



# Initial Poverty and Social Analysis

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## Armenia: Fiscal Sustainability and Financial Markets Development Program (Subprogram 1)

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## **CURRENCY EQUIVALENTS**

(as of 16 June 2022)

Currency unit	–	dram (AMD)
AMD1.00	=	\$0.00233
\$1.00	=	AMD429.65000

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
GDP	–	gross domestic product
TA	–	technical assistance

## **NOTE**

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

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Armenia	Project Title:	Fiscal Sustainability and Financial Markets Development 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

Armenia's economic growth preceding the 2020 allowed the country to make a good progress in reducing poverty. However, the trend was somewhat reversed in 2020, when twin shocks of the coronavirus disease (COVID-19) pandemic and the military confrontation with Azerbaijan in September–November 2020, derailed Armenia's economic expansion and the economy contracted by 7.4% in 2020 (for the first time since 2009). The latest household income and expenditure survey (2020) showed that poverty rate had increased from 26.4% in 2019 to 27.0% based on consumption per adult below the average national poverty line. The countercyclical measures and targeted social assistance programs, however allowed the government to minimize the impact of the shocks on the most vulnerable groups of population. Despite the increase in total poverty rate, the share of the extremely poor decreased from 1.4% in 2019 to 0.7% in 2020 and the share of very poor decreased from 9.7% in 2020 from 10.2% in 2019.

Based on the international poverty thresholds, 0.4% of the population lived on less than \$1.90/day (2011 Purchasing Power Parity) in 2020, compared to 1.1% in 2019. The poverty rate measured at the lower middle-income class poverty line (\$3.20 per capita/per day) affected 6.9% of the population in 2020 versus 9.8% in 2019. On the other hand, the poverty rate at the upper middle-income class poverty line (\$5.50 per capita/ per day) has increased to 44.7% in 2020 from 43.9% in 2019.

The government's new development program, for 2021–2026 seeks to eradicate the extreme poverty and reduce the unemployment rate below 10% by 2026.<sup>a</sup> It is structured across six areas: (i) security and foreign policy; (ii) economy; (iii) infrastructure development; (iv) human capital development; (v) law and justice; and (vi) institutional development. The strategic objective of the country partnership strategy (CPS) for Armenia for 2019–2023 is to support the government's efforts to ensure diversified economic growth and increased inclusiveness, with a focus on three strategic pillars: (i) priority infrastructure investments in transport, energy, and urban development; (ii) knowledge and policy-based assistance and investments for service delivery reforms in education, health, and financial services; and (iii) support for regional cooperation and integration.<sup>b</sup> Although the CPS was aligned with the previous national development program for 2019–2023, strategic directions of the Asian Development Bank (ADB) have not changed and priority areas (ii, iii, iv and vi) in the government's new program are in line with CPS strategic pillars.

The proposed program supports the government's reforms agenda in the areas of "economy" and "institutional reforms" and builds on the reform momentum implemented under the ADB's previous two programs (policy-based loans) for public efficiency improvement and financial markets development in 2017–2019. The proposed program is also reflected as an emerging government need in the Indicative Country Program and Monitoring Report for 2022–2024.

#### B. Poverty Targeting

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The program has a broad, nationwide impact on inclusive growth through strengthened public debt and fiscal risk management, enhanced access to financial products and services, and improved efficiency in government systems. The program has an indirect impact on employment generation and poverty reduction.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

The potential beneficiaries are (i) the general public, who will benefit from efficient, effective and sustainable infrastructure and services delivery; (ii) the Ministry of Finance, through enhanced budget processes and strengthened public debt and financial risk management functions; (iii) the Ministry of Economy through enhanced public investment management; (iv) the Central Bank of Armenia, through enhanced money and market tools, improved financial transparency and corporate governance and broadened base of investors and financial instruments; and (v) market participants (i.e., public and private corporations, financial institutions, and individuals) through more transparent financial information and broadened base of instruments (including the concept of "green" bonds) to finance their investment and development needs. The poor and the socially excluded will benefit from the program indirectly: improved financial sector stability, increased efficiencies, more efficient government debt issuance and lower costs of

borrowing would allow the government to increase allocations for human and capital investment, thereby promoting inclusive growth.

2. Impact channels and expected systemic changes.

The impact channels would be through: (i) greater financial sector stability; (ii) improved public debt, fiscal risk and public investment managements; (iii) more efficient budgetary planning and public expenditures; and (iv) diversified range of funding sources and improved corporate governance mechanisms that would help catalyze private investments.

