

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Armenia	Project Title:	Infrastructure Sustainability Support Program
Lending/ Financing Modality:	Policy-based lending	Department/ Division:	Central and West Asia Department/ Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: **General intervention**

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

In 2008 the government of Armenia adopted the Sustainable Development Program (SDP), 2008–2025 with objectives to (i) reduce poverty and eliminate extreme poverty, (ii) accelerate human development, and a (iii) mitigate imbalances in regional development.^a However the 2008 global financial crisis, which hit the Armenian economy hard in 2009, endangered SDP implementation. In response to the post-crisis realities, in 2012 the government developed the Armenia Development Strategy, 2025 (ADS) with four priorities: (i) employment growth, (ii) development of human capital, (iii) improvement of the social protection system, and (iv) institutional modernization of public administration and governance.^b Its main objective is to increase employment by creating high-quality, productive jobs. Under this strategy, the government plans to reduce the poverty rate to 23.5% in 2017 (compared with 32.4% in 2012) and to 13.0% by 2025. The main drivers for poverty reduction are increased household income, higher public spending on social insurance, and better-targeted social assistance. The ADS also states that annual investments in the drinking water system will amount to 0.4% of GDP, with a focus on the 560 rural communities not currently connected to the water system grid. Transport sector annual public investment during 2013–2015 will average 1.6% of gross domestic product (GDP), 85% of which will be aimed at the road network. The government will increase budget effectiveness and implement modern management systems over the strategy period.

In 2006, the Asian Development Bank (ADB) issued its interim operational strategy for Armenia.^c The strategy aimed to promote rural development by rehabilitating rural infrastructure, boosting the private sector by developing the finance sector, and strengthening regional cooperation through the development of regional highways and power transmission. The most recent country operations business plan focuses on regional cooperation, private sector development, and infrastructure.^d It is consistent with the government's priorities and commitments, which reflect the findings of ADB's country strategy review, 2006–2011.^e

The Infrastructure Sustainability Support Program will fund improved, results-based management of development infrastructure, deepening sector results for greater sustainability. This is in line with ADB's Strategy 2020,^f the country operations business plan, and government priorities as articulated in the ADS. The program directly contributes to the Millennium Development Goal targets for access to safe drinking water. Indirectly, it helps to improve road connectivity across the country with resulting improved access to health, education facilities, and work opportunities, thus contributing to poverty reduction, inclusive growth, and national social development goals.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

Key poverty and social issues. Largely due to continuous economic growth fueled by a construction boom, poverty incidence declined from 53.5% in 2004 to 27.6% in 2008 and the incidence of extreme (food) poverty declined from 4.4% to 1.6% over the same period. The poverty trend was sharply reversed in 2009 during the global economic crisis; GDP plummeted by 14.1%. The share of poor households increased to 34.1% in 2009 and to 35.8% in 2010, despite modest economic growth of 2.2% in 2010. Economic growth in 2011–2012, coupled with certain government actions (e.g., promotion of agricultural supply, investment in industrial enterprises) reduced poverty incidence to 35.0% in 2011 and 32.4% in 2012, although this is still higher than during the precrisis years. The trend of indicators for extreme poverty was mixed. Following the financial crisis, the incidence of extreme poverty reached 3.6% in 2009 and decreased to 3.0% in 2010, before increasing to 3.7% in 2011 and decreasing to 2.8% in 2012. The availability of centralized water supply improved during 2004–2011. About 96.6% of households reported access to centralized water supply in 2012, compared with 97% in 2008 and 88.9% in 2004. In 2012, 59.2% of these households reported 24-hour supply (as compared with 33.6% in 2008 and 32.9% in 2004), 13.7% of households had water access for only 1–5 hours a day in 2012.^g Water supply investments aimed at addressing efficiency, accessibility, and reliability of the system will have direct health and welfare impacts on families.

Only 41% of the road network had satisfactory quality in 2012. Development and increased efficiency of the transport system is viewed as important for increased access to and efficiency of social services, increased labor force mobility, and elimination of regional disparities. Greater connectivity through improved roads will increase economic integration, which can lead to greater entrepreneurial activity, better access to markets, more jobs, and reduced poverty. Greater and more reliable access to potable water reduces incidence of health problems associated with poor quality water. If water delivery is more efficient, more time is available for livelihood activities, thus reducing poverty. The effective channeling of public investments to the elimination or mitigation of road and

water infrastructure constraints are of particular importance, given their impact on the economy and quality of life . The assessed needs far exceed the resources available. Both areas are acutely underfunded and long-term planning and sector management capacity is limited.

Beneficiaries. The main program beneficiaries will be the current and future users of roads and drinking water. They will benefit from more effective, efficient, and accountable services and public expenditure. This includes rural and urban households with limited road connectivity and irregular access to potable water. The program will help (i) strengthen budget planning, monitoring, and accountability tools; and (ii) improve the quality, efficiency, and accessibility of road and water public services. Budget support will create greater fiscal space for the government to fund important social expenditures or improvements to the road and water sectors, which will ultimately stimulate economic growth and reduce poverty.

