

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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

<p>I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</p> <p>Targeting classification: General intervention</p> <p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The government’s ability to adopt structural reforms that promote inclusive economic growth and reduce poverty is hindered by recent macroeconomic challenges, particularly the need to be fiscally responsible against a backdrop of slowing economic growth. The 2015 household income and expenditure survey for Armenia (the latest available) showed that poverty decreased from 30.0% in 2014 to 29.8% in 2015 (although higher than 27.6% in 2008).^a To achieve inclusive economic growth, the new government set its policy objectives in the Program of the Government of the Republic of Armenia (2019).^b Its key objectives include promoting entrepreneurship, innovators, and their access to affordable and sustainable finance, while ensuring efficient fiscal management (point 2 of section 1 and point 1 of section 3.2) and effective public debt management to ensure fiscal sustainability, and developing government debt markets to support high value human and capital investments. The program (section 5.3) explicitly refers to a pivotal common objective for the government and the Central Bank of Armenia: the need to develop capital markets and financial institutions in Armenia to expand affordable, sustainable, and accessible financial services in support of private sector competitiveness.^c ADB developed the scope and design of the proposed program assistance to enable the achievement of and sustained focus on these priorities. Developing deep and liquid government debt markets, for example, will improve budget management and help focus financing on programs that improve overall economic development and growth and reduce poverty. Similarly, capital market development will help finance real sector needs and develop a more balanced and stable financial sector, which benefits the poor (as the poor tend to be more adversely affected by financial instability and volatility). It will also contribute to greater social inclusion by expanding the range of investment opportunities for local institutional investors (e.g., pension funds and insurance companies).</p> <p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key poverty and social issues. Before the global financial crisis of 2008–2009, Armenia experienced a long period of economic growth, which supported significant poverty reduction. However, the 2009 economic crisis and subsequent economic slowdown reversed the gains made in improving the lives of the poor. The latest household income and expenditure survey (2015) showed that poverty had decreased marginally from 30.0% in 2014 to 29.8% in 2015 and was still higher than in 2008 (27.6%). The share of the extremely poor was 2.0% in 2015 compared with 1.6% in 2008. Despite higher fiscal deficits in 2015–2016, the government maintained the level of total spending on social protection at 29.7% of total budget expenditures in 2015 and 29.9% in 2016.^d</p> <p>ADB support under the proposed program is expected to contribute indirectly to poverty reduction. The proposed policy actions under the program will help implement key reform measures in the areas of public efficiency and financial markets, which will create more fiscal space for public spending on social sectors in the long run. The proposed reforms will also create the necessary preconditions for improving the country’s competitiveness and promoting long-term inclusive growth. No adverse impacts requiring mitigating measures have been identified.</p> <p>2. Beneficiaries. The potential beneficiaries are (i) the public, who will benefit from greater transparency and improved efficiency in government systems for public resource use and predictable and more affordable public investment financing; (ii) the Ministry of Finance, through strengthened public debt and financial risk management; (iii) the Central Bank of Armenia, through enhanced money and market tools; and (iv) market participants (i.e., public and private corporations, financial institutions, and individuals) through more transparent financial information, higher accounting and auditing quality standards, and additional alternatives to finance their investment needs. The poor and the socially excluded will benefit from the program indirectly, through improved financial sector stability, higher economic growth, and increased employment opportunities.</p> <p>3. Impact channels. The impact channels would be through (i) greater financial sector stability, (ii) improved public budget management, (iii) increased quality and transparency of financial reporting, and (iv) diversified range of funding sources and investment opportunities.</p> <p>4. Other social and poverty issues. Not applicable.</p> <p>5. Design features. The objectives of the proposed program are to improve the efficiency of public and private resource mobilization by improving fiscal management and public debt management and enhancing money and capital market tools. Support to the government budget through the program will allow the government to avoid reducing the allocation for social protection at every fiscal shock episode while ensuring stability regarding the</p>

