PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA25777

Project Name	Lifeline Road Network Improvement AF (P150505)
Parent Project Name	LIFELINE ROAD NETWORK IMPROVEMENT PROJECT (P126782)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Rural and Inter-Urban Roads and Highways (60%), General transportation sector (40%)
Theme(s)	Rural services and infrastructure (60%), Infrastructure services for private sector development (20%), Trade facilitation and market access (20%)
Lending Instrument	Investment Project Financing
Project ID	P150505
Parent Project ID	P126782
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Transport and Communication
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	13-May-2015
Date PID Approved/Disclosed	14-May-2015
Estimated Date of Appraisal Completion	18-May-2015
Estimated Date of Board Approval	31-Jul-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Armenia is a small (29,800 km2), landlocked lower-middle income country with a population of about 3 million, with a large diaspora population of around 7 million, and an average per capita Gross National Income of US$4,800 in 2013. In the decade preceding the global economic and financial crisis, real Gross Domestic Product (GDP) growth was more than 10 percent, strongly fueled by remittances. In 2009, there was a substantial contraction. Growth has since resumed, although at a slower pace, reaching 4.7 percent in 2011, 7.2 percent in 2012, and 3.2 percent in 2013. The largest components of GDP are services including construction, tourism and travel (43 percent), industry including mining and energy (33 percent), and agriculture (23 percent). Inflation has dropped to about 4 percent at present, from a high of 9 percent in 2010, and has been less than 5 percent throughout most of the last decade.

Global developments still weigh on the post-crisis recovery of Armenia. Thus, the economy is estimated to have grown by a mere 2.6 percent in 2014, due to a protracted decline of the construction sector and contraction of the mining sector. Net inflows of remittances declined by 4.8 percent between January-November of 2014 (year-on-year), reflecting the weakening Russian economy. The latter also contributed to a drastic depreciation of the exchange rate, as the Armenian dram lost 16.5 percent of its value in the last quarter of 2014. The sharp depreciation has had a substantial pass-through on inflation, as prices grew by 3 percent in December 2014, pushing 12-month inflation up to 4.6 percent for 2014 as a whole, while it was only 2.6 percent in November.

In terms of shared prosperity, the bottom 40 percent in the income distribution of the population enjoyed strong consumption growth, but was affected by the global crisis. One of the Bank's indicators of shared prosperity, i.e., the growth rate of consumption per capita of the bottom 40 percent, demonstrates that economic growth in Armenia benefited the poor and vulnerable more than the overall population. During 2006-2008, growth in average real consumption per capita of the bottom 40 percent outpaced that of the population as a whole, 6.5 percent versus 5.2 percent. The 2008 crisis eroded the growth in average consumption that had been enjoyed both by the bottom 40 percent and by the overall population. As a result, between 2006 and 2011, the consumption per capita of the bottom 40 percent grew only at 0.4 percent per year while that of the population as a whole even stagnated.

The proposed AF supports one of the pillars of the Armenia Development Strategy 2025, i.e. enhancement of human capital through better access to quality services, including healthcare, education, culture, and basic infrastructure. It is also fully aligned with the World Bank Country Partnership Strategy (CPS) for Armenia for FY14-17. By supporting one of the two Strategic Clusters of the CPS, namely Supporting Competitiveness and Job Creation (Cluster of Outcomes I, (iii) upgrading key economic infrastructure services that are identified as significant to spurring growth), the proposed AF contributes to reducing poverty and boosting shared prosperity in Armenia. The proposed AF is referenced in the CPS, which highlights the importance of continued investments in lifeline road rehabilitation in an effort to promote greater connectivity of rural areas. Connecting rural communities to markets in a more effective way is expected to support employment both at the farm and non-farm rural level of some of the poorest segments of the population, supporting poverty reduction goals.

Sectoral and institutional Context

The total length of the Armenia road network is 7,758 km, excluding urban roads, with less than half being in good or fair condition. In 2013 the network consisted of interstate (1,686 km), republican (4,056 km) and local roads (1,962 km), of which republican roads are subdivided into republican main roads (1,814 km) managed by the MoTC and other republican roads (2,242 km) managed by the Marz. In February 13, 2014, the Government of Armenia (GoA) issued a Decree No. 265 on road reclassification. This decree revoked an earlier decree from January 10, 2008, and reclassified the road network as follows: 1,759 km of interstate roads, 1,964 km of republican roads and 3,825 km of local roads. Lifeline roads comprise most of the republican roads and a portion of the local roads, totaling around 4,000 km. Most of the road network was built in the 1960s and 1970s. The percentage of paved roads, at 93 percent, is high compared to other developing countries, but is in line with most European countries. With support from the lifeline roads program and other efforts of the Government, the percentage of the republican roads—as defined in 2013, prior to the most recent road reclassification—that are in good or fair condition increased from 32.2 percent in 2008 to 51.1 percent in 2013. Despite this good improvement record, there still is a big backlog of lifeline roads that need rehabilitation.

Trade facilitation and connecting local production to markets remain paramount in reducing rural poverty and promoting economic growth. The agricultural sector represents about 20 percent of the country's GDP and involves around 335,000 households. Trade from rural areas is less than optimal due to restricted connectivity to markets as a result of the poor condition of roads. This has hindered trade facilitation for rural farmers, resulting in substantial crop losses for some communities due to an inability to get them to markets on time. It is vital that rural infrastructure is improved and maintained to promote agricultural trade, thus stimulating economic growth and local employment for the future.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The Project Development Objective is to improve access of rural communities to markets and services through upgrading of selected lifeline roads, and to strengthen the capacity of the Ministry of Transport and Communication to manage the lifeline road network.

III. Project Description

Component Name

Component 1: Lifeline Road Improvement

Comments (optional)

Additional 155 km will be rehabilitated, bringing the total number of km rehabilitated under LRNIP and LRNIP-AF to about 360 km. This component comprises civil works for the rehabilitation of roads, two rehabilitation and maintenance contracts, supervision and technical designs, as well as road safety engineering improvements, including the construction costs associated with the Safe Village schemes on all road sections rehabilitated under the AF. A new Contingent Emergency Response sub-component is being introduced, without changes to the PDO or the Results Framework. Having this sub-component is a precautionary measure that would allow the GoA and the Bank to quickly channel loan financing for emergency recovery efforts following an adverse natural or man-made disaster.

Component Name

Component 2: Project Management and Institutional Strengthening

Comments (optional)

This component would finance project management and implementation, including financial audits. In terms of institutional strengthening, it would finance: (i) preparation of a social monitoring and evaluation study; (ii) preparation of a strategic development plan for the lifeline road network; (iii) lifeline road network data collection for the RAMS; (iv) development of a road safety action plan and the implementation of selected activities from the action plan; (v) technical assistance with regard to disaster risk preparedness for the road sector; and (vi) purchase of road laboratory equipment.

IV. Financing *(in USD Million)*

Total Project Cost:	50.00	Total Bank Financing:	40.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	10.00
International Bank for Reconstruction and Development	40.00
Total	50.00

V. Implementation

The implementation, procurement and financial management arrangements will remain the same as in the on-going LRNIP. The Ministry of Transport and Communication (MoTC) will have the overall responsibility for implementation of the Project and, similar to the previous Bank financed LRIP and the on-going LRNIP, will delegate the project management and day-to-day implementation to the Transport Project Implementation Unit (TPIU). Operational monitoring and supervision of the Project will be carried out by the TPIU, which will work daily with MoTC to streamline decision-making. The Project Operational Manual will be updated before effectiveness. The project will use qualified international consultants for supervision of civil works.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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