

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA32957

Project Name	Public Sector Modernization Project III (P149913)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Central government administration (55%), Public administration-Information and communications (45%)
Theme(s)	Public expenditure, financial management and procurement (50%), e-Government (50%)
Lending Instrument	Investment Project Financing
Project ID	P149913
Borrower(s)	Republic of Armenia
Implementing Agency	Office of the Government
Environmental Category	C-Not Required
Date PID Prepared/Updated	25-Aug-2015
Date PID Approved/Disclosed	23-Jul-2015, 04-Aug-2015, 25-Aug-2015
Estimated Date of Appraisal Completion	30-Jul-2015
Estimated Date of Board Approval	30-Sep-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Armenia's long-term development vision, articulated in the Armenia Development Strategy (ADS), sees Armenia achieving middle-income country status by 2025 with a per capita income in excess of US\$10,000. This ambitious target is three times higher than its 2012 per capita income and requires GDP growth at 6.4 percent a year. The strategy is built around four pillars: creating jobs; developing human capital; strengthening social protection system; and modernizing public administration and governance.

The ADS advocates ambitious targets for its public administration and governance reforms. Progress is to be monitored using modified World Governance Indicators, benchmarking Armenia's performance against other countries. Priorities identified under the ADS include measures to: tackle corruption and conflict of interest in the public sector; reform and rightsizing the civil service, introduce merit-based systems of recruitment and promotion, increase salaries and incentives to attract and retain more qualified public employees; streamline public sector regulations and curtail the inspection regime, notably through the implementation of a regulatory

"guillotine"; modernize the justice system; modernize public finances through custom and tax administration reforms, strengthening the financial inspection/supervision system and public financial management reforms.

Alongside the ADS, the Government has developed an Open Government Action Plan for the period 2014-16, presenting commitments aimed at strengthening transparency, accountability and participation as a member of the Open Government Partnership. In April 2014, the Government presented an E-Governance Strategy which lays out how the use of information and communication technology will support its public sector reform and broader development objectives.

Sectoral and institutional Context

The World Bank has provided support for Armenia's public sector reforms over the last decade. The first phase of this assistance, Public Sector Modernization Project (PSMP-I), implemented between 2004 and 2011, supported reforms in policy formulation, local government, civil service, public procurement and internal and external audit. PSMP-I successfully delivered key institutional reforms and the core administrative e-Government applications (EDMS, HRMIS, e-Tendering) as well as capacity building at the Armenian Academy of Public Administration (AAPA) and Ministry of Finance Training Center for civil servants training. PSMP-II, which became effective in 2010 and recently extended till 2017, provided support for comprehensive functional analysis covering a number of ministries, agencies, and government entities, such as the Ministry of Territorial Administration, Passport and Visa Directorate of Police; establishment of an integrity system for public servants using an IT solution to track possible conflicts of interest in the public sector; development of a training needs assessment and a training program for civil servants; and further support for e-Governance through business process simplification and automation of solutions, including pilot activities for citizen-centered services such as e-Police and e-Health.

The Government of Armenia has requested the World Bank's further assistance for its public sector reform strategy, focusing on: first, the strengthening of public financial management through support for the development of a financial management information system; second, support for implementation of the Government's e-Governance strategy; and third, continued support for civil service capacity building.

II. Proposed Development Objectives

The project development objective (PDO) is to improve quality of the public financial reporting and to improve access to selected enhanced e-government services.

III. Project Description

Component Name

Component 1. Public Financial Management Information Systems

Comments (optional)

This component will help the Government to improve the efficiency, effectiveness and comprehensiveness of its financial management and accounting through the development of a Government Financial Management Information System (GFMIS).

Sub-Component 1.1 - Development of the GFMIS: Support improvements in the budget process through setting up the state budget plan based on programs; strengthened internal controls; refinements in financial and accounting standards and improvements in the coverage of financial reporting, particularly as regards government assets and liabilities; and improvements in payment

and procurement procedures.

Sub-Component 1.2 - Support for PFM Reforms: Technical assistance and advisory services to the Ministry of Finance in implementing reforms.

Component Name

Component 2. e-Governance Solutions for Improved Service Delivery

Comments (optional)

This component will support the implementation of select government priorities as identified in the Armenia's e-Governance Strategy.

Sub-Component 2.1 - e-Governance Policy, Institutions, and Capacity: This sub-component seeks to put in place the policy environment necessary for introduction of a deeper e-governance reforms and create necessary institutional capacity within the government.

Sub-Component 2.2 - e-Governance Platforms and Service Enhancements: This sub-component seeks to introduce basic platforms and infrastructure to support the e-governance agenda, enhance existing e-services and automate services that have back end infrastructure in place.

Sub-component 2.3 - Citizen-Government Interface for Accountability: Supports the establishment of citizen feedback mechanisms.

Component Name

Component 3. Capacity Building and Small Capacity Building Interventions

Comments (optional)

This component will support the broader public sector modernization and governance reform agenda through two sub-components: capacity building and smaller capacity building interventions.

Sub-Component 3.1 - Capacity Building: This sub-component seeks to strengthen the capacity of the Civil Service Council (CSC) and Armenian Academy of Public Administration (AAPA) to modernize the training system for public servants and raise the quality of training to international standards.

Sub-Component 3.2 – Small Capacity Building Interventions: This sub-component will support the Public Sector Reform Commission (PSRC) in its coordination and implementation of the public sector modernization and governance reforms.

Component Name

Component 4. Project Management

Comments (optional)

This Component covers the cost of specific project management arrangements. These include the costs of the Foreign Financing Project Management Centre (FFPMC), the Project Manager (PM) and the Project Management Group (PMG) who will report to the Project Director (Minister-Chief of Government Staff and the Head of PSRC). PMG will provide technical and administrative support to project implementation, monitoring and reporting (M&E), development of the technical requirements/specifications part for procurement documents and monitoring of the procurement process, and advisory services to agencies which implement project activities. This component also includes activities related with trainings, financial audit, M&E, public awareness campaigns, and gender-related consultations with the public.

IV. Financing (in USD Million)

Total Project Cost:	36.70	Total Bank Financing:	21.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	15.70
International Bank for Reconstruction and Development	21.00
Total	36.70

V. Implementation

The institutional and implementation arrangements under the Project will remain the same as those for PSMP I and PSMP II projects (latter scheduled to close in January 2017). Day-to-day project implementation will be the responsibility of a Project Manager (PM), who will report to the Project Director (Minister-Chief of Government Staff), and a Project Management Group (PMG). PMG will provide technical and administrative support to project implementation, monitoring and reporting, development of the technical requirements/specifications part for procurement documents and monitoring of the procurement process, and advisory services to agencies which implement project activities.

The Foreign Financing Project Management Center (FFPMC) will be responsible for the fiduciary aspects of the Project and will provide fiduciary services to other Bank-financed projects. These include procurement and financial management (FM) functions including financial planning and budgeting, accounting, financial reporting, arrange external auditing, funds flow, and internal controls. No significant weaknesses were identified at FFPMC which will develop a separate Financial Management Manual (FMM) for the Project.

Under the current arrangement, the inter-ministerial Public Sector Reform Commission (PSRC) acts as the project's steering committee and includes representatives of the beneficiary ministries and agencies. The Head of the PSRC, who is also the Minister-Chief of Government Staff, will be the Project Director. Given that the project focuses on reforms in two areas, namely public financial management (PFM) and e-governance, the implementation arrangements for project components are as follows: Component 1 will be implemented by the Ministry of Finance and Component 2 and 3 will be implemented by the Government Staff.

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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