

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

October 19, 2016
Report No.: 109885

Operation Name	Armenia Fourth Development Policy Financing
Region	Europe and Central Asia
Country	Armenia
Sector	Other Mining and Extractive Industries (12%); Irrigation and drainage (13%); General finance sector (25%); General industry and trade sector (25%); General public administration sector (25%)
Operation ID	P160100
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Armenia
Implementing Agency	Prime-Minister's office Government Building 1, Republic Square, Yerevan, Armenia, 0015 Tel: (374-10) 595-277 Fax: (374-10) 151-446 David.Harutyunyan@goa.am
Date PID Prepared	October 19, 2016
Estimated Date of Appraisal	October 28, 2016
Estimated Date of Board Approval	December 15, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

1. Armenia is a small, lower middle-income, landlocked country with a GDP per capita of US\$3,500 and a population of 3 million. The key challenges faced by the country include high external vulnerability and persistent unemployment. External vulnerability in Armenia arises from its dependence on remittances, commodity exports, and large capital inflows necessary to finance the current-account deficit. During the 2008–09 global financial crisis, the Armenian economy contracted by 14 percent as external financing dried up and the booming construction sector collapsed. Fiscal stimulus, which was implemented in 2009 and resulted in the tripling of the country's external public debt, helped to stabilize the economy and the government turned its attention from crisis management to its longer-term reform agenda focused on sustainable growth. However, towards the end of 2014, the Armenian economy was hit hard by a deepening Russian recession which negatively impacted foreign direct investment (FDI), remittances, and exports, and put strong depreciation pressure on the Armenian dram. The geopolitical environment also changed. Whereas previous structural reforms had been anchored in a proposed Association Agreement with the European Union (EU), in September 2013, the country decided to join the Eurasian Economic Union (EEU). The high external vulnerability underscores the crucial importance of reinforcing macroeconomic stability through increased attention to fiscal sustainability and improved competitiveness. The poverty rate rose in the wake of the 2008-09 crisis and is estimated at 30 percent. The country also has one of the highest unemployment rates (18.5 percent) in the Europe and Central Asia region largely stemming from low job creation and a mismatch of workers and jobs.

2. The objectives of this operation are consistent with the development strategy of the government and the CPS which focuses on areas in which the World Bank has a comparative advantage. These include convening power, rigorous analytical work, and the ability to leverage assistance from development partners. The policy actions supported by this DPF targets the government's most urgent development challenges and builds on previous development policy operations. The previous series of DPOs concentrated on structural reforms to build competitiveness for sustained growth. This DPO series builds on a long-standing partnership between the Bank and the Government of Armenia. Specifically, it builds on the previous DPO series (2009-12) by supporting follow-up and complementary reforms like measures to strengthen social safety nets and more affordable social services (health, education), better financial sector supervision and efforts aimed at strengthening competition, the business environment, corporate governance, and public-private partnerships.

II. Operation Objectives

3. The program development objectives are to support the government in its efforts to (i) Promote fiscal, social and environmental sustainability; and (ii) Strengthen competitiveness.

4. The first pillar includes measures to increase the fiscal space, improve the financial sustainability of key sectors, enhance the efficiency of social protection programs, and improve environmental safeguards in the mining industry, which accounts for over half of Armenia's exports. The second pillar includes actions designed to strengthen the business environment, improve trade facilitation and connectivity, and improve access to credit. All these reforms will ultimately bolster the prospects for the government's long-term objective of job creation and lead to a sustainable reduction in poverty.

5. The proposed operation is fully aligned with the government's development strategy – Armenia Development Strategy (ADS). The DPO series supports reforms under Pillars 1, 3, and 4 of the ADS—creating jobs, strengthening social protection, and modernizing the public sector—which are underpinned by macroeconomic stability and fiscal sustainability. The proposed policy actions were identified based on the World Bank's policy dialogue with the authorities, existing analytical work, and ongoing technical assistance. The policy actions supported by this DPF target the government's key development challenges. An improved tax code will help increase revenue mobilization and will contribute towards overall macro-fiscal sustainability. Policies supporting reforms in licensing, bankruptcy, consolidated supervision and disclosure of real ownership of financial institutions will improve the competitiveness of the economy and help create more and better jobs and also reduce poverty. In addition, linking the pay of civil servants to the strengthened performance appraisal system will help improve public administration.

