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Report No: PAD1424

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$55 MILLION

TO THE

REPUBLIC OF ARMENIA

FOR A

LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT

December 1, 2015

*Social, Urban, Rural and Resilience Global Practice  
EUROPE AND CENTRAL ASIA*

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective November 23, 2015)

Currency Unit = AMD  
ADM 475 = US\$1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	M&E	Monitoring and Evaluation
ADS	Armenia Development Strategy	MIS	Management Information System
ASA	Air Service Agreements	MNA	Middle East and North Africa
ASIF	Armenia Social Investment Fund	MoC	Ministry of Culture
ATDF	Armenian Territorial Development Fund	MoE	Ministry of Economy
B&B	Bread and Breakfast	MoNP	Ministry of Nature Protection
BP	Bank Policy	MoTA&ES	Ministry of Territorial Administration and Emergency Situations
CBA	Cost Benefit Analysis	MOUD	Ministry of Urban Development
CER	Contingent Emergency Response	NCB	National Competitive Bidding
CIS	Commonwealth of Independent States	NCFA	National Competitiveness Foundation of Armenia
CNF	Caucasus Nature Fund	NGO	Non-Governmental Organizations
CPAR	Country Procurement Assessment Review	NPV	Net Present Value
CQS	Consultants' Qualifications Selection	OM	Operations Manual
CSO	Civil Society Organizations	OP	Operational Policy
DA	Designated Account	PDO	The Project Development Objective
DC	Direct Contracting	PFM	Public Financial Management
DFA	Development Foundation of Armenia	POM	Project Operations Manual
DMO	Destination Management Organizations	PPI	Public Private Investment
DPS	Designated Procurement Specialist	PPP	Public Private Partnership
EAP	East Asia and Pacific	PSC	Project Steering Committee
ECA	Europe and Central Asia	QBS	Quality Based Selection
ECAA	European Common Aviation Area	QCBS	Quality and Cost-Based Selection
ECAPDEV	Europe and Central Asia Capacity Development	RAP	Resettlement Action Plans
EDMC	Enterprise Development and Market Competitiveness	RDP	Regional Development Project
EIB	European Investment Bank	RPF	Resettlement Policy Framework
EIRR	Economic Internal Rate of Return	SAR	Subproject Appraisal Report
ESIA	Environmental and Social Impact Assessment	SESCHA	Strategic Environmental, Social, and Cultural Heritage Assessment
ESMF	Environmental and Social Management Framework	SH	Shopping
ESMP	Environmental and Social Management Plans	SILD	Social Investment and Local Development

ESR	Environmental and Social Reviews	SME	Small and Medium-sized Enterprises
ESW	Economic Sector Work	SMEDNC	Small and Medium Entrepreneurship Development National Center
EU	European Union	SNCO	State Non-Commercial Organization
FIRR	Financial Internal Rate of Return	SOE	Statement of Expense
FM	Financial Management	SPN	Specific Procurement Notices
FMM	Financial Management Manual	SPN	Specific Procurement Notices
GDP	Gross Domestic Product	SSR	Subproject Summary Report
GIZ	<i>Deutsche Zusammenarbeit</i>	SSS	Single Source Selection
GNI	Gross National Income	SDC	Swiss Development Cooperation
GoA	Government of Armenia	ToR	Terms of Reference
GoG	Government of Georgia	TTL	Task Team Leader
GPN	General Procurement Notice	UNDB	United Nations Development Business
GRS	Grievance Redress Service	UNESCO	United Nations Educational, Scientific and Cultural Organization
HCHPA	Historical and Culture Heritage Protection Agency	US\$	United States Dollar
HQ	Headquarters	USAID	United States Agency for International Development
IAASB	International Auditing and Assurance Standards Board	VAT	Value Added Tax
IBRD	International Bank for Reconstruction and Development	VFF	Visit family or friends
IC	Individual Consultants	WB	World Bank
ICB	International Competitive Bidding	WDR	World Development Report
IFAC	International Federation of Accountants	WG	Working Group
IFR	Interim Financial Report	WTO	World Trade Organization
ISA	International Standards on Auditing	WTTC	World Travel and Tourism Council
LA	Legal Agreement	WWF	World Wide Fund for Nature
LAC	Latin America countries	YR	Year
LCS	Least Cost Selection		
LEIDP	Local Economy and Infrastructure Development Project		
LSG	Local Self-Government		

Regional Vice President:	Cyril Muller
Country Director:	Mercy Miyang Tembon
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	David. N. Sislen
Task Team Leaders:	Ahmed A. R. Eiweida, Zaruhi Tokhmakhian



**ARMENIA**  
**LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>I. STRATEGIC CONTEXT .....</b>	<b>1</b>
A. Country Context.....	1
B. Sectoral and Institutional Context.....	2
C. Higher Level Objectives to which the Project Contributes .....	5
Rationale for Bank involvement .....	5
<b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>6</b>
A. PDO.....	6
Project Beneficiaries .....	6
PDO Level Results Indicators.....	6
<b>III. PROJECT DESCRIPTION .....</b>	<b>7</b>
A. Project Components .....	7
B. Project Financing .....	8
Project Cost and Financing .....	8
C. Lessons Learned and Reflected in the Project Design.....	9
<b>IV. IMPLEMENTATION .....</b>	<b>10</b>
A. Institutional and Implementation Arrangements .....	10
B. Results Monitoring and Evaluation .....	11
C. Sustainability.....	11
<b>V. KEY RISKS.....</b>	<b>12</b>
A. Overall Risk Rating and Explanation of Key Risks.....	12
<b>VI. APPRAISAL SUMMARY .....</b>	<b>13</b>
A. Economic and Financial Analysis.....	13
B. Technical.....	15
C. Financial Management.....	17
D. Procurement .....	18
E. Social (including Safeguards).....	19

F. Environment (including Safeguards) .....	21
G. Other Safeguards Policies Triggered .....	22
H. Grievance Redress .....	22
<b>Annex 1: Results Framework and Monitoring .....</b>	<b>24</b>
<b>Annex 2: Detailed Project Description.....</b>	<b>31</b>
<b>Annex 4: Implementation Support Plan .....</b>	<b>69</b>
<b>Annex 5: Economic and Financial Assessment .....</b>	<b>72</b>
<b>Annex 6: ARMENIA: Local Economy and Infrastructure Development Project Map.....</b>	<b>83</b>

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**PAD DATA SHEET**

*Armenia*

*Local Economy and Infrastructure Development Project (P150327)*

**PROJECT APPRAISAL DOCUMENT**

*EUROPE AND CENTRAL ASIA*

Report No.: PAD1424

<b>Basic Information</b>			
Project ID P150327	EA Category B - Partial Assessment	Team Leader(s) Ahmed A. R. Eiweida, Zaruhi Tokhmakhyan	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 29-Dec-2015	Project Implementation End Date 30-April-2021		
Expected Effectiveness Date 09-May-2016	Expected Closing Date 30-Apr-2021		
Joint IFC No			
Practice Manager/Manager David N. Sislen	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Mercy Miyang Tembon	Regional Vice President Cyril E Muller
Borrower: REPUBLIC OF ARMENIA			
Responsible Agency: Armenia Territorial Development Fund			
Contact: Telephone No.:	Ashot Kirakosyan 37410-247123	Title: Email:	Director asif@armeniasif.am
<b>Project Financing Data(in US\$ Million)</b>			
[X] Loan	[ ] IDA Grant	[ ] Guarantee	
[ ] Credit	[ ] Grant	[ ] Other	
Total Project Cost:	68.72	Total Bank Financing:	55.00
Financing Gap:	0.00		

Financing Source							Amount
Borrower							13.75
International Bank for Reconstruction and Development							55.00
Total							68.72
Expected Disbursements (in US\$ Million)							
Fiscal Year	2016	2017	2018	2019	2020	2021	
Annual	0.20	8.80	18.00	18.00	6.00	4.00	
Cumulative	0.20	9.00	27.00	45.00	51.00	55.00	
Institutional Data							
Practice Area (Lead)							
Social, Urban, Rural and Resilience Global Practice							
Contributing Practice Areas							
Cross Cutting Topics							
[X] Climate Change							
[ ] Fragile, Conflict & Violence							
[ ] Gender							
[X] Jobs							
[X] Public Private Partnership							
Sectors / Climate Change							
Sector (Maximum 5 and total percent must equal 100)							
Major Sector	Sector	Percent	Adaptation Co-benefits percent	Mitigation Co-benefits percent			
Public Administration, Law, and Justice	Sub-national government administration	20					
Finance	SME Finance	10					
Transportation	Rural and Inter-Urban Roads and Highways	35	20				
Water, sanitation and flood protection	General water, sanitation and flood protection sector	35	20				
Total		100					



I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

**Themes**

Theme (Maximum 5 and total percent must equal 100)

Major theme	Theme	percent
Financial and private sector development	Micro, Small and Medium Enterprise support	10
Urban development	Cultural Heritage	20
Urban development	Urban Economic Development	25
Urban development	City-wide Infrastructure and Service Delivery	35
Financial and private sector development	Infrastructure services for private sector development	10
Total		100

**Proposed Development Objective(s)**

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to local economy in selected regions of Armenia.

**Components**

Component Name	Cost (US\$ Millions)
Urban Regeneration and Tourism Circuit Development	50.55
Institutional Development	4.45
Contingent Emergency Response	0.00

**Systematic Operations Risk- Rating Tool (SORT)**

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	

<b>OVERALL</b>		Substantial	
<b>Compliance</b>			
<b>Policy</b>			
Does the project depart from the CAS in content or in other significant respects?		Yes [ ]	No [X]
Does the project require any waivers of Bank policies?		Yes [X]	No [ ]
Have these been approved by Bank management?		Yes [X]	No [ ]
Is approval for any policy waiver sought from the Board?		Yes [ ]	No [X]
Explanation: An Exception to Notification under OP 7.50 – Projects on International Waterways was approved by ECAVP on November 5, 2015			
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>		<b>Yes</b>	<b>No</b>
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
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Supervisory Board	X		Quarterly
<b>Description of Covenant</b> The Borrower shall maintain the Project Steering Committee of the Project Implementing Entity. (Loan Agreement: Schedule 2, Section I.A.1)			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Safeguards	X		Quarterly
<b>Description of Covenant</b> The Borrower shall cause the Project Implementing Entity to implement the ESMF.			

(Loan Agreement: Schedule 2, Section I.D.1.a)			
Name	Recurrent	Due Date	Frequency
Resettlement Policy Framework	X		Quarterly
<b>Description of Covenant</b>			
The Borrower shall cause the Project Implementing Entity to implement the RPF (Loan Agreement: Schedule 2, Section I.D.2.a)			
Name	Recurrent	Due Date	Frequency
Grievance Redress Mechanism	X		Quarterly
<b>Description of Covenant</b>			
The Borrower shall cause the Project Implementing Entity to establish and implement, throughout the Project implementation, an easily accessible grievance redress mechanism, acceptable to the Bank, to address feedback and grievances relating to the Project as set forth in the Operation Manual. (Loan Agreement: Schedule 2, Section D.3)			
Name	Recurrent	Due Date	Frequency
International Waterways	X		Quarterly
<b>Description of Covenant</b>			
The Borrower shall cause the Project Implementing Entity to ensure, when any activity under an Investment Subproject involves any international waterways (as defined in the Bank's OP 7.50), to comply with the requirements set out in Loan Agreement: Schedule 2, Section 1.D.4.			
Name	Recurrent	Due Date	Frequency
Selection Procedures for, and Terms and Conditions of, Investment Subproject Financing	X		Quarterly
<b>Description of Covenant</b>			
Investment Subprojects shall be selected in accordance with the selection criteria set forth in the Operations Manual and the Project Agreement (Project Agreement: Schedule, Section I.A.1.a)			
<b>Conditions</b>			
Source of Fund	Name	Type	
NA	Effectiveness conditions		
<b>Description of Condition</b>			
The effectiveness conditions are:			
(a) The Agency Contract has been executed in a manner satisfactory to the Bank.			
(b) The Project Implementing Entity has adopted the Operation Manual, in form and substance, satisfactory to the Bank.			
(c) The Borrower has established the Project Steering Committee in a manner satisfactory to the Bank.			
(d) The Borrower has established the Working Group in a manner satisfactory to the Bank.			

### Team Composition

#### Bank Staff

Name	Role	Title	Specialization	Unit
Ahmed A. R. Eiweida	Team Leader (ADM Responsible)	Lead Urban Specialist	Urban tourism and cultural heritage	GSURR
Zaruhi Tokhmakhyan	Team Leader	Senior Infrastructure Specialist	Infrastructure and PPP	GSUOA
Benedicta T. Oliveros	Procurement Specialist	Procurement Analyst	Procurement	GGODR
Garik Sergeyan	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGODR
Armine Aydinyan	Team Member	Procurement Specialist	Procurement	GGODR
Darejan Kapanadze	Safeguards Specialist	Senior Environmental Specialist	Environment	GENDR
Aleksandre Bibileishvili	Disbursement Specialist	Finance Analyst	Disbursement	WFALA
Enver M. Kamal	Team Member	Senior Operations Officer	Operations	GPSOS
Irina Tevosyan	Team Member	Program Assistant	Program Assistant	ECCAR
Jose C. Janeiro	Team Member	Senior Finance Officer	Disbursement	WFALA
Jasna Mestnik	Team Member	Finance Officer	Disbursement	WFALA
Michelle P. Rebosio Calderon	Safeguards Specialist	Social Development Specialist	Social Development	GSURR
Moritz Meyer	Team Member	Economist	Twin goals	GPVDR
Nistha Sinha	Team Member	Senior Economist	Poverty	GPVDR
Rocio Mariela Malpica Valera	Counsel	Senior Counsel	Legal	LEGLE
Gabriela Grinsteins	Counsel	Counsel	Legal	LEGLE
Rosanna Nitti	Team Member	Senior Urban Specialist	Urban Development	GSURR

Sophia V. Georgieva	Safeguards Specialist	Social Development Specialist	Social Development	GSURR	
Tigran Kostanyan	Team Member	Economist	WDR	GMFDR	
Lisa Fonick Haworth	Team Member	Office Manager	Program Assistant	GMFDR	
<b>Extended Team</b>					
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>		
Christopher Schmandt	Water Consultant		Geneva		
Ketevan Nozadze	Operation Consultant		Washington DC		
Nora Mirzoyan	Research Analyst		Yerevan		
Scott Wayne	Tourism Expert		Washington DC		
Tinatin Lebanidze	Research Analyst		Tbilisi		
Marinos Skempas	Road Consultant		Athens		
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Armenia	Region	Lori, Kotayk, Ararat, Vayots Dzor, Syunik			



## I. STRATEGIC CONTEXT

### A. Country Context

1. Armenia is a small (29,800 km<sup>2</sup>), 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 Atlas Gross National Income (GNI) of US\$3,810 in 2014. In the decade preceding the global economic and financial crisis, real Gross Domestic Product (GDP) growth was more than 10 percent per annum, strongly fueled by remittances. In 2009, there was a substantial contraction of 14.1 percent. Growth has since resumed, although at a slower pace, averaging to 4.2 percent during 2010-2014. In 2014 the largest components of GDP (measured at factor costs) were services, including tourism and travel (51 percent); industry, including mining and energy (29 percent); and agriculture (21 percent). Inflation has dropped to about 4 percent at present from as high as 9 percent in 2010, but was less than 5 percent throughout most of the last decade.

2. Improved institutions and implemented structural reforms yet to result in poverty reduction gains. Armenia joined the World Trade Organization (WTO) in January 2003 and has put in place a favorable trade environment with low tariffs and some improvements in tax and customs administration. It is ranked 52<sup>nd</sup> in the Index of Economic Freedom and 35<sup>th</sup> in the 2016 Doing Business Index, with a major constraint identified as connection to the electricity grid. The population has declined in recent years mainly due to migration; about 64 percent of the population is urban. In the 1990s, more than 50 percent was classified as poor. This figure was reduced to 27.6 percent in 2008, but increased to around 36 percent in 2010 due to the economic and financial crises, before declining moderately to 32 percent in 2013. The level of poverty is the highest in cities other than Yerevan.