availability of resources to stimulate economic growth.									
C. Poverty Impact Analysis for Policy-Based Lending									
<p>1. Impact channels of the policy reform(s). The program is expected to contribute indirectly to poverty reduction, as policy reforms are expected to have indirect medium- and long-term impacts on poverty, mainly through improved finance sector stability, stronger resilience against external shocks, and higher economic growth and employment opportunities. Program reforms will help (i) strengthen public debt and fiscal risk management and support the government's fiscal consolidation efforts, which will create fiscal space for public spending on priority sectors; (ii) improve financial market infrastructure, which supports the government's objective of generating additional investment opportunities in the economy and, thus, achieving sustainable economic growth; and (iii) enhance the investor base and corporate transparency, laying the foundations of corporate market development and, thus, reorienting the economy toward investment-driven activities. The proposed reforms will also create the necessary preconditions for improving the country's competitiveness and promoting long-term inclusive growth.</p> <p>2. Impacts of policy reform(s) on vulnerable groups. The program does not foresee any negative impacts of the proposed policy actions on poor and vulnerable groups, or on women and girls.</p> <p>3. Systemic changes expected from policy reform(s). The impact channels will be through (i) greater financial sector stability, (ii) improved public budget management, (iii) increased quality and transparency of financial reporting, and (iv) a diversified range of funding sources and investment opportunities.</p>									
II. PARTICIPATION AND EMPOWERING THE POOR									
<p>1. Participatory approaches and project activities. The program, including the proposed timetable for the implementation of the policy actions, was designed in close consultation with all the main stakeholders: (i) government agencies (the Ministry of Finance, Ministry of Economy, and Central Bank of Armenia); (ii) Armenia Stock Exchange (AMX) and other financial institutions, including banks and nonbanks; (iii) the Association of Accountants and Auditors of Armenia; (iv) public and private corporations; and (v) other international development organizations providing assistance in public financial management and financial sector development. The program is being designed in close consultation with all primary stakeholders.</p> <p>2. Civil society organizations. The program will continue engaging with civil society organizations during implementation. Information will be shared with the Association of Accountants and Auditors of Armenia and representatives of financial institutions. In some cases, these associations will directly participate in the implementation of policy actions to strengthen corporate transparency requirements. These involve amendments to existing legislation on accounting and auditing and a new proposed law on regulation and public oversight of audit and accounting to delegate some regulatory functions to a public oversight board, and the prospective chamber of accountants and auditors of Armenia.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA): M <input checked="" type="checkbox"/> Information generation and sharing L <input checked="" type="checkbox"/> Consultation NA <input type="checkbox"/> Collaboration NA <input type="checkbox"/> Partnership</p> <p>4. Participation plan. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Stakeholder engagement will be conducted based on the program needs through formal and informal consultations.</p>									
III. GENDER AND DEVELOPMENT									
Gender mainstreaming category: No gender elements									
A. Key issues. None. Given the nature of this reform agenda, there are no opportunities to pursue a <i>some gender elements</i> category.									
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									
<p>1. Key impacts. No impacts. Activities include countrywide policy reforms, but no civil works causing physical or economic displacement.</p> <p>2. Strategy to address the impacts. Not applicable</p> <p>3. Plan or other Actions.</p> <table border="0"> <tr> <td><input type="checkbox"/> Resettlement plan</td> <td><input type="checkbox"/> Combined resettlement and indigenous peoples plan</td> </tr> <tr> <td><input type="checkbox"/> Resettlement framework</td> <td><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td><input type="checkbox"/> Environmental and social management system arrangement</td> <td><input type="checkbox"/> Social impact matrix</td> </tr> <tr> <td colspan="2"><input checked="" type="checkbox"/> No action</td> </tr> </table>		<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan	<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix	<input checked="" type="checkbox"/> No action	
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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. Armenia does not have any indigenous peoples according to the ADB Safeguard Policy Statement (2009) definition.									

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 type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary <input checked="" type="checkbox"/> No action
V. ADDRESSING OTHER SOCIAL RISKS
A. Risks in the Labor Market
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). No direct relevance. NA <input type="checkbox"/> unemployment NA <input type="checkbox"/> underemployment NA <input type="checkbox"/> retrenchment NA <input type="checkbox"/> core labor standards 2. Labor market impact. No direct impact
B. Affordability
None.
C. Communicable Diseases and Other Social Risks
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): NA <input type="checkbox"/> Communicable diseases NA <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others (please specify) _____ 2. Risks to people in project area. Not applicable
VI. MONITORING AND EVALUATION
1. Targets and indicators. The design and monitoring framework contains indicators for outcomes and outputs that measure progress. Monitoring will be the primary responsibility of the Ministry of Finance.
2. Required human resources. The program team and the implementing and executing agencies will closely monitor the performance as described in the design and monitoring framework.
3. Information in the project administration manual. Not applicable (policy-based lending).
4. Monitoring tools. The targets set out in the design and monitoring framework will be used to monitor the program's outcome and impact.

ADB = Asian Development Bank.

^a Republic of Armenia, 2015. *Integrated Living Conditions Survey*. Yerevan

^b Republic of Armenia. 2019. *Program of the Government of the Republic of Armenia 2019*. Yerevan.

^c Section 5.3 also recognized the need for these reforms to reduce the gaps, barriers, and issues in Armenia's financial intermediation to mitigate risks, lower credit interest rates, and increase banking stability and credit opportunities to private entrepreneurs. Developing market mechanisms to bring investors in entrepreneurial, real assets in contact with domestic savers and foreign investors (i.e., diversified capital markets) would also give Armenian citizens access to diversified saving opportunities in local capital markets, "through the acquisition of bonds or stocks of non-financial corporations" and justifies the policy promotion of "expanding the availability of alternative financial instruments (e.g. through the development of investment funds) and making easier for non-financial corporates to enter capital markets to issue securities (IPOs)." Section 5.6 also highlights the importance of domestic capital markets to enable large-scale infrastructure investments and private sector participation in their development.

^d Republic of Armenia, 2015. *Integrated Living Conditions Survey*. Yerevan

Source: Asian Development Bank.