6. The prior actions for this operation and the expected results are mentioned below.

Pillar I

- a) **Prior Action 1:** The Borrower, has enacted the Unified Tax Code including measures to enhance revenues, improve the efficiency, transparency and equity of the tax system and strengthen tax administration. The expected result of the policy actions related to the Unified Tax Code is to increase the tobacco and alcohol excise collections from 0.72 percent of GDP in 2015 to 0.88 percent of 2015 GDP in 2017.
- b) **Prior Action 2:** The Borrower has approved the 'Strategy to Improve Financial Sustainability of the Armenian Irrigation Sector' including measures to sustainably improve cost recovery and service delivery in the sector and reduce its reliance on public subsidies. The expected result of

the policy actions related to the irrigation sector is to increase the number of water user associations which are self-financing from 0 in 2015 to 5 in 2017.

- c) **Prior Action 3:** The Borrower has enacted the amendments to the Mining Code consistent with the Law on Waste Management as applicable to the mining sector. The expected outcome of these policy actions is that all new mining licenses will be issued in compliance with the amended Law on Waste Management and the new provisions in the mining code.

Pillar II

- d) **Prior Action 4:** The Borrower has approved regulations to facilitate the implementation of the Law on Business Notifications thus replacing licenses for 17 low-risk activities with a simple notification mechanism. The expected outcome of these policy actions is that at least 35 applications will be approved through the simple notification mechanism by the end of 2017.
- e) **Prior Action 5:** The Borrower has approved regulations to: (i) improve the mechanism for evaluating the performance of civil servants, and (ii) link bonus payments to performance in line with the Law on Civil Service. The expected outcome of these policy actions is to reduce the average value and standard deviation of performance appraisal scores of civil servants from 95 and 3 to 90 and 5, respectively.
- f) **Prior Action 6:** The Borrower has enacted the amendments to the Law on Bankruptcy thereby: (i) improving the rules for appointment, qualification, and remuneration of insolvency practitioners; (ii) improving the rehabilitation provisions in line with international best practices; and (iii) revising the moratorium provisions to enable rehabilitation of insolvent companies. The expected outcome of these policy actions is to increase the index on the strength of the insolvency framework in Doing Business from 9 in 2015 to 12 in 2017. The index on the strength of the insolvency framework captures commencement of proceedings, management of debtors' assets, reorganization proceedings and creditor participation.
- g) **Prior Action 7:** The Borrower, through the CBA, has approved a package of regulations on consolidated supervision in line with the Laws on Financial Supervision.
- h) **Prior Action 8:** The Borrower, through the CBA, has approved regulations to ensure disclosure of ultimate beneficial ownership of financial institutions and groups. The expected outcome of these policy actions pertaining to financial groups is that at least one consolidated audit will be undertaken by the end of 2017.

III. Rationale for Bank Involvement

7. This operation is the last in a series of four operations. The government has made significant progress on the policy reforms supported by this operation. The Parliament has already approved the tax code which supports the overall objectives of revenue enhancement, efficiency, transparency and equity. Some of the key measures supported by the Unified tax code include increases in excise, inclusion of dividends in to the tax net and measures aimed at improving tax administration. All these measures will ultimately help support fiscal sustainability. The government recently adopted a strategy to improve the financial sustainability of the irrigation sector which is one of the largest recipients of state subsidies. To support improvements in the business environment, licenses required for seventeen low-risk activities were replaced with a simple notification mechanism, amendments were made to the Law on Bankruptcy to strengthen it further and steps were taken to enable consolidated supervision and disclosure of real

beneficial ownership of financial institutions. The government has also taken measures to improve the performance of the civil servants which will help improve public administration.

8. Armenia's overall macroeconomic policy framework is adequate for this operation. Sustaining growth in a difficult external environment and with limited fiscal space is one of the key challenges facing the government of Armenia. To ensure that there is adequate fiscal space for critical capital investments and poverty-reducing social spending, increased tax revenue mobilization will be necessary over the medium-term. The swift implementation of the Tax Code is therefore a key priority. Maintaining fiscal and debt sustainability will also be a critical priority going forward given the recent increases in the fiscal deficit. Dollarization, a structural feature of the financial system, poses a risk to financial stability. These risks are mitigated by the government's demonstrated commitment to sound macroeconomic management and a medium-term structural reform program rooted in strong donor support. While some progress in poverty reduction was achieved during the post-crisis recovery, Armenia's poverty rate remains higher than it was in 2008, and its income distribution is less equal. In 2014, 30 percent of Armenians were still living in poverty, compared to a post-independence low of 25.2 percent in 2008.