3. According to the Armenia Development Strategy (ADS), incoming tourism is Armenia's second export line item after the mining and metal industry and covers more than half of service exports. Tourism in Armenia has the potential to reduce poverty and improve living standards of the bottom 40 in tourist destination areas. As demonstrated around the world, with careful strategic planning and relatively modest public sector investments, this services sector activity can be nurtured into a critical source of economic and employment growth at a time when agriculture's share of GDP and employment is shrinking and manufacturing/mining cannot sufficiently absorb a large share of the labor force.

4. Despite economic downturns in key generating markets, especially in Europe, the outlook for Armenian tourism and its contribution to economic growth is cautiously optimistic. International tourist arrivals have been growing steadily in Armenia, well above the world average of 4 percent. During the period of 2010-2014, the number of international travelers visiting Armenia increased by more than 10 percent per annum reaching 1,203,746. The top generating markets, which account for approximately 71 percent of total international arrivals, include CIS (41.5 percent), Iran (18.4 percent) and USA (8.2 percent). Total share of visitors from EU approaches 10 percent. According of the World Tourism Organization (WTO), 34 percent of visitors came through organized tours (2012).

5. The bottom 40 percent of the income distribution enjoyed strong consumption growth prior to 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. From 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 by both the bottom 40 percent and the population as a whole. 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.

6. The Government's strong counter-cyclical fiscal policy since the 2008 crisis has focused mainly on increased spending on infrastructure, social protection, and emergency financing for enterprises. While the fiscal expansion has helped protect the poor and maintain jobs, the pace of recovery has remained slow and prone to external downside risks with around 1.3 percent real growth expected for 2015.

## **B. Sectoral and Institutional Context**

7. According to the Armenia Development Strategy (ADS), incoming tourism is Armenia's second export line item after the mining and metal industry and covers more than half of service exports. Others include a limited range of food items and beverages. Exports are outweighed by imports of – among others – manufactured goods and food, resulting in a substantial trade deficit of around US\$2 billion annually. Remittances from the Armenian diaspora, amounting to more than US\$1.5 billion, limited foreign direct investment inflows, and donor funding help to close the gap. Tourism in Armenia has the potential to reduce poverty and improve living standards of the bottom 40 percent in tourist destination areas. Despite economic downturns in key generating markets, especially in Europe, the outlook for Armenian tourism and its contribution to economic growth is cautiously optimistic.

8. International tourist arrivals have been growing steadily in Armenia, well above the world average. During the period 2010-2011, the number of international travelers increased by more than 10 percent reaching 758,000. In 2012, the numbers reached 843,330; an 11.3 percent increase over 2011 and more than double the global tourism growth rate of 4 percent. In 2013, the number of travelers reached 924,965; an increase of 9.7 percent compared to 2012. This trend accelerated in 2014, with the National Statistics Service (NSS) reporting 1,203,746 travelers; 11.3 percent increase.

9. At least 51.2 percent of all visitors are believed to be coming to visit family or friends (VFF). According to the United States Agency for International Development's (USAID) International Visitors Survey (2013), some 12.2 percent come for business or professional reasons. Tourists coming from the CIS (mostly Russia, Georgia and Ukraine), European Union (EU) (mostly Germany, France and Italy) and Iran, comprised 77.3 percent of total international arrivals in 2013. The visitors' receipts were US\$923 million in 2014.

10. With an increased number of visitors and spending, the benefits to Armenia's economy are also growing. According to the World Travel and Tourism Council (WTTC), the tourism and travel sector directly contributed 3.6 percent of the country's GDP (AMD163.1 billion in 2014). The



total contribution was AMD578.5 billion (12.7 percent of GDP) and is expected to grow by 7.9 percent (AMD 532.6 billion, 11.3 percent of GDP) by the end of 2015.

11. The tourism and travel sector generated 11.3 percent of total employment in 2014; 133,500 jobs (3.1 percent directly and 8.2 percent indirectly) and is expected to maintain employment at about 8.6 percent over the next decade. The industry accounts for nearly 32 percent of export earnings in 2014.

12. With over 4000 historical monuments throughout the country dating from pre-historic to Hellenistic and early Christian eras – three of which are United Nations Organization for Education, Science and Culture (UNESCO) World Heritage Sites – Armenia is often referred to as an open air museum. Yerevan alone hosts 40 art museums and galleries. Armenia offers multiple eco/nature and authentic cultural heritage experiences to travelers, summer and winter destinations, including 33 national parks and protected areas. In terms of geographical opportunities, the most visited destination and itineraries are the North tourism corridor (Gyumri – Vanadzor – Dilijan – Lake Sevan) and the South tourism corridor (Garni – Geghard -Khor Virap – Areni – Jermuk – Sisian – Goris –Tatev – Meghri).

13. The World Bank assisted the Government of Armenia in 2014 to assess the regional development disparities (the Assessment) and opportunities and prepare a Tourism Strategy for the South Tourism Corridor. The regional analysis helped identify the opportunities for regional development and shared prosperity by analyzing the profile of each region (*Marz*) in Armenia and identifying key policy and investment needs in the most competitive sectors that drive private sector-led growth and job creation, most notably tourism, agro-tourism and agri-business.

14. The Assessment employed the framework of the World Development Report 2009 (WDR 2009) to analyze economic disparities of Armenian regions. According to the WDR, geographic transformations for economic development can be characterized in three dimensions – Density, Distance, and Division (the 3Ds). This concept was used to assess relative economic standing of the regions of Armenia, including disparities in productivity and well-being that exist between urban and rural areas, as well as the capital and the rest of the regions. According to the WDR framework the type of public policy intervention depends on the level of urbanization. Thus, given an overall urbanization rate of over 60 percent, Armenia needs to prioritize spatially blind and spatially connective policies. Continued strategic investments in transport infrastructure should be carried out with the aim of improving provision and access to basic services and optimizing connectivity between and throughout regions, which would allow for reducing distance and costs.

15. The South Corridor Tourism Destination Strategy has focused on four regions (the Southern part of Kotayk, Ararat, Vayots Dzor and Syunik), which combine several scenic cultural and natural attractions; traditional farms, mountains including Mount Ararat, carpet production in Yeghegnadzor and Goris, wine tourism in Areni, and cultural heritage and traditional cuisine in Goris. The strategy found that the quality of roads and other municipal infrastructure ranges from poor to good along the Corridors but, overall, road and water improvements and urban regeneration are high priorities. This Corridor provides opportunities for many activities such as visits to natural areas, cultural heritage sights, and visits with carpet producers, traditional meals and community home stays. Many of these activities are offered by small and micro-enterprises. Hence, generating

more tourism supports local businesses and spreads prosperity over a broader range of stakeholders.

16. The key conclusion of the South Corridor Tourism Destination Strategy is that corridor development requires several key interventions, such as tourism infrastructure improvements, especially through site management plans; improved and expanded product offers; and local capacity building and workforce development. It also highlighted Areni, Goris and Meghri as potential hub destinations that should be developed along with selected spoke destinations to realize the vision of the establishment of the Southern Corridor as a new tourism destination, and to achieve economic development objectives all along Corridor.

17. The South Corridor Tourism Development Strategy has identified destination hubs along the Southern Corridor that are attractive to visitors, tour operators and investors. The "hubs" and corresponding 'spoke' destinations would serve as clusters and circuits. While it would be ideal to assist as many destinations as possible in each of the areas mentioned above – product offerings and marketing, infrastructure, private investment, and workforce development– resources are limited and must be allocated to those destinations where improvements could best attract more visitor spending, generate increased incomes and employment, and spur more investment.

18. The Strategy revealed that the average tourism receipts earned per visitor have been steadily declining from 2005 to date, which suggests that the available tourism offers are somewhat static and not improving in quality and variety. It also suggests that marketing efforts are not being directed to and not succeeding in capturing higher spending visitors. Lower spending from static tourism markets runs the risk of being less competitive and thus less able to sustain increased earnings. An integrated approach to development of tourism corridors and circuits should explicitly aim at diversifying and improving Armenia's tourism products, which could, in turn, increase spending and deliver a more robust tourism-led local economic development.

19. Focusing on tourism opportunities that enhance shared prosperity along the main Northern and Southern Corridors also supports the Government's ADS, which aims to triple per capita income to US\$10,000 and lift 800,000 people out of poverty by 2025. The Government of Armenia has requested World Bank financing under this Project to contribute to the implementation of an integrated tourism and regional development, especially in the south and the World Heritage Sites in the north. The World Bank's Country Partnership Strategy for 2014-2017 supports this focus by emphasizing the need of sharing prosperity and reducing poverty through accelerated economic growth and job creation.

20. With the implementation of the proposed integrated approach to tourism development, the following targets are set to be achieved by 2021: international arrivals to grow from 1,203,746 in 2014 to 1,806,498 in 2021; international tourist receipts to increase from US\$749.5 to US\$1,500; international receipts to grow from US\$923 million to US\$ 1,108 billion in 2021; and tourism employment to increase from 133,500 in 2014 to 147,070 in 2021.

21. Armenia faces major risks from earthquakes, drought, floods, hail, and landslides. The World Bank's recent risk profiling study revealed that 12 percent of the country's GDP would be affected by an earthquake with a 25-year return period. Potential government revenue losses could

amount to approximately 20 percent of the general total government revenues. In addition, Armenia is prone to flood risks. The same Bank study indicated that a flood with a 25 year return period could affect six percent or more of the country's GDP with the government revenue losses and the public damage and losses potentially amounting to approximately 10 percent of the total general government revenues. In this context, disaster risk mitigation and preparedness is increasingly recognized as a priority consideration in the framework of country's development. This explains the rationale for introducing Component 3 under the Project.

### **C. Higher Level Objectives to which the Project Contributes**

22. The proposed Project will support one of the Strategic Objectives of the Country Partnership Strategy for Armenia, namely Cluster 1: Supporting Competitiveness and Job Creation, Engagement Area 1: Improved business environment and investment climate for Small and Medium-sized Enterprises (SME) creation, growth, and innovations. The Project is also in line with the ADS 2014-2025, which is the country's main socioeconomic development strategy and the basis for medium-term, sectoral and other Project documents. The proposed Project is fully consistent with ADS objectives to increase the country's competitiveness in employment through creation of quality and well-paid jobs.

#### **Rationale for Bank involvement**

23. Armenia intends to fully tap its potential to promote sustainable tourism in attractive regions of the country's southern corridor. Bank involvement under the proposed Project will ensure continued support to (a) growth in the tourism sector, (b) growth of under-developed areas, and (c) the leveraging of public and private investment.

24. The Bank is seen by the Government and stakeholders as a source of global knowledge on using tourism and cultural heritage for regional and local economic development. The Bank has been playing a catalytic role in leveraging additional funds from donor agencies, trust funds, the private sector and the state budget. Through effective coordination between the Bank and active donor agencies in Armenia, a large number of supplemental donor activities have been provided or planned.

25. The proposed Project aims to stimulate economic growth and employment in the regions where the destination cities are located. Project activities intend to focus on improving the quality and reliability of municipal infrastructure; supporting tourism and agribusiness development; and creating an enabling environment to attract private sector investments. In addition, the Project is expected to have spillover effects on communities neighboring those localities directly targeted by the Project. The Project locations were not selected because of their poverty levels, however, activities envisaged have links to the twin goals through the enhanced economic opportunities they aim to bring to the local economy of the targeted hubs. Greater tourism activity can help the poor and less well-off through direct effects of tourism (income and earnings from tourism sector as well as improved infrastructure); secondary effects (from participation in non-tourism sectors such as construction work, farmers supplying to hotels, etc.); and dynamic effects which shape the sources of growth in the local economy. In addition, the Project aims to support self-employment

entrepreneurial activities that the less well-off can tap into. The Project will monitor these direct and secondary effects of the Project in order to assess impacts on the poor and the vulnerable.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

26. The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected regions of Armenia.

#### **Project Beneficiaries**

27. The Project activities are expected to benefit the residents, tourists and enterprises in three regions in the south (Ararat, Vayots Dzor and Syunik), and two regions in the north (Kotayk and Lori). Residents, tourists and enterprises are expected to get improved access to, and quality of, public infrastructure; the volume of private sector investment in the region will increase; and small and micro enterprises in renovated cultural heritage sites and cities will develop faster. The Government will benefit from increased overall tourism spending and satisfaction, job creation, improved institutional capacity of selected agencies, and improved capacity to operate and maintain assets.

#### **PDO Level Results Indicators**

28. The implementation of activities to be supported by this Project will achieve the following key results in the Project areas:

#### **Improved infrastructure**

- Improved road accessibility in Project areas, measured by number of beneficiaries and rehabilitated kilometers.
- Improved water supply in Project areas, measured by hours per day of piped water services.

#### **Tourism Economy**

- Increased tourism spending.
- Increased number of jobs created by activities linked to support tourism industry (gender disaggregated).

#### **Institutional Capacity**

- Establishment and operation of Destination Management Organization (DMO).

### III. PROJECT DESCRIPTION

#### A. Project Components

29. The proposed Project will support the increased contribution of tourism to the local economies of selected regions by implementing an integrated approach entailing infrastructure investment, urban regeneration, cultural heritage restoration, skills development, tourism product development and diversification, and attracting private sector investment. The Project will help create and build tourism circuits that connect multiple sites in the selected regions. Together, these activities will help attract more visitors to the regions and increasing their spending and this will, in turn, fuel job creation and local economic growth.

**Component 1: Heritage Hub Regeneration and Tourism Circuit Development (US\$50,412,500 million):** This component will comprise four sub-components.

30. **Sub-component 1.1:** Heritage hub regeneration (US\$23.87 million). The objective of this sub-component is to finance urban regeneration activities in the old towns of Goris and Meghri, and the heritage villages Areni, Tatev and Tadzatap. This includes restoration of public infrastructure, building facades and roofs, public spaces, museums, access roads, water and sanitation, drainage and street lighting. Based on product development marketing potential, infrastructure needs, and tourism development vision, renovating these towns will transform them into high quality tourism destination hubs with the greatest potential to become catalysts for tourism development along the main tourism circuit/route in Armenia.

31. **Sub-component 1.2:** Development of the tourism circuits (US\$16.8 million). The objective of this sub-component is to finance an integrated approach to cultural heritage preservation and improved site management plans of the most attractive cultural and natural heritage sites located along the main tourism circuit/route in Armenia. These activities include: a) preparation site management plans, b) construction of a visitor facility at each attraction, including information centers, cafes, public toilets and safe parking area, c) preservation of cultural heritage monuments, museums, and surrounding houses; and etc.) improving connectivity with access roads and public infrastructure. Based on the tourism development vision, the following sites are selected for enhancement of the tourism circuit: Garni (Temple and Gorge), Geghard Monastery, Dvin Museum, Khor Virap Monastery, Areni marketplace and cave, Mozrov cave, Zorats Qarer (Karahunge/Stonehenge), Khndzoresk and the two UNESCO World Heritage Sites of Haghpat and Sanahin.

32. **Sub-component 1.3:** Public-Private Investment (PPI) (US\$5.00 million). The objective of this sub-component is to provide public infrastructure to attract private investments. It will support a selected number of private sector entities in Project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments (e.g., public facilities within the vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by the selection committee and required to meet specified criteria.

33. **Sub-component 1.4:** Project management, designs and construction supervision (US\$4.74 million). The objective of this sub-component is to provide the Project implementing entity with

funds for its operating cost, outreach and public awareness, preparation of feasibility studies and designs, and construction supervision. It will ensure quality implementation, sustainable management of the sites, and monitoring of the implementation of the Environmental and Social Management Framework (ESMF), site-specific environmental and social management documents, Resettlement Policy Framework (RPF) and Resettlement Action Plans (RAPs).

### **Component 2: Institutional Development (US\$4.45 million)**

34. The component will increase the institutional capacity and performance of the Development Foundation Armenia (DFA), Ministry of Economy (MoE), the Historical and Culture Heritage Protection Agency (HCHPA), Project implementing entity and other local and regional entities in order for them to carry out the following activities: setting up of destination management organization and offices in key regions; marketing and promotion; preparation of sustainable site management plans for selected Project's cultural heritage sites; training for skilled workforce development and capacity building; cultural heritage advisory service to improve capacity of protection and management of the World Heritage Sites; business start-up/expansion advisory service to tourism SMEs; and performance monitoring & evaluation activities.

