

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:

Armenia

 Project Title:

Public Efficiency and Financial Markets Program, Subprogram 1

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
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The overarching goal of the Government of Armenia’s long-term strategy—Armenia Development Strategy (ADS)—is to improve the welfare of the society.^a The ADS identifies the following four priorities for 2014–2025: (i) employment growth, (ii) human capital development, (iii) improvement of the social protection system, and (iv) institutional modernization of public administration and governance.</p> <p>Achieving strong inclusive economic growth is a core government objective. This requires an ambitious reform agenda to foster private investment, expand the private sector, and increase the public sector’s efficiency and transparency. Developing deep and liquid government debt markets improves budget management and helps finance overall economic development, growth, and poverty reduction. Capital market development will help finance needs in the real sector 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).^b It also contributes to greater social inclusion by expanding the range of investment opportunities for local institutional investors, e.g., investment and pension funds and insurance companies.</p> <p>The program is aligned with the ADS and builds on ADB’s Midterm Review of Strategy 2020.^c Though financial sector development was not identified as a main strategic priority in ADB’s country partnership strategy (CPS) for Armenia, 2014–2018,^d it was reflected as an emerging government need in the country operations business plan (COBP), 2017–2019.^e</p>
<p>B. Results from the Poverty and Social Analysis during PPTA or Due Diligence</p> <p>1. Key poverty and social issues. Prior to 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 have 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 as compared to 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 at 29.9% in 2016.</p> <p>ADB support under the proposed program is expected to indirectly contribute 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, in the long-run, will create more fiscal space for public spending on social sectors. 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 general public, who will benefit from greater transparency and improved efficiency in government systems related to procurement, audit, and public resource usage that will free public resources to finance public investment; (ii) the Ministry of Finance, through strengthened public debt and financial risk management; (iii) the Central Bank of Armenia, through enhanced money 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 and higher economic growth and jobs.</p> <p>3. Impact channels. The proposed program will help increase fiscal sustainability and resilience in the finance sector, which would include (i) greater finance 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 expenditures, improve fiscal management, and enhance 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 while having sufficient resources to stimulate economic growth.</p>

<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reform(s). The impact of the program will be sustainable growth through improved fiscal sustainability and enhanced financial markets. 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 social sectors and infrastructure development; (ii) improve financial market infrastructure, which will support the government's objective of generating additional investment opportunities in the economy and, thus, achieving sustainable economic growth; (iii) expand the investor base and enhance corporate transparency, laying the foundations for corporate market development and, thus, reorienting the economy toward investment-driven activities.</p> <p>2. Impacts of policy reform(s) on vulnerable groups. The program does not foresee any impacts of the proposed policy actions on poor and vulnerable groups.</p> <p>3. Systemic changes expected from policy reform(s). The program will strengthen the resilience of the economy against external economic shocks, reduce volatility, and ensure financial stability.</p>								
<p align="center">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Participatory approaches and project activities. The program, including the proposed timetable for implementation of the policy actions, was designed in close consultation with all the main stakeholders. Consultations were held with government agencies, the Central Bank of Armenia, the stock exchange, commercial banks, and international development partners.</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 the Laws on Accounting and Audit 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):</p> <p>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>								
<p align="center">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: No gender elements</p> <p>A. Key issues. None</p> <p>B. Key actions. <input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure</p>								
<p align="center">IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p> <p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. No impacts. Activities include country-wide 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><input checked="" type="checkbox"/> No action</td> <td></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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<p>1. Key impacts. Not applicable. There are no indigenous peoples per the SPS 2009 definition in Armenia. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>											
<p>2. Strategy to address the impacts. Not applicable</p>											
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V. ADDRESSING OTHER SOCIAL RISKS											
<p>A. Risks in the Labor Market</p> <p>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</p> <p>2. Labor market impact. No direct impact</p>											
<p>B. Affordability</p> <p>None</p>											
<p>C. Communicable Diseases and Other Social Risks</p> <p>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) _____</p> <p>2. Risks to people in project area. Not applicable</p>											
VI. MONITORING AND EVALUATION											
<p>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, which is both the executing and main implementing agency for the program.</p> <p>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.</p> <p>3. Information in the project administration manual. Not applicable (policy-based lending).</p> <p>4. Monitoring tools. The targets set out in the design and monitoring framework will be used to monitor the program's outcome and impact.</p>											

^a The poverty measurement methodology is based on the revised methodology adopted in 2009. National Statistical Service of the Republic of Armenia. 2015. *Statistical Analytical Report: Social Snapshot and Poverty in Armenia*. Yerevan.

^b 2008. IMF Working Paper. 2008. *Financial Development and Poverty Reduction: Can There Be a Benefit Without a Cost?* Washington DC.

^c ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

^d ADB. 2014. *Armenia: Country Partnership Strategy (2014–2018)*. Manila.

^e ADB. 2015. *Armenia: Country Operations Business Plan (2016–2018)*. Manila.