9. The IMF Extended Fund Facility (EFF) program was launched in Armenia in March 2014 and the fourth review is likely to be concluded in December 2016. The EFF provides access to SDR 82.21 million over a period of 38 months. Its key objectives are to maintain stability, increase buffers against external shocks, and support growth through sound tax reforms, robust crisis preparedness and management frameworks, the introduction of a financial rehabilitation plan for the electricity sector, and structural reforms designed to enhance competition, competitiveness, and regional and global integration. The first, second and third reviews were concluded in December 2014, November 2015, and June 2016, respectively. The preparation of the DPO series has been closely coordinated with the IMF, particularly on the macroeconomic framework, debt sustainability, fiscal consolidation, tax policy, public sector management, and electricity tariff reforms. The adoption of the Unified Tax Code was a prior action for the IMF EFF as well.

IV. Tentative financing

Source:	(\$m.)
International Bank for Reconstruction and Development	50.00
Total	50.00

V. Institutional and Implementation Arrangements

10. The government has designated the Chief of Government Staff as the main counterpart for the DPF program. In practice, the chief of staff and the deputy prime minister together serve as the focal points for the DPF because the deputy prime minister is also responsible for donor coordination, policy coordination and overall project implementation. The focal points rely on assigned officials in the different government ministries and agencies to help implement the policy reforms supported by the DPF.

11. The proposed operation is aligned with the goals specified in the government's strategic policy documents, with a detailed matrix of expected outcomes and monitoring indicators. The government monitors the implementation progress in line with procedures stipulated by the Prime-Minister's Decree No. 803-N approved on September 24, 2009. The Decree sets standards and requirements for preparation, discussion, and monitoring of the government's action plans and strategic development programs, and defines a procedure for organizing discussions, addressing received comments, and settling disputes.

12. The government has sufficient institutional capacity for program monitoring. As the experience of the last few years shows, the above described framework of policy preparation, discussion, and monitoring has been institutionalized in Armenia. Amendments made in 2011 introduced new requirements pertaining to prioritization of policies and program actions and streamlining deadlines for different submissions. Armenia subscribed to the IMF's General Data Dissemination System in 2002 and is a compliant country. The overall data quality, availability, and timeliness of released statistics are in line with international standards (www.armstat.am).

13. Regular reviews are carried out by the Bank team to monitor progress on the reforms during supervision missions and between missions through the Bank's office in Yerevan. Data for monitoring is generally available through special requests made to the respective ministries and is reliable.

VI. Risks and Risk Mitigation

14. The overall risk rating of this operation is substantial, and it reflects macroeconomic, implementation capacity, and political and governance risks.

15. Macroeconomic risks are high. Growth will remain subdued in the medium-term with a sluggish recovery tied to the bottoming out of the recession in Russia and gradual improvement in external conditions. At the same time, Armenia's macroeconomic framework remains vulnerable given that the reforms needed to ensure new and resilient sources of growth and job creation have been interrupted by global shocks, first in 2008 and then in 2014, with the government needing to re-orient policy priorities towards mitigation and recovery. Another risk is posed by the winding down of the transitory factors that drove growth in 2015. Slow credit and falling metal prices also suggest that near-term risks are on the downside. Risks to the fiscal framework stem from low tax revenues and limited potential for further spending cuts, which took the brunt of the last fiscal adjustment. In particular, the trend of low public investment and increasing public debt has highlighted the need to create fiscal space for growth and equity-enhancing capital and social spending. Tighter global financial conditions and the possibility of a disorderly external adjustment remains a risk, in spite of adequate reserves, given the high levels of external debt, high dollarization, and dependence on remittance inflows, largely from Russia. Further depreciation of the dram could potentially increase the vulnerability of the highly dollarized financial sector through direct and indirect balance sheet effects. Support from international partners, both in terms of policy-based budget lending and technical assistance, has led to renewed attention to reforms focused on growth-enhancing competitiveness and trade facilitation, as evidenced by Armenia's recent improvement in the Doing Business ranking. In the longer run, fiscal risks should be mitigated through the enactment of the Unified Tax Code, which aims to strengthen tax revenues and improve transparency, administration, and supervision. The IMF program anchors the government's resolve to maintain a flexible exchange rate within the inflation target and to seek enhanced reserves management. To mitigate risks to the financial system, the CBA has introduced measures to strengthen contingency planning, safety nets, and risk assessments. The authorities have already begun closer monitoring of the banks and intensifying their asset quality review of the most affected banks.

