



Initial Poverty and Social Analysis

September 2019

Armenia: Second Public Efficiency and Financial Markets Program

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Asian Development Bank

CURRENCY EQUIVALENTS
(as of 16 September 2019)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.0021
\$1.00	=	AMD476.51

ABBREVIATIONS

ADB	–	Asian Development Bank
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NOTE

In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

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

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The government's ability to adopt structural reforms that promote inclusive economic growth and reduce poverty is hindered by recent macroeconomic challenges, in particular, 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). To achieve inclusive economic growth, the new government set its policy objectives in its new program, approved in February 2019.^a 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.^b ADB developed the scope and design of the proposed program assistance to enable achievement 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).

B. Poverty Targeting (Select one):

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

The proposed policy-based program has a broad, nationwide impact on inclusive growth through strengthened public debt management, enhanced access to financial products and services, and improved efficiency in government systems. The proposed program has an indirect impact on poverty.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The potential beneficiaries are (i) the general 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.

2. Impact channels and expected systemic changes. 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.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence for the program, to be prepared in cooperation with development partners, will include (i) a sector assessment

focusing on public financial management, (ii) a risk assessment and risk management plan covering the country's public financial management systems, and (iii) a program impact assessment. An assessment letter will be provided by the International Monetary Fund. No poverty, social, or gender issues requiring specific attention have been identified.

4. Specific analysis for policy-based lending. 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.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Not applicable.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

[note: the proposed program will likely not be able to capture any gender mainstreaming opportunities]

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No [note: the proposed program does not in any way produce adverse impacts]

4. Indicate the intended gender mainstreaming category:

GEN (gender equity)

EGM (effective gender mainstreaming)

SGE (some gender elements)

NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The main stakeholders are: (i) government agencies (the Ministry of Finance, Ministry of Economy, and Central Bank of Armenia); (ii) Armenia Stock Exchange and other financial institutions, including banks and non-banks; (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.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

The proposed policy conditions will (i) improve transparency in public sector management, in particular for debt management and public-private partnerships; (ii) help protect the interests of investors and increase transparency of financial reporting; and (iii) protect financial consumers (through reforms to the residential mortgage lending regulation).

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing Consultation Collaboration Partnership

Indicate in each box the level of participation by marking high (H), medium (M), low (L), or not applicable (N) based on definitions in the ADB's Guide to Participation.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No Not applicable.

IV. SOCIAL SAFEGUARDS	
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Resettlement framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
3. Will the project require broad community support of affected indigenous communities?	
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design?	
<input type="checkbox"/> Creating decent jobs and employment	<input type="checkbox"/> Adhering to core labor standards
<input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS	<input type="checkbox"/> Increase in human trafficking
<input type="checkbox"/> Increase in unplanned migration	<input type="checkbox"/> Increase in vulnerability to natural disasters
<input type="checkbox"/> Creating internal social conflicts	<input type="checkbox"/> Others, please specify _____
Indicate high (H), medium (M), low (L) for selected boxes	
Not applicable.	
2. How are these additional social issues and risks going to be addressed in the project design?	
Not applicable.	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?	
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
No poverty, social, or gender issues requiring specific attention have been identified.	
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence?	
Not applicable.	

^a Government of Armenia. 2019. *Armenia Five-Year Government Program*. Yerevan.

^b 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. Categorical statements (in section 5.6) that developing market mechanisms to bring investors in entrepreneurial, real assets in contact with domestic savers and foreign investors (i.e. diversified capital markets) is "an important precondition for sustainable development." This 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 in order to enable large-scale infrastructure investments and private sector participation in their development.