveness for post-crisis recovery and growth over the medium term, and (iii) furthering institutional reforms to improve the quality of public decision making and governance.

Key Results

To mitigate the social impact, the operation supported:

- ✓ Maintaining a sound macro-fiscal framework while protecting the poor by securing safety-net funding;
- ✓ Improving the management of education, health, and social protection programs.

To strengthen competitiveness for recovery and growth, the operation supported:

- ✓ Strengthening the State Competition Committee to enhance economic competition;
- ✓ Improving the business climate by modernizing inspection practices (including customs) and setting up one stop shops;
- ✓ Streamlining tax procedures and re-engineering business processes in the tax administration;
- ✓ Strengthening the regulatory environment in infrastructure;
- ✓ Revamping the legal framework for the mining sector.



To advance institutional reforms, the operation supported:

- ✓ Improving public-sector efficiency and effectiveness by introducing regulation on conflict of interest and public service;
- ✓ Improving public financial management by introducing Public Investment Appraisal System and enhancing the linkage between budgeting and strategic planning.

Key Partners

The Bank team worked closely with the (i) **Ministry of Finance**, which was responsible for ensuring sound macro-fiscal policies and monitoring of the expected outcomes. Line Ministries and public agencies, including (ii) **Ministry of Economy, State Revenue Committee, State Economic Competition Promotion Committee, Social Ministries, Ministry of Energy and Natural Resources, Ministry of Transport and the Public Services Regulatory Commission**, took primary responsibility for implementation of envisaged reform actions in their respective fields.

Key Development Partners included the IMF (monitoring of macro-fiscal and debt performance), EBRD (monitoring of private sector development), IFC (introduction of risk-based inspection system), and USAID (tax administration), with whom the Bank Team coordinated closely on policy, implementation and monitoring issues.