### **Component 3: Contingent Emergency Response (CER)**

35. Provision of support for community services and infrastructure rehabilitation and reconstruction to respond to an Eligible Emergency within the Selected Regions, as needed. This component is being introduced, with no allocated funds. Having this component is a precautionary measure that would allow the GoA and the Bank to quickly channel the loan financing for emergency recovery efforts following an adverse natural or man-made disaster and declaration by the GoA of a State of Disaster and Emergency. The built-in CER with an associated new disbursement category would allow the GoA to request the Bank to reallocate loan proceeds to this sub-component towards an emergency response for the municipal infrastructure sector within the five regions targeted by this Project in the Borrower's territory. The new disbursement category will have a zero dollar allocation, with 100 percent IBRD financing. If the CER were to be triggered, and the Bank is satisfied with the evidence that the withdrawal conditions, as defined in the Loan Agreement, are met, the Borrower will request the reallocation of proceeds to the CER sub-component and can start disbursing. The Project may require at a later date a revision of the PDO and the Results Framework and Monitoring Indicators in order to reflect the larger scope of the Project. This component could also be used to channel additional funds should they become available as a result of the emergency.

## **B. Project Financing**

36. The lending instrument is an Investment Project Financing. The Borrower selected an IBRD flexible loan denominated in US dollars, commitment-linked with a variable spread and a 25 year maturity, including a grace period of 14.5 years and level repayments of principal.

## **Project Cost and Financing**

37. The Project cost and financing is shown in the table below.

<b>Project Components</b>	<b>Project cost US\$ million</b>	<b>IBRD Financing</b>	<b>Percent Financing</b>
1. Infrastructure Investment	63.02	50.41	80
2. Institutional Development	5.56	4.45	80
3. Contingent Emergency Response	0.00	0.00	100
<b>Total Costs</b>			
Total Project Costs	68.58	54.86	
Front-End Fees	0.14	0.14	
<b>Total Financing Required</b>	68.72	55.00	

### C. Lessons Learned and Reflected in the Project Design

38. **The Bank’s accumulated knowledge.** The Bank has a robust practice in historic city and cultural heritage, with close linkages to natural heritage and sustainable tourism. Since the World Bank began financing projects in this area in the 1950s, the Bank has invested/committed about US\$9.5 billion in over 600 projects, in addition to technical assistance across the regions. Lessons from similar projects, particularly the ones successfully designed and implemented in Georgia, show that the Project funds can be most effective if used to maximize the competitiveness, profitability, economic impact and value added at each link in the chain that delivers a product or service.

39. **Investing in livability and service delivery enhances the competitiveness of a location to attract businesses.** Projects that were successfully implemented in LAC, EAP, MNA, and ECA show that the renewal of historic cores of hubs and cultural heritage sites can be part of a spatial transformation that make these areas more attractive for residents, visitors, and businesses.

40. **Restoring built assets and reusing under-utilized land is linked with the World Bank Group’s inclusive green growth agenda.** Regenerating historic areas minimizes the need of new development. This process requires a complex, well-integrated mix of uses, all within walking distance. Despite the investments required to renew the building, these areas have the potential to stimulate a cities’ economy, revitalizing the built environment and its vitality and attractiveness, which helps create permanent jobs.

41. **Investing in restoration of historical buildings and inclusion of these in national tourism circuits encourages homeowners in the area to improve their living standards.** Experience from a number of countries shows that a critical mass of these pedestrian-scale activities requires an initial investment in public assets before the renewal becomes self-sustaining. As Georgia’s experience showed after redeveloping old Tbilisi, Signagi, Mtskheta, Batumi, Kutaisi, as well as Telavi, Kvareli and Tskaltubo with the Bank support under the regional development program, the government is able to recoup the cost of investments from increased

tax revenues from properties, personal income, corporate income, value added tax and property sales' transaction fees.

42. **Integrating tourism in wider local economic development makes the sector more resilient.** Tourism is an economically significant industry, contributing 9 percent of global GDP, 6 percent of world trade, and 5 percent of total investment. Tourism can significantly reduce poverty among marginalized populations, where an estimated 25 percent of tourist spending is captured by those living on less than US\$1.25 a day. Tourism is labor-intensive and, generates a wide range of jobs. The sector is responsible for one in 11 jobs globally. In 2013, tourism generated 4.7 million new jobs and now accounts for 266 million jobs. It is estimated that 1 direct tourism job creates a further 1.5 indirect jobs. In terms of output, US\$1 million in tourism sales generates twice as many jobs as the same amount of dollars in financial services, communications or automotive manufacturing.

43. **Investments in the tourism economy should be carefully blended in wider tourism and regional/local economic development strategies.** Tourism can suffer from an intrinsic location-based weakness, as it is exposed to a number of exogenous factors and economic shocks. For this reason, the Project integrates physical investments with SME support not only in tourism, but also in agribusiness and handicraft, aiming at developing a broader economic basis in the targeted regions.

44. **Citizen engagement.** The success of the Project will require maintaining strong consultations with all stakeholders that started during Economic Sector Work on the South Caucasus Regional Development Program, and continued during the preparation of the Project. Particular efforts will be made to include vulnerable groups (e.g. women artisans, female-headed households, youth etc.) into stakeholder consultations and to ensure that their feedback is integrated into Project design and implementation. LEIDP includes a project-wide grievance redress mechanism that will respond to all types of citizen concerns and feedback about the Project. Data on citizen concerns and the resolution of grievances will be collected, helping to promote greater government accountability and responsiveness.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

45. The Armenia Territorial Development Fund (ATDF) will act as the Project implementation entity while the Ministry of Economy will be responsible for overall coordination and policy support of the Project. The ATDF will be supported by a consultative inter-agency Working Group (WG) and a high level Project Steering Committee (PSC). The WG will be composed by the technical representatives from the agencies concerned (Ministry of Economy, Ministry of Territorial Administration and Emergency Situations, Ministry of Culture, Ministry of Natural Protection, Ministry of Urban Development, Armenia Territorial Development Fund, Armenian Apostolic Church, Historical and Cultural Heritage Protection Agency, and local self-government (LSG) units benefitting from the Project) to guarantee strong inter-agency communication. The DFA will serve as secretariat for the WG. The WG will review subprojects, monitor implementation progress, and address complex issues and



concerns on time. The WG will issue technical recommendations to the PSC for high level decision-making matters. The PSC will be chaired by the Deputy Prime Minister and include all key participating institutions. The PSC will provide oversight and coordination of Project implementation and ensure high level inter-agency coordination.

46. ATDF will be responsible for the fiduciary implementation of the Project. This includes procurement and financial management (FM) functions. The FM function includes planning and budgeting, accounting, financial reporting, external auditing, funds flow, and internal controls. No significant weaknesses were identified at ATDF. It was agreed that prior to the Project implementation ATDF will (a) hire additional FM/accounting staff, acceptable to the Bank, to manage the increased workload; (b) develop the Project's Financial Management Manual (FMM), acceptable to the Bank, to reflect the FM arrangements and controls under the Project, and (c) finalize the upgrade of the accounting system. Those are capacity building actions but not conditions.

## **B. Results Monitoring and Evaluation**

47. The ATDF will be responsible for monitoring and evaluation (M&E) of the Project outcomes against agreed indicators as presented in the Results Framework. In support of the M&E, the Project will contract international consulting firms to assist in collection and analysis of baseline and progress data and monitor tourism and local economic development. The cost of these services, as well as raising the institutional capacity to sustain Project interventions, is built into the Project design under Component 2. The ATDF will produce biannual progress reports to assess implementation and suggest any need for adjustments.

## **C. Sustainability**

48. The Project emphasizes sustainability of development impact, operations and maintenance (O&M) of rehabilitated assets in the following ways:

- National, regional and local agencies have all been engaged in the design of the Project. They will continue to be part of implementation and supervision. This will ensure that local knowledge is incorporated and that there is full acceptance.
- All investment proposals will be screened against sustainability criteria outlined in the Project's Operations Manual (OM). Investment subproject agreements with LSGs, clearly assigning them the responsibility for O&M of assets, will be signed prior to starting any investment.
- Tourism facilities constructed under the Project will be concessioned/leased out to private operators through a transparent and competitive process.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

49. The overall risk of the proposed Project is Substantial. However, provided that the risk mitigation measures will be implemented and based on the Bank's and the Government's past experience in project implementation, the likelihood of those risks materializing is moderate.

50. Political and governance risk as well as macroeconomic risk categories are rated Moderate. There is a moderate likelihood that political and governance factors could adversely impact the PDO. At the program level, the political context is relatively stable and not likely to significantly affect the PDO. The Armenian Government has a clear set of development priorities, which are generally supported across the political spectrum and are consistent with the Project. Adequate anti-corruption and public sector ethics regulations exist in Armenia and are generally enforced. Furthermore, the principles of transparency, accountability and participation are generally respected. Macroeconomic policies and institutions are generally adequate. The risk of emerging or continuing external and/or domestic imbalances is moderate, and consequent macroeconomic effects would only moderately affect the achievement of the PDO, if they materialize.

51. Sector strategies and policies represent a Low risk to the PDO. Policies and strategies in the relevant sectors are evidence-based, technically sound, and are articulated in a clear framework, which is aligned with overall country development objectives and Government priorities, as stated in Armenia Development Strategy. The proposed Project is a multi-sectoral in nature. To ensure proper inter-agency coordination a WG and PSC will be established.

52. Risk related to technical design of the proposed Project is Moderate. The Project is technically moderately complex, and it is informed by adequate analytical work. The Bank has significant experience with similar operations in Georgia and elsewhere. The processes used in the design of similar operations have been incorporated.

53. The risk pertaining to institutional capacity for implementation and sustainability is rated Substantial. The fiduciary risk is also rated Substantial. The ECA Project Development (ECAPDEV) grant will support capacity building at ATDF and DFA. In addition, the Project will support institutional capacity building by sharing with the counterparts the knowledge and experience from other countries where these innovative practices were successfully implemented.

54. Risk related to environment and social aspect is Substantial. The Environmental and Social Management Framework (ESMF) was prepared and disclosed prior to Project appraisal. The ESMF will be used as a mandatory guide for environmental and social screening, classification, review, and approval of individual investment subprojects. A Resettlement Policy Framework (RPF) was prepared and will be disclosed prior to appraisal. It sets out general principles of handling possible types of resettlement or land acquisition in the event they occur. A Strategic Environmental, Social, and Cultural Heritage Assessment (SESCHA) has been carried out to assess national plans and vision for development of the target regions of Armenia. It assessed the indirect and cumulative impact of regional and tourism development. Local dissemination and stakeholder consultations on all safeguard documents will be used to promote information-sharing on safeguards policies and potential impacts and to encourage stakeholder feedback.

55. Fiduciary risk rating is Substantial given that financial management risk is moderate and procurement risk is substantial. Mitigation measures in regard to procurement are provided in Table 3.1 of Annex 3.

56. Stakeholder risk is rated Moderate. The Project is aligned with the Government's strategy to increase country's competitiveness and support creation of quality and well-paid jobs as specified in ADS. The Bank team will maintain dialogue with the Government throughout preparation and implementation. The Bank is leading donor coordination in the tourism sector to ensure synergy among regional development interventions. Donor coordination will continue throughout the implementation of the Project.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial Analysis**

57. For the Project's economic and financial analyses, a cost-benefit assessment following global best practice experiences for this type of projects was carried out. Analysis also considered the government tourism development targets under the ADS and all completed strategies with technical support from the World Bank and other donor agencies. Secondary data were collected from various government entities, including DFA, Ministry of Finance, Ministry of Territorial Administration and Emergency Situations, Public Register, Tax Revenue Service, as well as from real estate brokers and completed studies from similar projects, e.g. the USAID funded EDMC tourism project. The primary data was derived from small-scale surveys using structured questionnaires and administered to selected groups of stakeholders (restaurants, cafes, hotels, guest-houses, and domestic and foreign visitors).

58. Benefit streams were calculated based on the following data and assumptions:

#### **Increase in tourist arrivals, overnight stays and spending**

59. As a result of the proposed integrated development approach under the Project:
- Both domestic and international tourist arrivals are expected to increase by 5 percent per annum during the life of the Project until 2021 and 2 percent thereafter. It is expected that the number of domestic and international tourist arrivals to the country will increase from 941,151 in 2014 to 1,256,117 by 2021.
  - Overnight stay is expected to increase from 1.8 days to 2.5 days on average by 2021; and
  - Expenditures on food, lodging, new activities (e.g., guided tours), and purchase of local products and handcrafts are expected to increase by 5 percent per annum during the 5 years of the Project and 2 percent thereafter.

#### **Increase in number and profitability of economic enterprises**

60. The development of tourism circuits and destination management and marketing/promotion as new tourist destinations, and improvement of infrastructure are expected to attract private sector investors to establish new economic enterprises or expand existing ones:

- The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1;
- By the end of the Project, the number of hotel beds is expected to increase from 3,213 to 4,392 beds in the southern regions in order to serve the expected increased number of tourists at additional destinations;
- Secondary sales multiplier will equal 1.5; and
- New economic enterprises and increased profitability will increase the amounts of collected corporate tax (by 20 percent), VAT (by 20 percent), and personal income tax (by 20 percent).

### **Property value appreciation**

61. Tourism development and improvement of infrastructure are expected to create more opportunities for businesses to invest and increase demand for real estate. Therefore real estate value is expected to appreciate. Based on evidence-data collected from other cities in Armenia, which underwent similar urban regeneration activities, i.e. Dilijan, Goris, Jermuk and Sevan, the following assumptions are made:

- Property tax (0.8 percent) collection will increase because of new buildings and housing restoration created by the Project and leveraged private investments.

### **Temporary job creation**

62. During implementation of various Project activities, temporary jobs will be created. Temporary jobs also will be created during the construction of assets by investing leveraged capital. Analysis of the infrastructure projects implemented by ATDF during the last 5 years showed that, on average, infrastructure civil works have about 28.7 percent labor component (including production and transportation). There is around 24.8 percent labor component for general infrastructure and around 36.5 percent in the case of building construction. The following assumptions are made:

- Due to the specific nature of conservation/restoration works (large proportion of labor intensive work), the labor component for the Project activities could be more than 1.5-2 percent higher than in the case of general infrastructure works;
- The proportion of the labor component during construction activities funded by leveraged private capital will be 36.5 percent. It is assumed that most of the assets created will be buildings and recreational areas; and
- Personal income taxes from labor expenditures (20 percent) will be flowing to the government.

### **Cost Benefit Analysis**

63. The Cost-Benefit Analysis (CBA) was prepared for the Project as a whole, rather than for each component or subproject. The Net Present Value (NPV), Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR) were calculated for the next 15 years from 2016 up to 2030, including about 5 years of Project implementation period.

64. Fiscal impact and economic analysis show that NPV at 5 percent for the Project is positive and equals US\$14,529,269. FIRR equals 12.06 percent. EIRR equals 23.43 percent.

65. Overall, the implementation of the Project will yield net economic benefits over and above the Project costs, as well as the cost of complementary investments in additional tourism enterprises to be financed by private sector investors.

66. The CBA demonstrates that capital investments in the regions are profitable. The marginal amount of capital investment necessary for an entity to generate the next unit of production is positive. The larger base of assets, economic activities and skilled labor in the regions gives high returns estimates. The proposed investment in the regions is justified and is expected to (a) reduce regional disparities that currently exist in regions, (b) leverage private sector investments, and (c) create jobs.

67. **Sensitivity analysis.** The NPV and FIRR are most sensitive to tourist arrivals and spending growth rate forecast variables. 10 percent increase or decrease in tourist arrivals and spending or secondary sales multiplier will increase or decrease NPV by US\$4,002,129 and US\$3,810,557 and FIRR by 1.61 percent and 1.64 percent accordingly. EIRR is also most sensitive to the tourist arrivals and spending growth rate forecast – 10 percent increase or decrease in tourist arrivals and spending will increase or decrease EIRR by 2.34 percent and 2.32 percent accordingly. At the minimum possible level of the Secondary sales multiplier (that is 1.0), and if other assumptions unchanged, NPV will be positive and equal to US\$4,193,017.58, FIRR 7.35 percent and EIRR 19.47 percent. If average stay will not change and will stay the same (1.8 days on average), and other assumptions remain unchanged, NPV will still be positive and equal US\$6,230,667, FIRR 8.59 percent and EIRR 19.68 percent.