Impact channels. Roads and the water sector feature prominently in the government's development agenda given their direct social and economic impact. Impacts will be channeled through public and private service providers. The program will help the government enhance its ability to ensure adequate and sound development financing in a balanced manner that avoids distortions.

Other social and poverty issues. Better quality water supply will bring immediate health benefits to consumers. Indirectly this will mean lower medical costs and more disposable income. Better and more connected roads give consumers and producers greater access to markets, and social and commercial services. Greater connectivity has the potential to provide more skills development options for those with difficulties accessing training centers.

Design features. The objective of the program is to help improve the physical and financial sustainability of infrastructure investments in roads and water, and related service provision through results-based management. This will be achieved by (i) improving sector management systems, (ii) developing strategies and processes for greater allocative efficiency in investment decisions, (iii) enhancing regulatory frameworks, and (iv) improving implementation of monitoring systems.

C. Poverty Impact Analysis for Policy-Based Lending

The program is expected to have a positive indirect impact on both the poor and nonpoor. It will contribute to sustaining economic growth by strengthening the efficiency, predictability, and transparency of public resource allocations and use for roads and the water sector. Efficiency gains from better resource utilization and expenditure management are expected to improve the quality, coverage, and delivery of public services. No adverse impact on poor and vulnerable groups is expected from the policy reforms envisaged under the program. Improved results-based management will expand fiscal space, enabling the government to secure adequate development financing.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation.

Program design was informed by numerous consultations held during the design phase with occupational groups and chambers, and development and consumer rights nongovernment organizations active in road transport and water supply. Issues, possible solutions through policy change, and strengthening of consumer grievance and redress mechanisms were discussed in detail during these consultations and are reflected in the program design and monitoring framework. Six workshops were held with all public and private stakeholders to validate the positive impacts of the program design. A separate aid coordination meeting was held with all development agencies working in Armenia. Lessons and agreements from these discussions were incorporated into the program design.

2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. During the program design phase, nongovernment organizations and focus groups were actively sought to identify how they may continue their contributions during program implementation and support results monitoring.

3. Explain how the project ensures adequate participation of civil society organizations in project implementation. Civil society participation will continue during implementation through actively engaging internal audit committees, ensuring public information plans and grievance redress mechanisms are implemented and continuing dialogue with the program team to help ensure that intended results are achieved.

4. What forms of civil society organization participation is envisaged during project implementation?

Information generation and sharing Consultation Collaboration Partnership

5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

Yes. Public information plans will be developed further and implemented by the Ministry of Transport and Communication, Public Services Regulatory Commission and the State Committee and State Committee on Water Economy to enhance accountability, improve customer service, and improve public participation.

III. GENDER AND DEVELOPMENT	
Gender mainstreaming category: No gender elements	
A. Key issues	
None	
B. Key actions	
<input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure	
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	
Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. No impacts. Activities include countrywide policy reforms; no civil works require resettlement. 2. Strategy to address the impacts. Not applicable. 3. Plan or other actions. <input checked="" type="checkbox"/> No action.	
B. Indigenous Peoples	
Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. Not applicable. The program includes countrywide policy reforms to improve infrastructure sustainability. The reforms are not expected to have adverse impacts on minority ethnic groups. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. Strategy to address the impacts. Not applicable. 3. Plan or other actions. <input checked="" type="checkbox"/> No action	
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the program for the country's or region's or sector's labor market. No direct relevance. <input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards 2. Labor market impact. No direct impact.	
B. Affordability	
Any changes to the water tariff or water sector subsidy will be conducted in a transparent and accountable manner and will be published in appropriate forums.	
C. Communicable Diseases and Other Social Risks	
1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> NA Communicable diseases <input type="checkbox"/> NA Human trafficking <input type="checkbox"/> Others (please specify) _____ 2. Describe the related risks of the project on people in project area. Not relevant.	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. The expected outcome of the program is improved results-based management systems for road transport and water supply. The performance targets include water and road performance targets in the medium-term expenditure framework and annual budgets, budget reporting, and audit processes by 2015. Increased transparency through tools, such as public information plans, and innovations, and nonexecutive members in audit committees, will help broaden the number and capacity of monitoring entities. 2. Required human resources. The program team and the implementing and executing agencies will closely monitor program performance as described in the design and monitoring framework. 3. Information in PAM. Not applicable (policy-based lending) 4. Monitoring tools. The design and monitoring framework targets and channels will be used to monitor the program's outcome and impact.	

^a Government of Armenia. 2008. *Sustainable Development Program, 2008–2025*. Yerevan.

^b The ADS reflects the postcrisis realities of the economy, and supersedes the Sustainable Development Program adopted by the government in 2008. Government of Armenia. 2014. *Armenia Development Strategy 2014-2025*. Yerevan.

^c ADB. 2006. *Economic Report and Interim Operational Strategy: Armenia, 2006–2009*. Manila.

^d ADB. 2012. *Country Operations Business Plan: Armenia, 2014–2016*. Manila.

^e ADB. 2012. *Country Strategy Final Review: Armenia 2006–2011*. Manila.

^f ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

^g National Statistical Service. 2013. *Social Snapshot and Poverty in Armenia*. Yerevan.