16. Risks from the institutional capacity to implement and sustain reforms is substantial. The government's implementation capacity is low, particularly at the mid-levels of the civil service, which could weaken the impact of reforms. While stakeholder risks are moderate overall, the capacity to implement and sustain the reforms is weak. These risks are somewhat mitigated. The government has set up a steering committee for the DPF program chaired by the Deputy Prime Minister to ensure high-level engagement. The Bank and IFC advisory services are supporting reform efforts by providing technical assistance in key areas, such as tax policy and administration, social protection, customs, aviation,

competition framework, pension and capital markets reform, business environment, irrigation, and road sector policy. Furthermore, several Bank investment projects or donor-supported programs are expected to continue to provide institution-building in key policy areas covered by the DPF.

17. The political and governance risk is substantial. The country is moving from a semi-presidential to a parliamentary system and elections are scheduled for April 2017. Summer 2016 saw an increasingly polarized civil society and opposition galvanized by a security incident involving armed takeover of a police station. In the wake of this event, political leadership called for significant reform, and in September 2016 the prime minister resigned. The formation of a new cabinet and evolving discussions in Parliament about the focus of these reforms has resulted in some political uncertainty, which has in turn put some pressure on the policy reforms being supported by DPF4, most notably, some provisions of the Unified Tax Code. These risks are managed through continuous dialog with the authorities, and an emphasis on the strategic medium-term economic context of this operation, which helped counteract efforts to dramatically delay or undermine the reform. The World Bank team has also provided extensive technical assistance in various sectors to help the authorities complete the reforms being supported by DPF4. Pressures from interest groups could also derail program implementation. Corruption also remains endemic in Armenia with the country ranked 95 out of 168 countries in Transparency International's corruption perception index in 2015. The government has long condemned corruption but has largely failed to investigate or prosecute senior officials suspected of wrongdoing. To mitigate this risk, the government established the anti-corruption council in 2015 with the objective of boosting the confidence of the citizens in public administration by promoting an environment of zero tolerance towards corruption. The council focuses its activities in four areas: healthcare, education, revenue collection and the police and is jointly financed by the United States Agency for International Development (USAID) and the government. Since the launch of this council about 10 public sector officials (in healthcare and police) have been dismissed on charges of corruption. The new Prime-Minister plans to review and enhance the anti-corruption council by appointing new members. In addition, the World Bank provided technical assistance which supported the implementation of Armenia's anti-corruption strategy through specific interventions for improving the regulation of public service ethics and training new anti-corruption focal points in public service.

18. Other risks are substantial. Geopolitical tensions remain and continue to represent a risk to the success of the operation. The government is engaged with the Minsk Group of countries under the Organization for Security and Cooperation in Europe (OSCE) in their efforts to assist the parties in finding a peaceful solution to regional tensions. It should also be noted that Armenia's geo-political situation has implications for trade and growth; over 70 percent of its borders are currently closed due to various tensions with neighbors, leaving access only through Iran and Georgia.

19. To manage risks, the DPF team, in close consultation with Bank management, is holding frequent consultations with the government on the evolving policy environment. The team has also intensified its macroeconomic monitoring and discussions with the Ministry of Finance and the IMF. The strong relationship with the government ensures frank and clear policy discussions at the highest levels.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

20. The reforms supported by the current operation will have an overall positive distributional impact. Direct distributional impacts are likely as a result of the reform of the Tax Code; the efforts to move towards cost recovery in irrigation water sector; changes to the mining code; and promotion and

performance evaluation policies in the public sector. In addition, new framework aimed at replacing licenses with a simple notification mechanism, a new law on bankruptcy, and better regulation of the financial sector allows for lower transaction costs and higher transparency and can lift the growth potential of the economy which then translates into more employment and higher wages in the medium-term.