## **B. Technical**

68. The Project consists of two main components that will help to improve the local economy and create jobs through tourism development. There is also a Contingency Emergency Response component, which is a precautionary measure to allow the GoA and the Bank to quickly channel the loan financing for emergency recovery following an adverse disaster. The investment subprojects are carefully selected and appraised to boost the region's economic development and promote private sector investments.

69. The Project will help increase tourism in the regions by introducing an integrated approach and focusing on infrastructure, urban renewal or cultural heritage conservation/ restoration.

- Improving and sustaining the geographical character of the three regions —their heritage, aesthetics, culture, and the well-being of its residents;
- Identifying the most promising tourism products (cultural heritage and eco-tourism/adventure), and showing the most attractive sites, which can provide tourists with rich experiences;
- Carrying out integrated urban regeneration of the selected areas in Lori, Kotayk, Ararat, Vayots Dzor and Syunik marzes, including rehabilitating the central parks, water supply and drainage systems, road network and public space, street lighting posts, and old public

buildings with important architecture. The Project also aims at rehabilitating museums in Goris city and Areni village;

- Integrating redevelopment and management of selected cultural heritage sites with significant monuments, such as monasteries, churches or unique vernacular architecture (involving construction of a tourism facility at each site, that includes public parking and toilets, souvenir shops and information kiosks);
- Managing and promoting tourist destinations, preparing visitor management plans, and monitoring/evaluating performance; and
- Establishing a destination management organization to support marketing and promotion as well as partnership with the private sector.

70. To date, the counterparts proposed four (4) subprojects for the first year investment program. The subprojects were appraised by the Bank team and their summary is provided below. The DFA will continue to submit additional subproject proposals in the course of Project implementation, including for Component 1.3 (PPI).

- **Khor Virap Tourism Facility:** The aim of this subproject is to improve the site management, rehabilitate the parking facility, establish a visitor's center with ticket shop, install interpretation panels, install lighting and ensure public restrooms, open a small marketplace for local produce and souvenirs. As context, Khor Virap Monastery is one of the most popular destinations in Armenia.
- **Garni Gorge Rehabilitation:** The aim of this subproject is to rehabilitate 1.6 km road leading from Garni Temple to the Stone Symphony monument a natural monument located in Azat River Gorge. This geological Monument is famous for its magnificent, seemingly artificial rocks, consisting of regular hexagonal cylinders formed from volcanic lava in conditions of high pressure freezing and as a result of crystallization. The subproject will also establish safety measures, interpretation panels, and install lighting.
- **Zorats Qarer (Stonehenge) Tourism Facility:** The aim of this subproject is to improve the road leading to the monument, establish a tourist facility providing audio/video guides, construction of public restrooms, lighting and souvenirs shop, organize a 3D projection of the astronomical function the Monument used to serve, establish pedestrian pathways, safety measures and interpretation panels– all of which will support increasing domestic and international tourism at the Monument. As context, this is a residence-castle, a prehistoric megalithic structure with circular oldest observatory dating back 7,500 years.
- **Goris central parks rehabilitation:** The aim of this subproject is to improve Goris Children's or Vien Park and Goris Youth Park that are situated in the historical center of the city. Vien Park is considered to be the core rest stop and cultural center for the city's residents. The infrastructure improvements in the parks will include general planning of almost 24,000 m<sup>2</sup> territory, installation of lighting, replacement of the asphalt or broken basalt covers to single-type pavement; renovation of seating areas, building a new pathway on the eastern border and renovating the ground waters discharge stream in Vien park and renovating the entrance and borders of Youth park, and ensuring the green zones.

71. Overall, the technical measures will establish and/or upgrade all essential facilities and services upon which the increased tourism can materialize and benefit the entire population of the regions. A key consideration of the Project is to improve infrastructure without negatively affecting the environment. Thus, stringent protection and mitigation measures are in place to avoid potential drawbacks. For example, following the recommendations of the SESCHA, a site management plan will be prepared for each cultural heritage site to manage the flow of visitors to its capacity and the monks' needs.

72. **Readiness.** The Project is ready for implementation. Activities and investments to be supported by the Project for the first year of implementation were designed by the government and its consultants and appraised by the Bank. The ATDF has been working closely with all agencies concerned. The Bank team has appraised the following documents and visited all Project sites, inter alia:

- First year SARs/SSRs and Bid Documents prepared by ATDF.
- Designs of the four proposed subprojects, all within Component 1.1 (Urban Regeneration and Tourism Circuit Development) and preparation of bid documents are underway using the ECADEV grant.
- Tourism-related technical assistance Terms of References (TORs) prepared by DFA.
- Performance M&E TORs prepared by ATDF.
- Construction supervision and safeguards monitoring TORs prepared by ATDF.
- Procurement Plan prepared by ATDF.
- Draft Operations Manual prepared by ATDF.
- Resettlement Policy Framework (RPF) prepared by ATDF and disclosed on November 2, 2015.
- Environmental and Social Management Framework (ESMF) prepared by ATDF and disclosed on November 2, 2015.
- An advanced draft SESCHA report prepared by ATDF and will be disclosed once all public consultations in the regions are completed.

### **C. Financial Management**

73. The FM arrangements in place at ATDF were reviewed and assessed as acceptable to the Bank for the Project's implementation. Currently, ATDF successfully implements the Bank-financed SILD project. Previously, ATDF successfully implemented closed SIFI, II and III projects, which were also financed by the Bank. LEIDP Project is largely built on the implementation success and experience of ATDF. Particularly: (i) the FM/accounting staff at ATDF has extensive experience in the Bank-financed projects; (ii) the internal control and filing systems in place at ATDF are overall adequate; (iii) results from the latest annual audit of the Bank-financed projects implemented by ATDF were satisfactory, and (iv) the IFRs on the Bank-financed projects implemented by ATDF were always received on time and in general found to be acceptable to the Bank.

74. As capacity building actions (but not conditions), it was agreed that prior to the Project implementation ATDF will (a) hire additional FM/accounting staff, acceptable to the Bank, to

manage the increased workload; (b) develop the Project's FMM, acceptable to the Bank, to reflect the FM arrangements and controls under the Project; and (c) finalize the upgrade of the accounting system.

75. The Project will produce a full set of semi-annual interim un-audited financial reports (IFRs) to be submitted to the Bank within 45 days of the end of each calendar semester, from the first disbursement and throughout the Project life.

76. There are no pending audits for the projects implemented by ATDF. The auditor issued unmodified (clean) opinions on the financial statements of projects implemented by ATDF, with no critical recommendations in the management letters. The audit of the entity (ATDF)<sup>1</sup> and the Project will be conducted (i) by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank, and procured by ATDF; and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The annual audits of the entity and the Project financial statements will be provided to the Bank within six months since the end of each fiscal year, and for the Project also at the Project closing.

77. The Borrower has agreed to disclose the audit reports for the Project and the entity within one month of their receipt from the auditors and acceptance by the Bank, by posting the reports on its official website. Following the Bank's formal receipt of these reports from the Borrower, the Bank will make them publicly available according to World Bank Policy on Access to Information.

78. Efforts are being made on a portfolio level to use some elements of the country Public Financial Management (PFM) system as some of the critical PFM elements still remain weak. The State Treasury system is being used to maintain the designated accounts of Bank-financed projects including this Project. In addition, the country budget system will be used for this Project. For all the other FM elements, ATDF's respective systems are going to be used for this particular Project. ATDF plans to establish a Designated Account (DA), in US\$, specifically for this Project, in the Single Treasury Account of the MOF at the Central Bank of Armenia (CBA). The Project's DA will be managed by ATDF. The Government counterpart funding is assessed to be adequate for a number of years. Meanwhile the recent economic slowdown and accompanied sharp depreciation of the local currency, if they persist, may have an adverse impact on the level and timeliness of the government counterpart funding.

#### **D. Procurement**

79. A Country Procurement Assessment Review (CPAR) updated in 2009, concluded that the public procurement environment in Armenia is in the medium- to high-risk category. The country procurement risk for Armenia based on the country's public procurement legislation, practices, and overall procurement environment is rated as Substantial. The same procurement risk rating is applied under the Project for reasons provided in the following paragraph.

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<sup>1</sup> The audits of the entity (ATDF) financial statements are required to monitor the implementing entity's financial results and stability, which are critical for the project implementation.



80. Procurement will be carried out by ATDF, which has substantial experience in managing Bank-financed projects. However, procurement risk for the Project is rated “substantial” given that: (i) ATDF has only three procurement specialists to manage the approximately US\$200 million portfolio (including LEIDP); and (ii) while there are plans to hire additional procurement staff in the near future, there is no assurance that this will happen given the challenges of hiring staff due to low salary. ATDF’s procurement capacity will have to be enhanced considering the scope and volume of its current and future operations. Until additional qualified procurement staff is in place, the procurement risk rating will remain Substantial. Adequate mitigation measures will be put in place and will be closely monitored to ensure that the residual Project risk is acceptable.

81. A Procurement Plan has been prepared by ATDF and agreed with the Bank. The final version of the Procurement Plan will be disclosed (without cost estimates) and posted on the Bank’s website and [www.procurement.am](http://www.procurement.am).

#### **E. Social (including Safeguards)**

82. The Project triggers OP 4.12 Involuntary Resettlement. While no physical relocation of households is expected, land acquisition (of private land or reallocation of public, community, Church-owned lands) is likely to occur in some subprojects. Project activities may also have temporary or permanent impact on livelihoods and small businesses located in the Project area. The Project will finance multiple subprojects in four selected marzes. Each subproject may involve construction and/or rehabilitation of infrastructure related to the local economy and tourism development, such as visitor centers, rest stops, parking lots, lifeline roads or small bridges, marketplace spaces, among others. Most subprojects are likely to be implemented on public or church-owned land (in the cases of vicinity to historic churches or monasteries); however, some privately-owned land may also be affected. Subproject designs may include proposals to demolish old or unused structures on the project site. Due to these possible impacts, careful screening will be undertaken, based on provisions specified in the RPF and ESMF. Site-specific safeguard screening reports, environmental and social management documents, and RAPs, if applicable, will be completed for each subproject.

83. The Borrower has prepared an RPF which was disclosed in country and Infoshop. The ATDF, in the capacity of the Project implementing entity, will be responsible for applying social safeguards to the infrastructure investments and PPP initiatives. ATDF has a long-standing experience in implementing World Bank financed projects, having served as an implementing entity for the first, the second, and the third Armenia Social Investment Fund (ASIF) projects, and currently performing the same function for the Armenia Social Investment and Local Development Project (SILD). As part of this experience, ATDF has developed knowledge of World Bank’s safeguard requirements, a mechanism for social and environmental screening of project sites, and for conducting local stakeholder consultations. It should be noted, however, that the agency has limited capacity with RAP preparation, as most previous projects have not required private land acquisition, nor generated significant resettlement impacts. ATDF’s current staffing and capacity for social management is limited and needs substantial strengthening through hiring two social specialists, at least one having hands-on experience in managing resettlement. ATDF has been encouraged to facilitate available training and knowledge exchange opportunities for new safeguard specialists (e.g., with other project implementing agencies in Armenia, with RDP in Georgia) to further their on-the-job learning.

84. Beyond safeguards, the Project is expected to have a positive social impact on local development, employment opportunities especially in higher skilled service areas related to tourism, and opportunities for small and medium business development. To maximize the impact of the Project on local communities, the Project should maintain a focus on supporting local businesses, and ensuring that existing small business activities will not only be shielded from negative impacts during Project activities, but can also grow in the medium and long term as a result of the development benefits brought by the Project.

85. The SESCHA was conducted relying on the review of regional development plans/programs in the Project beneficiary areas, and South Corridor Tourism Destination Strategy as well as on the extensive stakeholder consultation process. SESCHA findings will be used to further refine the Project and strengthen its potential positive social impacts.

## **Gender**

86. The Project is likely to have differential impacts on men and women. It is expected to increase employment opportunities in tourism/hospitality sectors for both men and women, but the types of jobs available are likely to be different. Overall, it is expected that the project will help integrate more women in the labor market. The results of Project activities will be monitored, using gender disaggregated data. Improving the urban infrastructure will also have some positive direct effects on women, given their greater role in domestic work.

87. The Project will collect gender-disaggregated data to better understand and assess the role of men and women in the tourism economy and its potential impact on both. Several key Project indicators will collect gender-disaggregated data.

88. In terms of participation, the Project will ensure that women are adequately represented in public consultations. In assessing the demand for tourism sites and designing the marketing activities, the Project will consider different experiences that male and female tourists would like to have.

## **Citizen Engagement**

89. The key mechanism for citizen engagement will be site-specific consultations ('promotional meetings') for each subproject as well as beneficiary surveys. The ATDF has long-standing experience with implementing community-driven development projects and using community consultations (promotional meetings) as a way to collect feedback from local stakeholders, and assess priority needs of the community. These consultations will be held in each subproject location and with invitations extended to the broad community with special focus on women, vulnerable groups, small business owners, NGOs or CSOs in order to have a broader discussion on opportunities for expanding Project benefits across the community, potential social risks from the Project. A set of youth engagement activities will be explored with DFA as part of a more participatory approach to tourism promotion, and development of promotion materials.

90. In addition, ATDF will organize consultations on the draft SESCHA report, ESMF, and RPF with national and local authorities, community representatives, and civil society prior to Project Appraisal. Site-specific consultations will be held on Environmental and Social Management Plans (ESMPs) Environmental and Social Reviews (ESRs), or Environmental and Social Impact Assessment (ESIA) reports, whichever applicable; and RAPs, where applicable.

91. The RPF has established the principles for public consultations and setting of grievance redress mechanisms at local and national (Project) levels. These mechanisms with relevant contact points will be communicated during community consultations

#### **F. Environment (including Safeguards)**

92. The Project includes investment components to develop infrastructure and thus triggers the OP/BP 4.01 Environmental Assessment. None of the activities are expected to have significant, long-term, or irreversible impacts on the natural environment. Therefore, the Project is classified as environmental Category B. The ESMF developed for the LEIDP guides conduct of environmental, social, and cultural heritage screening of subproject proposals and PPI initiatives, the preparation of subproject-specific ESMPs, ESRs or ESIA reports, and conduct of environmental and social monitoring of works in the construction and operation phases. The ATDF carried out SESCHA, assessing regional development plans/programs prepared by the Government of Armenia for Kotayk, Ararat, Vayots Dzor and Syunik marzes and the South Corridor Tourism Destination Strategy. The SESCHA identified opportunities and risks associated with the overall development vision proposed for the beneficiary marzes. It a) collected and analyzed baseline information about the target marzes; b) analyzed the expected long-term, cumulative, and direct/indirect impacts of the Government's development programs, South Corridor Tourism Destination Strategy as well as of the Project activities; and c) assessed the institutional capacity of the Government agencies to manage environmental, cultural, and social implications of the development in the four marzes, including identifying gaps and making recommendations about capacity building.

93. While ATDF has a long history of implementing World Bank-supported projects with a good track record of complying with safeguards, its in-house capacity to monitor application of measures to mitigate negative impacts of civil works is limited. This is explained by the fact that ATDF's large portfolio of projects has a wide geographic span, and it lacks experienced safeguard professionals. Considering this limitation and acknowledging that LEIDP implementation will have a variety of environmental, social, and cultural implications which pose additional challenges for safeguards management, ATDF will considerably strengthen its in-house capacity through establishing a safeguards management team comprising of two environmental and two social specialists. Also, environmental and social monitoring function will be included into the tasks of a technical supervisor to be hired by ATDF for the purposes of exercising oversight and quality control of works.

## **G. Other Safeguards Policies Triggered**

94. The Project interventions may cover areas adjacent to the especially protected natural areas, which may have indirect and/or induced impacts on the valuable natural habitats conserved in these protected areas. OP/BP 4.04 Natural Habitats is triggered to ensure that any interventions into the protected areas and the areas in their immediate vicinity are fully harmonized and supportive of the habitat conservation goals. Site-specific ESRs and/or ESMPs to be developed for individual subprojects related to protected areas will explain how the above principles are integrated into the design and implementation arrangements of each subproject.

