Board Meeting of August 26, 1997
Statement by Brian Crowe
On behalf of Mrs. Piercy, US Executive Director

ARMENIA: Country Assistance Strategy and Second Structural Adjustment and Technical Assistance Credits

1. The United States is pleased to support the Second Structural Adjustment Credit and the Country Assistance Strategy for Armenia. We commend staff for a well-focused strategy and endorse the three reform objectives: consolidating macroeconomic stability; accelerating private sector development as the basis for sustained growth; and ensuring the social sustainability of the reform process.

2. We support the Bank’s projected lending program and agree with the triggers for the two lending scenarios (high/base and medium). We encourage and envisage that Armenia will continue to meet the policy and performance goals for the high/base case lending program, that includes gradual resumption of IBRD lending. We note that Armenia’s per capita income of $830 places it well within the $925 IDA guideline. Given Armenia’s limited creditworthiness, good economic performance, and vulnerability to downside risks, we believe that Armenia should continue to receive a generous share of IDA allocations.

3. Armenia has made remarkable economic progress, but as the CAS notes, economic recovery remains fragile. We strongly urge the Armenian authorities to meet the challenges of consolidating the gains of reform. Particular areas for priority attention are improving tax and customs administration, collection of arrears from known tax offenders and reduction of energy arrears run up by “essential” enterprises.

4. Armenia’s sustained economic growth depends upon the development of a strong, productive private sector. Armenia’s privatization program is ambitious yet incomplete. A number of major enterprises are being offered for privatization by the end of this year through international tender. Foreign and domestic investors are watching for clear signals that the government seriously supports a transparent privatization process and is committed to maintain progress in establishing an appropriate legal and regulatory framework. As the CAS rightly points out, a sound financial sector is essential for promoting private sector investment.
that there has been close and successful collaboration between the Bank and USAID on energy and banking sector reforms.

5. The incidence of poverty is high, 30% in urban areas. The Government of Armenia and the CAS recognize the importance of social sustainability and ensuring that the transitional poverty does not become structural. We therefore strongly support the emphasis that the Bank program places on targeted poverty interventions, and health and education reform to improve quality and access. Elimination of subsidies to privileged groups and cuts in defense expenditures would also help lay the foundation for directing budgetary resources to the social sectors and building a more equitable system.

6. We understand from Bank staff that the government of Armenia is fully aware of the high costs of corruption on private sector development. In this respect, we appreciate the CAS's emphasis on transparency in privatization, and toughness on tax collections and energy arrears. However, we urge the Bank to continue highlighting the issue of corruption in its policy dialogue and assistance.

7. Sustained economic recovery and continued growth depend on permanent resolution of the Nagorno-Karabakh conflict and increased regional cooperation. A new initiative has been started by the U.S., Russia, and France in the OSCE context to reach a settlement. Initial response from the parties is encouraging.