21. The proposed changes to the tax code are likely to raise revenues with neutral to slightly positive distributional impacts. More broadly, the proposed changes to the excises are expected to yield higher revenues. To the extent that some of these revenues can be used to support the less well off, the positive distributional impacts of the proposed measures could be larger than the ones described here. Under the new tax code, the Personal Income Tax (PIT) will have 3 tax rates (23, 28 and 36 percent for incomes below 150,000 AMD, between 150,000 AMD and 2,000,000 AMD, and above 2,000,000 AMD respectively) and no minimum income exemption threshold, compared to currently 24.4, 26.0 and 36.0 percent for incomes below 120,000 AMD, between 120,000 AMD and 2,000,000 AMD, and above 2,000,000 AMD. In addition, dividends will be subject to income taxation. These changes will have two main effects. First, they will enhance the overall progressivity of the PIT by reducing the tax rate paid by low income earners and increasing the tax rate paid by high income earners, as well as increasing their tax base. Second, they will reduce the tax burden on low income earners by lowering the tax rate applicable to this group (from 24.4 to 23.0 percent), and this will translate into higher disposable incomes at the bottom of the distribution and thus lower poverty. Simulations using the Commitment to Equity (CEQ) methodology suggests that the changes to PIT will lead to an increase in disposable income among the bottom 40 of the distribution of 0.7 percent and a reduction in poverty of 1.6 percentage points (World Bank (2016)). In contrast, the proposed broadening of the tax base for condensed gas and increases in excises on petrol, alcohol and tobacco are likely to have a negative, albeit relatively small impact on consumable income for both the poor and the non-poor. This is due to the fact that the consumption of these goods is relative unresponsive to changes in their price and, as a result, increases in prices (such as those resulting from an increase in the tax levied on these goods) are likely to translate into an overall increase in spending, other things being equal. The overall distributional impact of these changes will depend on the amount spent on these goods by different groups, relative to their total income or consumption. Results from the CEQ simulation suggest that the proposed broadening of the tax base and increases in excises will translate into a 1.0 percent decline of consumable income among the bottom 40 of the distribution, compared to 1.3 percent decline for the rest of the population, and no significant change in the poverty rate. Having said this, it is important to note that the impacts described here focus exclusively on changes in monetary welfare, measured in terms of consumption/income, and do not take into account the beneficial health effects that could be associated with a decline in the consumption of alcohol or tobacco. Nor does it account for the potential savings in public health costs associated with morbidity and mortality links to alcohol and tobacco.

22. From a distributional perspective there is strong justification for promoting financial sustainability of the irrigation sector through improved cost recovery. Currently, subsidies to Water Users Associations (WUAs) enable them to bridge the gap between cost of water provision and delivery of irrigation water at a relatively low tariff to farmers. The subsidies are aimed at helping WUA close the gap between revenues (from use of water by farmers) and expenditures. Although farmers' payment rates are high, revenues do not fully cover WUA's expenditures because of several reasons including the high cost of supplying water in several systems and the below-cost recovery tariffs paid by most farmers. The DPF supports reforms to reduce state subsidies to WUAs and Water Supply Agencies (WSAs) through a decrease in operational and maintenance costs. An analysis of administrative data on WUAs, conducted as part of a poverty and social impact assessment of the irrigation sector reforms, found the following. First, from a distributional perspective there is strong justification for promoting financial sustainability of the sector. In many WUA systems, providing irrigation water costs more than AMD 11 per cubic meter such that below cost-recovery tariff mainly benefits farmers with larger plots –countrywide, nearly 63

percent of subsidized irrigation water benefits the 15 percent of farmers who cultivate plots of 1 hectare or more (85 percent of farmers own plots of less than 1 hectare in size). Second, rising electricity prices are affecting WUAs financial health. In 2013, share of energy in total WUA expenditures was 34 percent, up from 24 percent in 2010. Third, WUAs appear to be underinvesting in repairs and maintenance: only about 15 percent of total WUA expenditures go toward maintenance and repair. Results from a qualitative study of irrigation water users conducted in 2015 suggests that farmers are dissatisfied with water losses in the system – a reflection of WUA’s low investment in maintenance.

23. In the medium- to long-term, the alignment of the Mining Code with the Law on Waste Management is expected to reduce the environmental impacts from mining and preserve the asset endowment for households in rural areas which often depend on income from agricultural activity. Around 75 percent of individuals in poor households in rural areas work in agriculture and their most important asset – aside from labor – is the quality of the soil. The amendments to the Waste Management Law will help to protect fertile land in Armenia. Actions related to better regulation of waste in the mining sector need to be accompanied by a strong public awareness effort, including consultations with and incorporating feedback from relevant sections of the society and civil society organizations. Given a tradition of strong civic engagement in Armenia in the area of environmental protection, and specifically in relation to mining, feedback from society and non-government experts is important to build trust and support for these regulatory changes.