95. OP 4.11 Physical and Cultural Resources is triggered as the Project will sponsor activities within grounds of or in close proximity to sites of cultural and historical significance. Subproject works may be also considered in or around UNESCO World Heritage sites in Armenia such as Haghpat and Sanahin monasteries. Works in or around heritage sites will carry risks to structural damage to constructions and impact on their historic/aesthetic value, and the increased likelihood of chance finds. ATDF will follow the procedures specified in Armenian national legislation to ensure that the Project does not cause damage to cultural and historical resources, and that all necessary permissions for works at heritage sites are obtained from the Ministry of Culture. A contact person will be designated within the Ministry of Culture to provide necessary information and oversight on compliance with physical and cultural resource policies. Site-specific ESMPs will lay out results from screening of risks to cultural heritage resources and prescribe actions and procedures to mitigate these risks.

96. The Project's subcomponent 1.1 will finance urban regeneration of old towns and villages through restoration of building facades, public spaces, museums, roads, and water supply and sanitation systems, and enhancement of cultural and natural heritage sites. Subcomponent 1.3 will provide complementary public infrastructure to stimulate tourism and agribusiness related private investment.

97. Because water-related infrastructure is eligible for the Project funding and because the area selected for the Project intervention lies in the watershed of River Araks which falls under the category of international waterways as defined by OP/BP 7.50, this policy is triggered. However, construction of new water and wastewater infrastructure that may end up using or polluting the water from these international waterways will be excluded from the Project funding. Investments for rehabilitation of the existing schemes that are aimed at cutting water loss due to seepage, leaks, overflows, and malfunctioning of hydraulic structures will be supported on the condition that no alteration of water intake and/or discharge results from the Project implementation. Hence the activities proposed comply with the requirements set forth in Paragraph 7(a) of OP 7.50 and an exemption from the requirement of communication to the riparians was approved by the Bank's Vice President on November 5, 2015.

## **H. Grievance Redress**

98. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected

communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**Annex 1: Results Framework and Monitoring**  
**ARMENIA: Local Economy and Infrastructure Development**

**Project Development Objectives**

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected areas.

**Project Development Objective Indicators**

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values						Frequency	Data Source/	Responsibility for Data
				YR1	YR2	YR3	YR4	YR 5	End Target		Methodology	Collection
Increased number of people in urban areas provided with access to all-season roads within a 500 meter range under the Project.	<input type="checkbox"/>	Number	0.00	800	2,000	3,000	4,000	5,000	5,000	Annual	Progress reports	ATDF
Increased average number of hours per day of piped water services in Project areas.	<input type="checkbox"/>	Number	8.00	8.00	8.00	9.00	10.00	12.00	14.00	Annual	Progress Reports	ATDF
Increased tourism spending.	<input type="checkbox"/>	Number (US\$)	749.5	749.5	772	795	819	856	862	Annual	Progress Reports	ATDF/DFA
Increased number of jobs created by activities linked to support tourism industry (gender disaggregated).	<input type="checkbox"/>	Number	133,500	135,000	137,000	139,000	142,200	144,200	147,070	Annual	Progress reports	ATDF/DFA
Number of destination management offices established and operational to ensure sustainability.		Number	0	0	1	1	2	3	3	Annual	Progress reports	ATDF/DFA

### Project Development Objectives

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected areas.

#### Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	YR 5	End Target			
Improved access roads to selected tourism attraction sites.	<input type="checkbox"/>	Km	0.00	0.50	1.5	2.5	6.0	8.0	8.0	Biannual	Progress Reports	ATDF
Piped household water connections that are benefiting from rehabilitation works undertaken by the Project.	<input type="checkbox"/>	Number	0.00	0	80	150	200	300	300	Biannual	Progress Reports	ATDF
Increased number of visitors to Project sites	<input type="checkbox"/>	Number	1,203,746	1,203,746	1,239,858	1,277,053	1,340,905	1,381,132	1,384,307	Biannual	Progress reports	ATDF/DFA
Increased volume of private sector investments in targeted areas.	<input type="checkbox"/>	Number (US\$ mln.)	0.00	0	2	4	8	20	20	Annual	Progress Reports	ATDF/DFA
Increased number of temporary jobs created by activities linked to support tourism industry (gender disaggregated).	<input type="checkbox"/>	Number	0.00							Annual	Progress reports	ATDF/DFA
Increased number of tourism beds.	<input type="checkbox"/>	Number	2,639	2,639	2,718	2,774	2,857	2,942	3,034	Biannual	Progress Reports	ATDF/DFA
Number of old houses restored.	<input type="checkbox"/>	Number	0.00	0	0	10	20	30	30	Biannual	Progress Reports	ATDF
Number of street lighting posts and bulbs replaced /installed.	<input type="checkbox"/>	Number	0.00	0	50	50	150	200	200	Biannual	Progress Reports	ATDF
Number of parks upgraded.	<input type="checkbox"/>	Number	0.00	0	1	2	2	2	2	Biannual	Progress Reports	ATDF

### Project Development Objectives

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected areas.

Number of tourism facilities constructed at cultural heritage sites along the tourist circuit.		Number	0.00	1	2	6	8	10	10	Biannual	Progress Reports	ATDF
Number of museum/art galleries refurbished.	<input type="checkbox"/>	Number	0.00	0	0	1	2	2	2	Biannual	Progress Reports	ATDF/MoC
Production and distribution of new Tourism maps.	<input type="checkbox"/>	Number	0.00	0	0	2,000	4,000	10,000	10,000	Biannual	Progress Reports	ATDF/DFA
Number of beneficiaries of skills development training provided by the Project, disaggregated by gender.	<input type="checkbox"/>	Number	0.0	0	0	100	200	300	300	Biannual	Progress Reports	ATDF/DFA
Increased number of tourism-related SMEs at Project sites (e.g., souvenir and handcraft shops, family and guest houses, restaurants, museums, etc.), disaggregated by gender.	<input type="checkbox"/>	Number	7,813	7,813	8,047	8,288	8,536	8,792	8,984	Biannual	Progress Reports	ATDF/DFA/MoE
Preparation of Site Management Plans for key cultural heritage sites.	<input type="checkbox"/>	Number	0	0	1	2	3	4	4	Biannual	Progress Reports	ATDF/HCHP A
Working age population in Project areas engaged in non-farm employment (gender disaggregated).	<input type="checkbox"/>	Percentage	20	20	25	30	35	35	35	Biannual	Progress Reports	ATDF
Grievances responded to and/or resolved within two weeks of being filed.	<input type="checkbox"/>	Percentage	0.00	100	100	100	100	100	100	Biannual	Progress Reports	ATDF
Grievances registered related to delivery of Project benefits addressed.	<input type="checkbox"/>	Percentage	0.00	100	100	100	100	100	100	Biannual	Progress Reports	ATDF
Beneficiaries that feel Project investments reflected their needs.	<input type="checkbox"/>	Percentage	0.00	100	100	100	100	100	100	Biannual	Progress Reports	ATDF



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**Project Development Objectives**

The Project Development Objective is to improve infrastructure services and institutional capacity for increased tourism contribution to the local economy in selected areas.

Project beneficiaries.	<input type="checkbox"/>	Number	0.00	0	50,000	100,000	200,000	453,500	453,500	Biannual	Progress Reports	ATDF
Of which female (beneficiaries).	<input type="checkbox"/>	Number	0.00	0	25,000	50,000	100,000	226,750	226,750	Biannual	Progress Reports	ATDF

## Indicator Description

### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Increased number of people in urban areas provided with access to all-season roads within a 500 meter range under the Project.	This indicator measures the number of people that will have access to all-season roads that are within a 500 meter range from the selected Project sites. All-season road is defined as a road that is motorable all year by the prevailing means of transport. The baseline is zero. This can be measured by assessing the kilometers of roads constructed or rehabilitated, and estimates of the population in the Project area within a 500 meter range.	Annual	Progress Reports	ATDF
Increased average number of hours per day of piped water services in Project areas.	This indicator measures number of hours per day of piped water services in Project areas. It is a reflection of customer satisfaction from improved water service.	Annual	Progress Reports	ATDF
Increased tourism spending.	This indicator measures the averaged spending of single tourist per the duration of trip.	Annual	Progress Reports	ATDF
Increased number of jobs created by activities linked to support tourism industry (gender disaggregated).	This indicator measures the number of jobs created by activities linked to support tourism industry. This will allow assessing further how employment varies across less well-off and better off households.	Annual	Progress Reports	ATDF
Number of destination management offices established and operational to ensure sustainability.	This indicator measures establishment of three DMOs based on sound institutional organization and coordination within involved tourism related entities. These DMOs are expected to stimulate rapidly increased travel to the regions and develop institutional capacity and performance of tourism related local and regional entities.	Annual	Progress Reports	ATDF

### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
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Improved access roads to selected tourism attraction sites.	This indicator measures improvement of state of the access roads providing better access of visitors and local population to selected tourism attraction sites included in the Project area.	Biannual	Progress Reports	ATDF
Piped household water connections that are benefiting from rehabilitation works undertaken by the Project.	This indicator measures the number of piped household water connections benefiting from rehabilitation works under the Project.	Biannual	Progress Reports	ATDF
Increased number of visitors to Project sites.	This indicator measures the number of visitors to the sites included in the Project.	Annual	Progress Reports/Annual surveys	ATDF
Increased volume of private sector investments in targeted areas.	This indicator measures the volume of private sector investments in the selected Project areas. This indicator refers to cumulative dollar amount leveraged in the Project sites as a result of sub-component 1.3 (directly leveraged to benefit from provided public infrastructure) and subcomponents 1.1 and 1.2 (indirectly leveraged in renovated sites under the Project to benefit from provided urban regeneration activities).	Annual	Progress Reports	ATDF
Increased number of tourism beds.	This indicator measures the number of additional hotel beds in the selected Project areas after the start of the Project implementation.	Annual	Progress Reports	ATDF
Number of old houses restored.	This indicator measures the number of old houses restored as part of the urban regeneration since the start of the Project implementation. These houses are considered cultural heritage.	Biannual	Progress Reports	ATDF
Number of street lighting posts and bulbs replaced.	This indicator measures the number of street lighting posts and bulbs replaced/installed since the start of Project implementation. The new bulbs will use modern energy efficiency, thus saving O&M cost for municipalities.	Biannual	Progress Reports	ATDF
Number of parks upgraded.	This indicator measures the number of upgraded recreation parks located in the Project areas since the rehabilitation works started under the Project.	Biannual	Progress Reports	ATDF
Number of tourism facilities constructed at cultural heritage sites along the tourist circuit.	This indicator measures the number of tourism facilities constructed or rehabilitated at each cultural heritage site along the tourist circuit included in the Project.	Biannual	Progress Reports	ATDF
Number of museums/art galleries refurbished.	This indicator measures the number of historic and ethnographic museums refurbished in the Project area. Majority of the museum buildings carry cultural heritage status.	Biannual	Progress Reports	ATDF/MoC
Production and distribution of new Tourism maps.	This indicator measures the production and distribution of new Tourism maps. It is calculated by the number of additional customers provided with	Biannual	Progress Reports	ATDF

	access to selected tourism destination sites as a result of Project implementation.			
Number of beneficiaries of skills development training provided by the Project, disaggregated by gender.	This indicator measures the number of beneficiaries that received the skills development training provided by the Project (gender disaggregated).	Biannual	Progress Reports/ Household Survey	ATDF
Increased number of tourism-related SMEs at Project sites (e.g. Souvenir and handcraft shops, family and guest houses, restaurants, museums, etc.) disaggregated by gender.	This indicator measures the number of tourism related enterprises (e.g. souvenir and handcraft shops, family and guest houses, restaurants, museums, etc.) as an indirect impact of tourism development in the selected Project areas after the start of the Project implementation.	Bi-annual	Progress Reports	ATDF
Preparation of Site Management Plans for key cultural heritage sites.	This indicator measures the preparation of integrated Site Management Plans, including: a) carrying capacity assessment b) visitor management plan c) institutional arrangement for O&M of each site. The four sites are expected to be the two World Heritage sites of Haghpat and Sanahin, as well as Garni-Geghard and Mozrov cave	Biannual	Progress Reports	ATDF
Working age population in Project areas engaged in non-farm employment (gender disaggregated).	This indicator measures the percentage of population employed in the Project areas in non-farm industries (gender disaggregated).	Biannual	Progress Reports	ATDF
Grievances responded to and/or resolved within one month of being filed.	This indicator measures the percentage of citizen engagement through grievances responses within one month of being filed.	Biannual	Progress Reports	ATDF
Grievances registered related to delivery of project benefits addressed.	This indicator measures the percentage of citizen engagement through grievances registered related to delivery of Project benefits addressed.	Biannual	Progress Reports	ATDF
Project beneficiaries.	This indicator measures number of people benefiting directly or indirectly from Project interventions.	Biannual	Progress Reports	ATDF
Of which female (beneficiaries).	This indicator measures number of people benefiting directly or indirectly from Project interventions.	Biannual	Progress Reports	ATDF

## **Annex 2: Detailed Project Description**

### **ARMENIA: Local Economy and Infrastructure Development Project**

1. The Armenian Government views the regional development program as a catalyst for its interventions in the region, as it is expected to have a high impact and allow the country to leverage added finances from the donor agencies, private sector, and state budget. The Project builds on earlier investments financed by the Bank and other donor partners in infrastructure, social, health and agriculture sectors.
2. The proposed Project will support job creation and enhancement of human capital, SMEs development and private sector-led growth by promoting an integrated approach to tourism focusing on tourism infrastructure, urban regeneration, cultural heritage restoration, and attracting private investors through PPI arrangements and modernized public administration and governance. It will particularly support the increased contribution of tourism to the local economies of selected regions/tourism circuits by implementing an integrated approach to regional development, focusing on infrastructure, urban regeneration, cultural heritage restoration, skills development, tourism product development and diversification, and attracting private sector investments. Implementation of the Project is expected to improve access to, quality and reliability of public and tourism infrastructure; increase the volume of private sector investment in selected regions and increase SMEs in renovated sites – with a view to attracting more visitors to the regions, and increasing their spending.
3. The proposed Project would consist of two components with World Bank funding of US\$55 million over five years. The design incorporates lessons based on experiences under similar operations in Georgia (the first and the second Regional Development Projects), and recommendations from the Bank’s 2014 Economic Sector Work (ESW) on South Caucasus Regional Development Program. The latter supported regional development and shared prosperity in Armenia through analyzing the regional profile of the country, and identifying key policy and investment needs in the most competitive sectors that drive private sector-led growth and job creation, most notably tourism, agro-tourism and agri-business.
4. The most visited corridors and itineraries currently in Armenia are the North Corridor (Gyumri-Vanadzor-Dilijan-Sevan) and the South Corridor (Garni-Geghard-Khor Virap-Areni-Jermuk-Sisian-Tatev-Goris-Meghri), as they offer the most effective, attractive and replicable models for development and leveraging the triple bottom line benefits of tourism.
5. The South Corridor Tourism Destination Strategy focused on the Southern Corridor (Garni-Geghard-Khor Virap-Areni-Jermuk-Sisian-Tatev-Goris-Meghri), which crosses four regions (Yerevan-Ararat-Vayots Dzor-Syunik) combining several scenic cultural and natural attractions - traditional farms, mountains, carpet production in Yeghegnadzor and Goris, wine tasting in Areni, and mulberry vodka tasting in Goris. Road quality ranged from poor to good along the Corridor, but overall road improvements are a high priority and impact potential itineraries in the region. This Corridor provides opportunities for many activities such as visits to natural areas, cultural heritage sights, and visits with carpet producers, traditional meals and community home stays. Many of these activities are offered by small and micro-enterprises. Hence generating more

tourist visitation helps facilitates local businesses and spreads prosperity over a broader range of stakeholders.