3. Focus of (and resources allocated in) the transaction TA or due diligence.

The program is supported by an ongoing transaction technical assistance (TA) project.<sup>c</sup> Poverty, gender, and social issues will be carefully reviewed during program preparation and due diligence, including inclusion of gender specific policy actions in the policy matrix of the program. A summary poverty reduction and social strategy analysis will be undertaken during program preparation.

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.

5. Program reforms will help (i) support the government's public financial management reforms efforts, which will create fiscal space for public spending on priority sectors and for more productive and better managed public investments; (ii) increase supply and demand for a broader range of financial products and services, which supports the government's objective of generating additional investment opportunities in the economy; 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?

The program supports the government's efforts to introduce and enhance the toolkit for gender-sensitive budgeting, as envisaged in the government's 2019–2023 Strategy and Action Plan on Gender Policy Implementation.<sup>d</sup>

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 access to and use of opportunities, services, resources, assets, and participation in decision-making?  Yes  No

The program will promote gender-sensitive budgeting and the effectiveness and relevance of its implementation. The program will also aim to promote inclusion of minimum requirements for women participation in the management boards of large corporations, as a corporate governance requirement in the Government Decree.

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

Yes  No

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 EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design.

The policy matrix of the program is being designed jointly with Agence Française de Développement (as a co-financing partner) and in close consultation with all primary stakeholders. The main stakeholders are: (i) government agencies (the Ministry of Finance, Ministry of Economy, and Central Bank of Armenia); (ii) banks and non-banks financial institutions; (iii) public and private corporations; and (v) other international development organizations supporting the reforms in the areas of public financial management and financial sector development.

2. Who are the key, active, and relevant CSOs in the project area?

Association of Accountants and Auditors of Armenia, Association of Banks of Armenia, and Corporate Governance Center are the key, active and relevant CSOs in the program's area.

3. Are there issues during project design for which participation of the poor and vulnerable is important?

Yes  No If yes, what are these issues?

<p>4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?</p> <p>The proposed policy conditions will (i) improve public financial management, in particular in the areas of public debt, fiscal risk and public investment managements; (ii) help protect the interests of investors and increase transparency of financial reporting; and (iii) increase financial transparency and literacy to empower consumers.</p> <p>5. What level of CSO participation is planned during the project design?</p> <p><input checked="" type="checkbox"/> Information generation and sharing    <input checked="" type="checkbox"/> Consultation    <input type="checkbox"/> Collaboration    <input type="checkbox"/> Partnership</p>
<b>IV. SOCIAL SAFEGUARDS</b>
<p><b>A. Involuntary Resettlement Category</b>    <input type="checkbox"/> A    <input type="checkbox"/> B    <input checked="" type="checkbox"/> C    <input type="checkbox"/> FI</p> <p>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</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan                                    <input type="checkbox"/> Resettlement framework                                    <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement                                    <input checked="" type="checkbox"/> None</p>
<p><b>B. Indigenous Peoples Category</b>    <input type="checkbox"/> A    <input type="checkbox"/> B    <input checked="" type="checkbox"/> C    <input type="checkbox"/> FI</p> <p>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</p> <p>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</p> <p>3. Will the project require broad community support of affected indigenous communities?    <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan                                    <input type="checkbox"/> Indigenous peoples planning framework                                    <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement                                    <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment    <input type="checkbox"/> Adhering to core labor standards    <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS    <input type="checkbox"/> Increase in human trafficking    <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration    <input type="checkbox"/> Increase in vulnerability to natural disasters    <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts    <input type="checkbox"/> Others, please specify _____ Not Applicable</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? Not applicable</p>
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>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?</p> <p><input checked="" type="checkbox"/> Yes                                    <input type="checkbox"/> No    SSTA will be approved.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence? SSTA will be approved.</p>

ADB = Asian Development Bank, COVID-19 = coronavirus disease, CSO = civil society organization, SSTA = small-scale technical assistance, TA = technical assistance.

Source: Asian Development Bank.

<sup>a</sup> Government of Armenia. 2021. [Government Program for 2021–2026](#). Yerevan.

<sup>b</sup> ADB. 2019. [Country Partnership Strategy: Armenia, 2019–2023—Fostering Inclusive, Diversified, and Transformative Growth](#). Manila.

<sup>c</sup> ADB. 2019. [Armenia: Preparing the Second Public Efficiency and Financial Markets Program](#). Manila.

<sup>d</sup> Government of Armenia. 2019. [On Approving the 2019–2023 Strategy and Gender Action Plan on Gender Policy Implementation in the Republic of Armenia](#). Yerevan.