24. Reforms in the recruitment and promotion of civil servants are expected to have a positive gender impact. The DPF series has supported the modernization of the civil service shifting recruitment and promotion to a competence-based system (instead of tenure-based). This shift is expected to disproportionately benefit women as they tend to have less tenure than men even though they are equally or better qualified. According to the data from LFS 2014, the public sector (state and municipalities) employs around 22 percent of working individuals between 15 and 64 years, with a higher share among female (28 percent) than among male (18 percent). Women and men working in the public sector have different tenure characteristics. For instance, 70 percent of men versus 52 percent of women have been employed in their current job or activity for 5 years or more. However, 87 percent of women employed in the public sector have specialized secondary, tertiary or graduate education, while this proportion is 71 percent among men. These differential characteristics suggest that the reform of the human resource system in the public sector has the potential to positively impact career prospects and paths, particularly for women. Complementary measures to progress towards gender parity in promotion and management grades in the civil service could help in ensuring gains to women. In principle, talented women constrained by fewer years of tenure would now have the chance to be promoted and advance their careers, however experiences in other countries show that even in a competence-based performance system, complementary measures to progress towards gender parity in promotion and management grades in the civil service are recommended for ensuring gains to women. In Ireland for example, the Initiative of the National Women’s Strategy 2007-2016 recommends establishing a specific leadership training course to foster the advancement of women into senior management roles in the public sector. In the UK, it is been pointed out that the government’s introduction of the Talent Action Plan reform will be beneficial for women only if several recommendations to strengthen the diversity agenda are taken, for example, create greater transparency and accountability for delivering diversity plans and engaging in coaching and mentoring women to successfully apply to senior positions.

Environment Aspects

25. Policies supported by the current operation are expected to have a positive impact on Armenia’s environment, water resources, habitat, and other natural resources. The reforms supported by DPF-4 address shortcomings identified in the environmental sustainability of the mining sector. This includes enhancing the regulations on mining waste to include waste management planning, use of best available

technologies, and strengthening the environmental permitting process. The government is committed to strengthen the enforcement and implementation capacity of the government agencies responsible for mitigating environmental impacts of the mining sector, especially concerning environmental liability provisions. This requires adopting procedures and financial surety mechanisms that would increase the accountability and transparency in the use of funds from the Environmental Protection Fund and reduce the risk of future liabilities to the state regarding rehabilitation of mines after closure. The Parliament has approved the amendments to the Mining Code and the development and subsequent approval of the secondary legislation on management of mining waste and closure of mines will ensure effective implementation of the amended Mining Code. The Bank has provided technical assistance on environmental management of mining waste which outlines good mining practices. It proposes the basis for the following regulatory procedures: (i) a new financial assurance mechanism based on international best practice; (ii) revision of the existing mine permitting process by bringing existing waste management requirements in line with international best practice; (iii) a risk based inventory of tailings site, based on perceived risks to the environment and/or human health; and (iv) capitalizing a fund for rehabilitation/remediation of mine legacy prioritized for rehabilitation/ remediation. By adopting and implementing the amendments to the Mining Code, the government supports a significant step to improve mining waste management and in the medium-term it will strengthen the sustainability profile of the Armenian mining sector.

26. Reform measures related to irrigation and the law on bankruptcy will have a positive impact on the environment while the remaining policy actions will be neutral. Measures aimed at improving the operational efficiency of the irrigation sector (which would help reduce subsidies) would have a positive effect by way of incentivizing more effective use of water resources, energy efficiency and other environmentally sustainable irrigation practices. The adoption of the amendments to the Law on Bankruptcy is expected to help businesses maintain their economic viability while also meeting environmental corporate goals. Insolvent companies would need to comply with environmental obligations and bear financial responsibility for environmental liabilities and any pollution residue. Tax reforms, on the other hand, could result in distributional effects that can cause change in behavior that may affect the environment. Mitigation would come from protecting consumption of low income households from indirect tax increases.

VIII. Contact point

World Bank

Contact: Mona Prasad

Title: Senior Country Economist

Tel: (202) 458-8757

Fax: (202) 522-2753

Email: mprasad@worldbank.org

Borrower

Contact: David Harutyunyan

Title: Chief of Government Staff

Tel: (374-10) 595-277

Email: David.Harutyunyan@goa.am

IX. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>