6. The link between investments into tourism promotion, regional development activities and the World Bank twin goals of poverty reduction and shared prosperity depends on the extent to which the project generates additional jobs within and outside the tourism sector. A socioeconomic profile of the Southern Corridor shows that these include regions with low poverty rates (Vayots Dzor, 21 percent; Syunik, 25 percent) as well as regions with high poverty (Ararat, 32 percent; Kotayk, 42.5 percent). Significant shares of the population of these regions are also among the bottom 40 of the national income distribution; for example, 32 percent of Syunik residents and 38 percent of Ararat residents have low incomes which puts them among the national bottom 40. Although services (which includes tourism) account for close to 50 percent of national GDP, in the regions concerned the sector has a very small share in gross output. In Ararat and Vayots Dzor, agriculture is the main contributor to output while in Syunik and Kotayk mining and manufacturing are the dominant sectors. Importance of the mining sector may increase over time in Vayots Dzor as well, once the largest gold mine (Lydian) becomes operational. The working age population (15-64 years) in these regions are employed either in agriculture or services. In Syunik only 6.8 percent of the bottom 40 and 8.6 percent of the top 60 are employed in mining and manufacturing. While the unemployment rate in Yerevan is high (at close to 25 percent), urban unemployment rates in the Project regions vary from 24.6 percent in Kotayk, 17.4 percent in Syunik, and 18.7 percent in Vayots Dzor to only 10 percent in Ararat. Urban areas of Lori, Shirak and Syunik regions also have highest number of job seekers per 1,000 inhabitants. The Project supported activities will support diversification of the regions' economies and contribute to job creation through strengthening of tourism and downstream activities. The Project also aims at workforce development activities. Human capital, represented by educational attainment, is an important determinant of how well tourist destination residents, including the poor, can share in the growth arising from the tourism economy. Between 60 to 70 percent of the working age population in the four regions has secondary or basic education. A higher share of women than men have vocational education (for example, 31.5 percent of women and 18 percent of men in Syunik). Taken together, the Project activities can help raise incomes in general, including for the less well-off, via greater employment (and self-employment) opportunities in tourism and related service sector jobs.

7. The Project regions also differ markedly in the quality of basic infrastructure available, namely, the availability of continuous supply of piped drinking water. This availability of piped water is important not only for households' wellbeing but also for the success of hospitality related activities. Although the duration of water supply service has significantly increased nationwide between 2008 and 2013, the improvement has mainly occurred in Yerevan, where households supplied continuously with water (20 hours or more of water supply) increased from 40 to 77 percent of indoor tap owners and the average supply duration increased from 14 to 21 hours per day. In other urban areas, water service remained insufficient for most households: only 45 percent of indoor tap owners were supplied with water for more than 20 hours per day in 2011 (the average duration is about 12 hours per day) which is even less than in rural areas where 49 percent of the indoor tap owner are supplied with continuous service (the average duration of water supply is about 16 hours per day for these households). Among the regions covered by the Project, in Vayots Dzor and Syunik more than 80 percent of households report 20 hours or more of continuous water supply. However, in Ararat, Lori, and Kotayk, the majority of the households report less than 20

hours of piped water. Activities aimed at improving piped water availability could address the low quality of this basic service in the Project regions.

8. The South Corridor Tourism Destination Strategy has identified destination hubs along the Southern Corridor that either are- or could be attractive to visitors, tour operators and investors. The hubs and corresponding “spoke” destinations would serve as clusters and circuits. While it would be ideal to assist as many destinations as possible in each of the areas mentioned above – product offerings and marketing, infrastructure, private investment, and human resources – resources are limited and must be allocated to those destinations where improvements could best attract more visitor spending, generate increased incomes and employment, and spur more investment. Building on this, the proposed Project will have the following two components:

**Component 1: Heritage Hub Regeneration and Tourism Circuit Development (US\$50,412,500 million):** This component will comprise of three sub-components.

9. **Sub-component 1.1:** Heritage hub regeneration (US\$23,872,500 million). The objective of this sub-component is to finance urban regeneration activities in the old towns of Goris and Meghri, and the heritage villages Areni, Tatev and Tandzatap. This includes restoration of public infrastructure, building facades and roofs, public spaces, museums, access roads, water and street lighting. Based on product development marketing potential, infrastructure needs, and tourism development vision, renovating these towns will transform them into high quality tourism destination hubs with the greatest potential to become catalysts for tourism development along the main tourism circuit/route in Armenia.

10. **Sub-component 1.2:** Development of the tourism circuits (US\$16.8 million). The objective of this sub-component is to finance an integrated approach to cultural heritage preservation and improved site management plans of the most attractive cultural and natural heritage sites located along the main tourism circuit/route in Armenia. These activities include: a) preparation site management plans, b) construction of a visitor facility at each attraction, including information centers, cafes, public toilets and safe parking area, c) preservation of cultural heritage monuments, museums, and surrounding houses; and c) improving connectivity with access roads and public infrastructure. Based on the tourism development vision, the following sites are selected for enhancement of the tourism circuit: Garni (Temple and Gorge), Geghard Monastery, Dvin Museum, Khor Virap Monastery, Areni marketplace and cave, Mozrov cave, Zorats Qarer (Karahunge/Stonehenge), Khndzoresk and the two UNESCO World Heritage Sites of Haghpat and Sanahin.

11. **Sub-component 1.3:** Public-Private Investment (PPI) (US\$5.00 million). The objective of this sub-component is to provide public infrastructure to attract private investments. It will support a selected number of private sector entities in Project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments (e.g., public facilities within the vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by the selection committee and required to meet specified criteria. These procedures are detailed in the Operations Manual.

12. **Sub-component 1.4:** Project management, designs and construction supervision (US\$4.74 million). The objective of this subcomponent is to provide the Project implementing entity with funds for its operating cost, outreach and public awareness, preparation of feasibility studies and design, and construction supervision support by an international consulting firm. It will ensure quality implementation, sustainable management of the sites, and monitoring the implementation of the ESMF, ESMPs, RPF and RAPs.

#### **Detailed Subprojects Description:**

13. **Ararat marz** - named after Mount Ararat, the marz forms the central and south end of the Ararat Valley, surrounded by massive Mt. Ararat to the west and the Geghama and Urts Mountain Ranges to the east. Another highlight of the mountainous Ararat marz is the Khosrov State Reserve, one of the world's oldest protected areas. The province of Ararat consists of 97 communities, of which 4 are considered urban and 93 are considered rural. Administrative center is Artashat city, the total area of the marz is 2, 090km<sup>2</sup>, and population is 260, 367, with a density 120/km<sup>2</sup>. Armenians consider Mount Ararat to be the symbol of their country, though it lies within Turkey, and is centrally featured on the nation's national crest. Mount Ararat is also the holy summit where Noah moored his Ark after the Great Flood.

14. According to the tour operator's survey (2014), the following activities and destinations are being or will be offered over the next three years in Ararat marz: Khor Virap; Khosrov Reserve (established in the 3<sup>rd</sup> century, home to rare and endangered species of animals and flora); Urtsadzor eco-training center; mountain climbing and visits to harvest sites. No accommodations/hotels are listed for Ararat.

15. *Khor Virap Monastery* is one of the most popular destinations in Armenia for a number of reasons, primarily because it is where Grigor Lousavorich (St. Gregory the Illuminator) was imprisoned for 13 years in a deep pit (khor virap) filled with snakes and scorpions, before beginning his ministry (with King Trdat III) to convert the kingdom to Christianity. The monastery is also the closest point to Ararat Mountain within Armenian borders. St. Gregory was responsible for the conversion of the king and Armenia into the first officially Christian nation in the world in the year 301. For most Armenians this is a very important site, and is easily accessible from Yerevan for a half day trip, or even better as a stop along the way to Southern Armenia. The ancient city of Artashat was founded by King Artashes in 190 BC on the banks of the Araks River. The city was centered on a citadel on the site of the present day Khor Virap monastery. The city walls of Artashat ran for over 10 kilometers, half of which have so far been excavated. Dvin ("Hill") is one of the country's important historical cities – one of its twelve capitals with almost 1000 years of history. As a result of intolerable climatic conditions of the old capital Artashat, its population gradually moved to the new capital of Dvin. Dvin was the Seat of the Catholicos from 475 to 914. Dvin was the center of commerce, politics and religion in the medieval kingdom, at over 150,000 people and also was known as the largest city on the Silk Road between the Caspian and Mediterranean Seas, and the center for ceramics, metal and trade for the entire Near East. The city was finally destroyed as a result of countless invasions.

16. The proposed first year investments in Khor Virap may include:



- ✓ Build an observatory point between Khor Virap and Old Artashat excavation sites, to enable tourists to observe the gorgeous view of the Monastery and residential and other traces of Hellenic culture;
- ✓ Dvin archeological and history museum;
- ✓ Rehabilitate and modernize/optimize the parking facility;
- ✓ Renovate/optimize public restrooms;
- ✓ Establish a visitor’s center, with an architectural design harmonized with the Monastery;
- ✓ Design and build a ticket shop offering guide services, as well as audio and video guides;
- ✓ Establish safety measures and interpretation panels;
- ✓ Carry out carrying capacity analysis of the Site;
- ✓ Renovate stairs leading to the Monastery;
- ✓ Construct pathways to the Monastic complex for the disabled and elderly;
- ✓ Install lighting (e.g. photovoltaic system).

17. **Vayots Dzor marz** –lies in the south-east of the country. It covers an area of 2,308 km<sup>2</sup>, with a population of only 53,230, it is the most sparsely populated province in the country (23/km<sup>2</sup>). The administrative center is Yeghegnadzor, with substantially fewer than 10,000 residents. The name “Vayots Dzor” is translated as the “Valley of Woes” because the area was devastated by several earthquakes during its history. Vayots Dzor is a region defined by deep gorges, high mountains, cold springs, swift rivers and mysterious caves. The weather is continental with elevations ranging from 850m (Areni village) to 3522m (Vardenis Mountains). The region possesses a wide diversity of flora and fauna with many animals listed in Armenia’s Red Book (list of endangered species). With the Yeghegis and Arpa rivers flowing through the region, Vayots Dzor is good for trout fishing, nature and history tours.

18. St. Astvacacin Church (Mother of God) is located on the top of a tall cliff on the side of the Arpa River. The church is easy to see even from a distance, though its honey-colored stone sometimes blends in with its surroundings. The oldest cross stones in the church yard are carved from vishap (dragon) and standing stones, pointing to pre-Christian origins, while the current church dates to 1321. The church was designed by the architect, sculptor and artist Momik (1250-1339), a master of miniatures in Kilikia, who was brought to Vayots Dzor/Syunik and reached fame in Gladzor University with his exquisite 1302 miniatures.

19. According to the tour operator’s survey (2014), the following activities and destinations are being or will be offered over the next three years in Vayots Dzor: Areni (wineries); caves (Mozrov), Noravank, animal watching, and alpinism.

20. The proposed investments in Areni village may include:

- ✓ Establish Areni Tourism Facility;
- ✓ Design and construct a riverside parking;
- ✓ Renovate/construct public restrooms;
- ✓ Open year-around marketplace;
- ✓ Construct a pedestrian bridge;
- ✓ Upgrade the streetscape and landscape;
- ✓ Install lighting;
- ✓ Set up a pathway to St. Astvatsatsin Church;

- ✓ Design and construct an open amphitheater with a 400 seat arena providing a venue for festival events and for possible sound and light shows against the cliff backdrop.

21. *Mozrov Cave* - Mozrov Cave is one of Armenia's little known natural wonders. Located near the town of Yeghegnadzor, the cave was discovered 30 years ago during the construction of the road that leads to Mozrov village. It is deep cave rich with diverse geological formations. It contains a large variety of speleothems (limestone cave formations) such as stalactites, stalagmites, helicities, columns, flowstone, draperies, and rim stone dams. The cave even has a unique "crocodile" formation, which visitors will enjoy. These types of formations are what most visitors wish and expect to see when touring a cave. There are areas in Mozrov Cave where such formations are dramatic and plentiful.

22. The proposed investments in Mozrov Cave may include:

- ✓ Establish Mozrov Cave Tourism Facility outside the core zone, and design and build a ticket shop offering guide services, souvenirs sell point and café;
- ✓ Construct a parking facility, access road to the Site, construct gates for security reasons, due to steepness by the entrance construct stairs and railings, install barrier covering the entire top of the cave entrance, install handrails, determine width of path and head clearance;
- ✓ Install public restrooms;
- ✓ Establish safety measures and interpretation panels;
- ✓ Conduct the carrying capacity analysis of the Site;
- ✓ Install lighting (e.g. halogen and LED lamps) for footpath and/or ramps and for highlighting specific cave formations;
- ✓ Establish accessible and restricted/off-limits areas.

23. **Syunik marz** - is the southernmost province of Armenia. Its administrative center is Kapan, and the total area of the marz is 4,506 km<sup>2</sup>. Other important cities and towns include Goris, Sisian, Meghri, Agarak, and Dastakert. The National Statistical Service of the Republic of Armenia (ArmStat) reported its population was 141,771 in the 2011 census, down from 152,684 in the 2001 census. Syunik is a green and mountainous area. The high-water major rivers are Meghri, Hpgghdji and Vorotan. Summertime temperatures can reach more than 40 °C, although the average temperature is around 22 °C.

24. Syunik is home to many of Armenia's largest mining operations (at Kajaran, Kapan and Agarak) as well as the largest tailing dams (at Artzvanik, Voghji, Darazami, Geghanoush).

25. Historically, Syunik was one of the 15 provinces of the Kingdom of Armenia and numerous cultural sites (such as the Tatev Monastery) testify to its rich history.

26. *Goris city* is an old town characterized by the unique architecture of the houses and its long tree-lined avenues, with tall conical rock formations (some of which host cave dwellings) surround the basin where the town was founded in 1870. Located in the valley of river Goris (or Vararak), it is 254 km away from the capital Yerevan and 67 km from the administrative center Kapan. The valley is surrounded with the Zangezur Mountains. The town has an average elevation of 1385

metres above sea level. The surrounding mountains are famous for their medieval cave-dwellings carved out of the soft rock in the southern and eastern parts of the town. Goris is an urban community and the 2<sup>nd</sup> largest city in Syunik province. According to the 2011 census, the population was 20,591, down from 23,261 reported in the 2001 census.

27. Being home to many food-processing plants, the economy of Goris is mainly based on light industry. However, the town is one of the main providers of electrical power in Armenia through the Vorotan hydropower plant.

28. The proposed Project investments will include rehabilitation of two central parks. Additional urban regeneration and tourism infrastructure investment priorities for subsequent years may include the following works:

- ✓ Restore an old pedestrian stone bridge and pathways along the river with appropriate seating benches and lighting;
- ✓ Rehabilitate the city theatre;
- ✓ Construct a vehicle bridge and a road section to provide a shortcut to the old town;
- ✓ Implement urban regeneration of the historical part of the city;
- ✓ Revive the old style 2-3 story buildings' facades and roofs;
- ✓ Refurbish the old bath facility to function as a wellness center on the ground floor, thus creating a new tourism product in the city, while the upper floors could be used as an art gallery.

29. The Project will also support enhanced institutional capacity of the existing tourist information center in Goris and will establish a Destination Management Office for Syunik region. This will enable proper destination management, marketing and promotion of the city and organization of festival and other events at the city level.

30. *Goris Children's Park or Vien Park* is situated in the historical center of the city, and is considered to be the core rest stop and cultural center for the city's residents. Almost 6000 m<sup>2</sup> of the park is the preserved Children's park, dating back to the Soviet era, which after independence was renamed to Vien Park after the French sister-city of Goris. The next part of the park (4000 m<sup>2</sup>) is leased to a private company, and here various entertainment facilities for children are organized, such as carousels and recreational attractions. In general, the Park is integrated with its surroundings, there is a small stage for concerts, a small pool surrounded with benches, and the green zones and pathways are separated.

31. Under the proposed first year investments the Project may finance the following works:

- ✓ General planning of the territory;
- ✓ Install lighting;
- ✓ Change the asphalt or broken basalt covers to single-type pavement;
- ✓ Renovate seating areas, e.g. wooden benches;
- ✓ Separate the footpaths for pedestrians and also for reducing the flow of residents. At present due to the parks' central location, the inside footpaths are used for reaching trade, cultural

and administrative centers, so annexing a new pathway on the eastern border side of the park will solve this issue;

- ✓ Renovate the ground waters discharge stream, located on the eastern border side of the park and transform it to an architectural section of the Park, with small fountains and green zone.

32. *Goris Youth Park* is situated on Independence Street, in a residential area adjacent to the secondary school and occupies 18,000m<sup>2</sup>. Due to its location, surrounded by densely populated buildings, the Park is one of the beloved places of the residents and includes two monuments devoted to the victory in the recent war. Also, because of its proximity to a school, after the park is renovated it can serve as an outdoor venue for organization of various school events.

33. Under the proposed first year investments the Project may finance the following works:

- ✓ General planning of the territory;
- ✓ Install lighting;
- ✓ Change the asphalt or broken basalt covers to single-type pavement;
- ✓ Arrange for green zones and footpaths;
- ✓ Renovate the entrance and borders of the park;
- ✓ Renovate the seating areas, e.g. wooden benches.

34. *Zorats Qarar (Stonehenge)* – is a residence-castle, a prehistoric megalithic structure with a circular observatory, considered to be temple of Ar God. The world's oldest observatory, according to professionals, Zorats Qarar was built more than 7,500 years ago. The monument consists of a group standing stones. The stones are from basalt, the height ranges from 0.5 to 3 meters and weigh up to 10 tons. The stones are preserved despite being exposed and eroded. Zorats Qarar stones were brought from the nearby river valley Dar pits, raised and moved by the means of woven ropes and animals. In the observatory the holes were opened in the rocks and astronomical instruments were prepared.

35. The monument lacks the necessary tourism infrastructure, and is located in a deserted area, the road leading to the monument from highway is in poor condition; the preserved rocks face deterioration and loss of valuable pieces.

36. Under the proposed first year investments the Project may finance the following works:

- ✓ Establish Tourism Facility outside the core zone of the Site with audio/video guides;
- ✓ Organize 3D projection of the astronomical function the Monument;
- ✓ Improve the road leading to the monument;
- ✓ Build public restrooms;
- ✓ Organize a souvenir selling point;
- ✓ Install lighting;
- ✓ Establish safety measures and interpretation panels.

37. *Tandzatap village* - is located in Syunik marz, within a few kilometers from Tatev village. The infrastructure and general socio-economic situation is pretty similar to the other villages. Tandzatap has panoramic views of the monastery. Developed on a confined site on the steep valley

side, Tandzatap has the qualities of a small alpine village, dramatic landscape, nice buildings and small intimate streets.

38. Tandzatap has many advantages for successful tourism development due to its traditional food productions such as honey, cheese, and beans. It is also known for the best views of the Tatev Monastery from below, thus can become a nice destination for travelers to be in after visiting Tatev Monastery. The village has only one B&B property. Tandzatap and the whole road through the forests could be a nice attraction, with further establishing and developing the idea of B&B and food services development among villagers. Tourist Services could include local restaurants, bed and breakfast facilities, camping facilities, local food shop, wellness products shop, food production activities. Local experiences could include rural lunch with the best view of Tatev Monastery, observing the functions of an old mill, exposition of the best scenic photos of tourists, hiking to the Tatevi Anapat (Tatev Desert) hermitage, learning how to make your own vodka, and overnight camping by the gorge.

39. Under the proposed investments the Project may finance the following works:

- ✓ Set up a small information center by the village municipality, with a souvenir selling point;
- ✓ Improve the access road from Tatev to the village;
- ✓ Construct a small parking for visitors;
- ✓ Rehabilitate the village square;
- ✓ Set pedestrian pathways to Tatev and the countryside towards Svarants;
- ✓ Install water supply and sewage treatment system;
- ✓ Identify and set up a small camping area;
- ✓ Install lighting in the streets and square;
- ✓ Establish safety measures and interpretation panels.

40. The Project may finance infrastructure investments around *Old Khndzoresk* village, particularly road rehabilitation, pedestrian pathways and some rehabilitation/transformation of old caves.

41. *Meghri city*, with a population of 4,580, is located in Syunik marz, one of the strategically important regions of Armenia. According to statistical data nearly half of all import and export cargo transportation is carried out through southern gates of Armenia, i.e. the Meghri entry point. Different climate zones (from tropical to alpine) ensure the presence of rich flora and fauna.

42. Meghri is at a distance of about 400 kilometers from the capital. The main Iran–Armenia highway runs through the whole town which, extending to the border, crosses the Araks Valley. Meghri is a fine thread between Christian and Islamic civilizations, where Iranian settlements are seen at a short distance. The town consists of two districts situated on the high slopes of the Meghri River banks – Mets (Great) and Poqr (Small). The ethnographic houses of Poqr Tagh of the 19<sup>th</sup> and early 20<sup>th</sup> centuries have a unique urban development design and an architectural and artistic charm. These, however, are endangered now. Main cultural and historical attractions in Meghri Region are: Meghri castle; St. Sargis Church; St. Astvatsatsin (Godmother) church; and Apastanats Monastery.

43. Under the proposed investments the Project may finance the following works, with a goal of transforming Meghri's Small District into a touristic hub and an international cultural, ethnographic, agro- and ethno-hospitality center.

- ✓ Restoration of additional 5-10 houses in Poqr Tagh, Meghri;
- ✓ Upgrade all underground infrastructure, street lightings and access roads using cobblestones;
- ✓ Support community development and economic livelihood activities to transform restored houses into economic activities, such as B&Bs, restaurants, handicraft and souvenir shops, workshops, halls for serving and tasting traditional dishes, wine presses, souvenir salons/boutiques, ethnic factories through the restoration of the traditional environment typical of these localities and normalization of the microclimate of the surroundings by natural means, etc.

44. **Kotayk marz** is located in the center of the country, and the administrative center is Hrazdan city. Kotayk marz consists of 67 communities, out of which 7 are urban and 60 rural. The total area is 2,086 km<sup>2</sup>, and population is 254,397, with a density of 120/km<sup>2</sup>. Kotayk offers an amazing variety of monuments and natural splendors.

45. *Geghard Monastery* is carved from solid rock and dates back to the origin of Christianity, according to some seventh century inscriptions found on its territory. The oldest part of the actual monastery is the little chapel half built and half carved in the rocks, dedicated to St. Gregory (previously St. Asdvatadzin), built in the twelfth century. The church roof is less than 50 years old and was covered in the 1970s by a metal shed but already had faced serious problems of water penetration. Simultaneously, there are biological patinas in the storm water infiltration points. The parking is not marked and there small landslides due to erosion near the riverbank.

46. The pedestrian path to the complex is paved with basalt little stones disconnected in some places. A cement staircase leads to a steep slope scattered with big rocks flanked by an earth trail that could be very slippery and dangerous when wet. The visit to the St. Gregory chapel and other sites of rock constructions are very charming but also dangerous as there is a lack of any kind of protection and interpretation. Uphill of the monastery there is a wide orchard protected by a metal fence and intended for the use of the monks who also produce honey. Behind the river, little trails lead to picnic areas and, about 9 km farther, to interesting and very ancient archaeological sites.

47. Under the proposed investments the Project will fund the following works and activities:

- ✓ Establish Geghard Tourism Facility outside the core zone of the Site, which an architectural design harmonized with the Monastery;
- ✓ Carry out restoration works within the Monastery: strengthening of masonry, preservation of the roofs;
- ✓ Install an all-season marketplace;
- ✓ Design and build a ticket shop offering guide services, as well as audio and video guides;
- ✓ Rehabilitate and redesign the parking facility;
- ✓ Renovate/optimize public restrooms;
- ✓ Establish safety measures and interpretation panels;

- ✓ Establish the carrying capacity of the Site;
- ✓ Renovate the pathway leading to the Monastery;
- ✓ The upper picnic area needs renovation of footpaths, picnic area, and garbage collection.

48. *Garni Temple* - is the only wholly preserved sample of Hellenistic architecture in Armenia. It was constructed in the First century by King Trdat the First. The fortress of Garni stands on a triangular cape which dominates the locality and juts into the river. A deep gorge and steep mountain slopes serve as a natural impregnable obstacle, and therefore the fortress wall was put up only on the side of the plain. The palace complex included several disconnected buildings: a temple, a residential block, a bath-house. The Temple of Garni represents a Greco-Roman peripteros. Nine wide stairs lead to the entrance of the temple. After adopting Christianity as a state religion in Armenia in 301, the temple was used as a summer residence of the kings.

49. The bath-house is in the northern part of the square. Built in the 3<sup>rd</sup> century, it had five rooms. The most interesting part of the bath building is the mosaic dating back to the third century, an outstanding example of monumental painting in central Armenia. The theme of the mosaic decoration draws upon Greek mythology.

50. The road section Yerevan-Garni-Goght-Geghard has a high amount of traffic, with an estimated 1 million tourists, both domestic and international, who visit Garni temple and Geghard Monastery annually. The landslide and soil corrosion on the 1.8 km section of the road greatly impede the traffic of vehicles, especially tourist buses, and increase travel time. The length of highly affected road section is 1.8 km.

51. The proposed investments in Garni Temple will include:

- ✓ Rehabilitation of a 1.8 km of road segment leading to Garni temple;
- ✓ Redesign and rehabilitate the parking facility;
- ✓ Renovate/optimize public toilets;
- ✓ Construct pathways to the Monastic complex for the disabled and elderly;
- ✓ Rehabilitate the old Bath facility;
- ✓ Establish trails leading to the Gorge.

52. *Garni Gorge* is situated 23km east of Yerevan, in Kotayk marz. Below Garni village, above the Gorge is the 1<sup>st</sup> century AD Garni Temple. Garni Symphony of Stones or "Basalt Organ" natural monument is located in Azat River Gorge and stretches for 5000 m<sup>2</sup>. The latter is considered a unique geological monument famous for its magnificent, seemingly artificial rocks, consisting of regular hexagonal cylinders that are formed from volcanic lava in conditions of high pressure freezing and as a result of crystallization. The road leading to the monument is almost impassable, the territory near the monument is not organized and is in poor condition. While the monument is a unique natural formation, is almost never included in tourist routes as a result of poor infrastructure.

53. The proposed investments in Garni Gorge will include:

- ✓ Improvement of the road leading to the monument (1.6km);

- ✓ Organize the pathways leading from Garni Temple to the Stone Symphony monument;
- ✓ Establish safety measures and interpretation panels;
- ✓ Ensure lighting;
- ✓ Organize shows and other cultural events in the vicinity to the Monument;
- ✓ Establish safety measures and interpretation panels.

54. **Lori marz** - is located in the north of the country, bordering Georgia, covering an area of 3,799 km<sup>2</sup>, with a population of 235,537 and density of 62/km<sup>2</sup>. The administrative center is Vanadzor, largest city of the marz. The marz was severely affected by the 1988 Armenian earthquake. It is home to the UNESCO World Heritage Sites of Haghpat and Sanahin monasteries (1996) and the well-preserved Akhtala monastery, where Armenians, Georgians, and Greeks make an annual pilgrimage on September 20–21.

55. Haghpat is a village located near the city of Alaverdi and Georgian state border, built on a pleasant highland with deep valleys and steep slopes, 950m high above the sea level. It is notable for *Haghpat Monastery*, a religious complex founded in the 10<sup>th</sup> century. The monastery is an outstanding and magnificent example of medieval Armenian architecture that has been attracting increasing numbers of tourists. It is 178 km from Yerevan and is connected to the city by through two different highways: on the west crossing Aparan city and another, only 10 km longer, that passes through the city of Sevan, a famous and well developed tourist destination.

56. In general, the buildings of the village are well integrated into the landscape and present characteristic elements of the traditional architecture suitable to form the backdrop to the monastery. There are 270 houses in the village with 767 inhabitants. From the West, the village is surrounded by deep canyons, from the East Surblis and Terunakan Mountains protected Haghpat from invaders and offer now rich pastures (the villagers live mainly from agriculture and livestock breeding). Part of the products from these activities (butter, milk, cheese) serve the tourism industry as they are sold to hotels and restaurants. About 40 people from Haghpat work in the Teghut mine for ACP. The main roads are paved, though they would require maintenance or new paving; the secondary routes serving many of the homes are made of clay.

57. Under the proposed investments the Project may finance the following works:

- ✓ Establish Haghpat Tourism Facility outside the core zone of the Site, with an architectural design harmonized with the Monastery;
- ✓ Carry out restoration and conservation works within the Monastery: to fortify the mortars and wall cracks, resolve the issue of weeds, sometimes even small trees growing on the roofs, strengthen the masonry, conservation of surfaces and frescoes, strengthening of the wooden roof hazarashen, preservation of the walls surrounding the monastic complex;
- ✓ Design and build a ticket shop offering guide services, as well as audio and video guides;
- ✓ Rehabilitate and redesign the parking facility;
- ✓ Renovate/optimize public restrooms;
- ✓ Establish safety measures and interpretation panels;
- ✓ Conduct the carrying capacity analysis of the Site;
- ✓ Renovate the stairs leading to the Monastery;
- ✓ Construct pathways to the Monastic complex for disabled and elderly;



- ✓ Install lighting;
- ✓ Install water supply and sewage systems in the village;
- ✓ Redesign the square in front of the Monastery;
- ✓ Renovate the roofs and facades of the buildings in the square;
- ✓ Renovate the old Bolshevik museum to showcase the history of the village and the Monastery's monk life;
- ✓ Provide advisory service for converting a number of village houses to guesthouses of bed & breakfasts.

58. *Sanahin* is an Armenian monastery founded in the tenth century whose name literally translates from Armenian as "this one is older than that one", presumably representing a claim to being an older monastery than the neighboring Haghpat Monastery. In 979 it became an outstanding cultural center that maintained its importance until 1235, and which consists of the following monuments: St. Asdvatzadzin church (St. Mother of God, built in 934) with an adjunct gavit (1211), the bigger church of St. Amenaprkich (St. Saviour, built in 966), also with an adjunct gavit (1181), the academy (built in two steps from the beginning and the end of eleventh century), a round chapel devoted to St. Gregory (1061), a library (1063) fronted by a porch (thirteenth century) and a belfry (twelfth to thirteenth century), the remains of the Kiurikian tomb and, a farther, the tomb of the Zakaryan family. Due to its troubled history and to the occurrence of earthquakes, the preserved buildings are a result of restorative interventions in various centuries. The weatherboards, maybe due to their incorrect shape, convey the waters directly on the walls. The roofing, where not restored, is overgrown by weeds and bushes, in some parts tiles and connecting stone ashlar are missing (the roof of St. Amenaprkich church has some tiles sliding towards the cemetery).

59. *Sanahin* is not considered a village but a neighborhood and this fact implies significant differences in the way of life of its inhabitants and in its resources and development possibilities. Like Haghpat and Geghard, *Sanahin* monastery is also owned by the Holy See of Etchmiadzin (since April 13th, 2011). Nearby there is the arrival station of the ropeway connecting Alaverdi to *Sanahin* highland. The part of the village in the immediate vicinity of the monastery has a rural character with low buildings, some of them are an interesting testimony of traditional rural architecture.

60. The small square facing the monastery includes all the services designed for tourism, such as souvenir shops (provisional kiosks and canopies used by peddlers along the stairway that leads to the monastery), parking lots and restrooms, now arranged in a new building set in an improper area. The imposing former *Sanahin* Cafè is placed at the opposite side of the monastery and faces its long porch. The building presents structural and material decay together with a partial collapse of the roofing (made in asbestos). The structure is an integral part of the complex and a sign of its recent history.

61. Under the proposed investments the Project may finance the following works:

- ✓ Establish *Sanahin* Tourism Facility outside the core zone of the Site, with an architectural design harmonized with the Monastery;

- ✓ Carry out restoration works within the Monastery: to fortify the wall cracks, resolve the issue of weeds growing on the roofs, strengthen the masonry, remove and replace some stones on the facades, strengthening of masonry, intervention on the pavement;
- ✓ Conservation intervention of Sanahin café will allow to utilize the two floors of the building;
- ✓ Design and build a ticket shop offering guide services, as well as audio and video guides;
- ✓ Rehabilitate and redesign the parking facility;
- ✓ Renovate/optimize public restrooms;
- ✓ Establish safety measures and interpretation panels;
- ✓ Conduct the carrying capacity analysis of the Site;
- ✓ Renovate the stairs leading to the Monastery;
- ✓ Construct pathways to the Monastic complex for the disabled and elderly;
- ✓ Install lighting;
- ✓ Install sewage systems in the village;
- ✓ Repair the sidewalks;
- ✓ Redesign the square currently used for parking purposes;
- ✓ Provide advisory service for converting a number of village houses to bed and breakfast units.

62. The *Stepanavan dendropark* (also called Sochut) is an arboretum located near Gyulagarak village, in Lori region (about 85 km north of Yerevan). It was established in 1933 by Polish engineer-forester Edmon Leonovich. The arboretum is 35 ha in total -17.5 ha consist of natural forest and 15 ha of ornamental trees. Arboretum is located at 1450 meters above sea level and has a cold climate. The Stepanavan dendropark consists of deciduous forest and ornamental plantings.

63. The arboretum is of interest to the general public, professional scientists and eco-tourists, a perfect place for public excursions and botanical or zoological tours. The dendropark serves as a recreational resort and elegant place of nature. It is famous for its curative properties for people with allergic and chronic respiratory diseases from April to May when pollination occurs. The Ministry of Nature Protection has overall management responsibility of this special protected reserve park complex, state non-commercial organization (SNCO). As a result of very poor road conditions leading to the dendropark, the public access for health related and eco-tourism purposes is very limited, which results in economically and environmentally unsustainable reserve park management.

64. The proposed activity under the Project is the rehabilitation of 3 km road leading to Stepanavan dendropark to foster greater exposure of this unique locality both to local population and tourists.

### **Description of Component 1.3:**

Provision of Public Infrastructure to Attract Private Investments (US\$5.00 million). To encourage private sector investments in the Project regions, this component will support a selected number of private sector entities in Project areas that demonstrate interest and capacity to invest in tourism or agribusiness through investing in complementary public infrastructure that is necessary to ensure the viability of their investments (e.g., public facilities within vicinity of the investments,

road/sidewalk, water/sanitation, communications, etc.). The investment proposals would be subject to screening by a selection committee and there will be appropriate conditions tied to that as described below.

### **Phase One: Application & Screening**

**Eligibility Criteria.** Before registering business proposal via a transparent online application system, interested private investors are supposed to go through the following transparent eligibility criteria and make a self- assessment as to whether they meet the initial eligibility criteria. Failing to meet any of these criteria will result in disqualification of the proposal.

**Online Application Form.** Once the interested investors pass the above eligibility criteria, they will need to fill in the online application.

### **Phase Two: Evaluation & Selection**

**Full Investment Proposal Form.** On the basis of the completed application form, the ATDF will contact eligible investors to deliver full investment proposal that includes:

- Preliminary feasibility study describing the proposed investment, economic and financial viability, environment assessment, type and estimated number of jobs to be created.
- Detailed description and cost estimations of required public infrastructure to be provided by the Government.
- Profit/loss statements for the last 2 years.
- Proof of ownership of land/property.
- Proof of business viability (proof that entity is not under liquidation/property is not sequestrated); Evidence to show financial health of the investor/company.
- ISO/HACCP Certificates, if relevant.

**Evaluation System (including scoring and ranking criteria).** After careful study of received data, the ATDF will undertake the last phase of evaluation and selection process. A system of scoring & ranking criteria shown in the table below will be used:

**Full investment proposals will be scored according to the scoring & ranking criteria below:**

Criteria	1 score	2 scores	3 scores	4 scores	5 scores
Average annual profit based on last 2 years indicators (in US\$)	<50,000	50,000 – 100,000	100,001 – 500,000	500,001 – 1,000,000	>1,000,000
Ratio of self-financing investments and those of requested from Government	4- 4,5	4,5- 5	5 – 5,5	5,5 – 6	>6
Ratio of annual income and requested investment	0.5 – 1.0	1.0 – 2.5	2.5 – 3	3- 4,5	>4,5
Cost for each workplace (in US\$)	>50,000	30,001 - 50,000	15,001 - 30,000	5,001 - 15,000	<5,000

Implementation of proposals will be determined based on the overall score that each proposal accumulates (priority will be given to the proposals with the highest scores) and the approval of the PSC. Maximum available score is 20 point. Proposals with less than 10 points will be disqualified.

**Contract.** Contracts will be signed between selected investors and the ATDF, defining the rights and obligations of each party. After the signature of the abovementioned contract, ATDF will prepare detailed design of the public infrastructure works and announce a tender.

**Dispute resolution.** Either party having any claims to the other party relating to non-fulfillment or improper fulfillment of any obligations under this Agreement is authorized to apply to it in writing and state a reasonable period for remedy of defaults. In case of failure to reach agreement by the parties the dispute shall be resolved through court action.

**Sub-component 1.4:** Project management, designs and construction supervision (US\$4.74 million). The objective of this sub-component is to provide the Project implementing entity with funds for its operating cost, outreach and public awareness, preparation of feasibility studies and designs, and construction supervision. It will ensure quality implementation, sustainable management of the sites, and monitoring of the implementation of the Environmental and Social Management Framework (ESMF), site-specific environmental and social management documents, Resettlement Policy Framework (RPF) and Resettlement Action Plans (RAPs).

## **Component 2: Institutional Development (US\$ 4.45 million)**

65. The component will support the institutional capacity and performance of the Development Foundation Armenia (DFA), Ministry of Economy (MoE), the Historical and Culture Heritage Protection Agency (HCHPA), Project Implementing Entity (ATDF), and other local and regional entities in order for them to carry out the following activities: setting up of destination management organization and offices in key regions; marketing and promotion; preparation of sustainable site management plans for all of the Project’s cultural heritage sites; training for skilled workforce

development and capacity building; business start-up/expansion advisory service to tourism SMEs; and performance monitoring & evaluation activities.

66. The specific activities include the following:

### **Activity 2.1. Setting up of destination management organization and offices in key regions**

67. This will help create the institutional framework to ensure proper destination management, public-private-partnership at the DFA level, as well as and sustainability of investments made in regions. The assignment will include the following activities:

- Provide institutional and legal advice to define the best organization for the proposed establishment of destination management offices in key regions;
- Design and implement a Destination Management Network linking DFA to regional and local level management and promotional activities;
- Help establish the destination management office in each region (attached to the tourism information center), define institutional and work arrangements, draft staff TORs including scope of work and minimum qualifications, assist DFA in interviewing and appointing qualified staff, and offer on-the-job training to appointed staff;
- Suggest and carry out promotional activities; and
- Provide training, equipment and software so the new offices can pursue their mandate effectively.

### **Activity 2.2. Marketing and Promotion in each region**

68. This activity will promote Armenia and its regions as a new sustainable tourism destination and help create a mechanism for community participation, stakeholders' consultation and involvement of local government in developing tourism in the region. It will create an online marketing and promotion site that will increase awareness of the assets among local and international target markets. It will also design a sustainable tourism map that can be sold at tourism visitor centers. In addition, a set of promotional activities will be supported to encourage cooperation among stakeholders as a precursor to future destination management activities. Promotional activities will:

- Conduct consultation workshops with local communities around tourism and heritage sites;
- Launch an information outreach campaign to engage local communities in tourism development;
- Provide information about sites, attractions, routes and visitor services, including lodging, events, trails, routes and other information through the region's website;
- Produce maps and guidebooks;
- Serve as a platform for this pilot Project, but also as a general platform upon which tourism could eventually expand beyond the region;
- Tell the story of the regions (its health and ski features, cultural heritage, natural setting, live heritage, food and beverage, etc.) to attract visitors;
- Serve as an all-inclusive point of entry for information about tourism in the region;

- Incorporate media content from the regions, including photography and videos that feature the heritage assets of each region;
- Link this site into other social media channels;
- Design and launch a tourism network linking DFA to regional and local level management and promotional activities;
- Develop an online and social media marketing campaign; and
- Conduct targeted marketing and outreach.

### **Activity 2.3. Preparation of sustainable site management plans for Projects' cultural heritage sites**

69. This activity supports the preparation of visitor management plans for key cultural and natural heritage sites. It will provide on-the-job training to the HCHPA for the following:

- Defining and applying methods to assess the sites' carrying capacity, based on local conditions; also, designing guidelines for each site and a tool-kit for operating the visitor programs;
- Defining and illustrating visitor trails, infrastructure, locations of service units, access and exits, and the nature of each site; also, describing visitor flows and projections, needed infrastructure capacity, required staff and qualifications, O&M guidelines, translation aids and, techniques, monitoring, research and conservation measures; and
- Mapping sites.

### **Activity 2.4. Training for skilled workforce development and capacity building**

70. This activity will provide demand-driven capacity-building activities to various groups of beneficiaries, producing an integrated workforce development program around the skills needed in tourism-related businesses in the selected regions. The groups include but are not limited to hotel staff, tour operators and guides, and officials at the stakeholder institutions, including DFA and ATDF. This will help promote and strengthen tourism-related businesses/activities. Efforts will focus on having local communities (equally involving men and women), contribute to local economic development and benefit from it.

71. Such activities will (a) produce a better understanding of the workforce gaps, including skills, numbers, and capacities, to educate by gender; (b) increase capacity in regions and DFA to provide world-class academic training in hospitality and tour management, marketing, customer service, cultural heritage interpretation, at various skill and managerial-levels; (c) increase knowledge about the region among restaurateurs and their employees, tour guides, and other key staff; and (d) encourage local communities to start new small and medium-size enterprises.

### **Activity 2.5. Cultural heritage advisory service**

72. The Project will help to: (a) Oversee the preparation process of Haghpat and Sanahin, World Heritage Site master plan, in compliance with the World Heritage Committee's decisions; (b) Establish advisory service on the World Heritage Sites Tentative List for Armenia and provide assistance to HCHPA in preparing nomination files for inscription; (c) Provide on the job capacity

building to HCHPA and municipalities on cultural heritage preservation and site management plans; and (d) Promote cultural heritage as unique tourism products in both the national tourism strategy and the global Silk Road initiative. This activity will be implemented by the UNESCO's World Heritage Center on a cost recovery basis under a direct contract arrangement.

#### **Activity 2.6. Business start-up/expansion advisory service to tourism SMEs**

73. This activity will provide business advisory services for SME development – for example, to guest-houses, restaurants, handicraft workshops, organic food and beverage firms, so that they can access micro-credit financing resources available at the Ministry of Economy. The activity will directly benefit the poor by providing them new opportunities for increased income in agriculture, tourism, handicrafts and any other activity which will generate income from the increased flow of tourists in the affected cultural heritage sites. This will include consultations, meetings, and workshops that will link interested entrepreneurs with the micro-credit financing resources available at the Ministry of Economy or other local business associations and financial institutions. Depending on beneficiary capacity, guidance will be provided to the entrepreneurs on preparing loan applications, negotiating the terms of the loans, and better understanding the appraisal requirements of financial institutions. A detailed design and operational arrangement with the local financial institutions for achieving long-term bankable activities will be further developed.

#### **Activity 2.7. Performance monitoring and evaluation activities**

74. This activity will improve the understanding of tourism issues and introduce ways to monitor the effectiveness of efforts over the next four years. The activity will also monitor the Project's results indicators annually. By measuring tourist arrivals/numbers, spending, opinions, occupancy rates, increases in tourism-related investments, and gender aspects, the Government will be better able to make adjustments when needed, and allocate resources for infrastructure, marketing, human resources, and policy reforms. At present, authorities have difficulty assessing the tourism activities in the region, as staff lacks the expertise to conduct surveys, the software available cannot accurately measure the accommodation statistics, and data is not reliable.

75. This will involve (a) designing and conducting seasonal surveys to determine the number and origin of visitors, spending activities, and satisfaction levels, and (b) gathering baseline data from both formal and informal tourism enterprises about the length of tourist stays, as well as employment rates (by gender), tax revenues, estimates of gross revenues, expenditures, rates of profitability, and other variables through surveys, interviews and questionnaires. The Government would learn the amount that tourism enterprises spend on local goods and services and thus be able to measure the indirect/direct impacts of the sector on the regional and national economy. Also, the survey will identify the challenges that businesses face when attempting to expand and become more profitable, particularly as they affect male and female entrepreneurs.

- Prepare a baseline database to determine the number of visitor arrivals, occupancy rates, average daily spending, and satisfaction levels;
- Compile a complete list of all tourism-related enterprises, volume of tourism-related investments and points of sale that are officially registered and operating;

- Provide an accurate estimate of the number and size of informal businesses/individuals in the tourism sector;
- Gather information such as employment rates, tax revenues and estimates of gross revenues and expenditures to provide an overview of the direct/indirect economic impact of the tourism sector;
- Identify and assess barriers preventing informal entrepreneurs from joining the formal sector; and
- Collect and monitor relevant gender data to better understand the roles of males and females in tourism, the potential impact of the Project by gender, and the constraints these entrepreneurs face in the region.

76. In addition, as part of the Project's results assessment and beneficiaries' feedback, a baseline household survey is currently being conducted to solicit beneficiary's feedback and establish socioeconomic baseline data at the household level. The survey covers the main beneficiary settlements regions. The baseline survey is being conducted by an NGO with support from the Bank team and is expected to be finalized in winter 2015. A follow up survey will be conducted annually upon Project's completion.

**Component 3: Contingent Emergency Response (CER):** This component will support community services and infrastructure rehabilitation and reconstruction to respond to an Eligible Emergency within the Selected Regions, as needed. This component is being introduced, without introducing changes to the PDO or the Results Framework. Having this component is a precautionary measure that would allow the GoA and the Bank to quickly channel the loan financing for emergency recovery efforts following an adverse natural or man-made disaster and declaration by the GoA of a State of Disaster and Emergency. The built-in CER with an associated new disbursement category would allow the GoA to request the Bank to reallocate loan proceeds to this sub-component towards an emergency response for the municipal infrastructure sector within the five regions targeted by this Project in the Borrower's territory.

The new disbursement category will have a zero dollar allocation, with 100 percent IBRD financing. If the CER were to be triggered, and the Bank is satisfied with the evidence that the withdrawal conditions, as defined in the Loan Agreement, are met, the Borrower will request the reallocation of proceeds to the CER sub-component and can start disbursing. The Project may require at a later date the need to revise the PDO and the Results Framework and Monitoring Indicators in order to reflect the revised scope of the Project. This sub-component could also be used to channel additional funds should they become available as a result of the emergency



**Annex 3: Implementation Arrangements**  
**ARMENIA: Local Economy and Infrastructure Development Project**

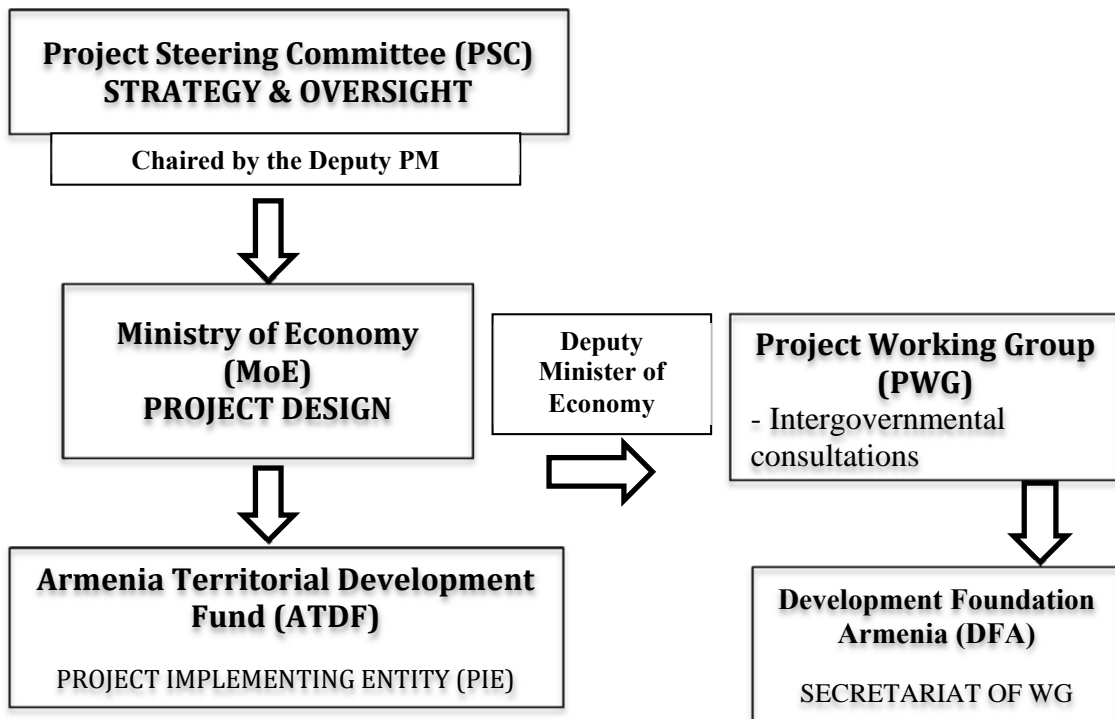
**1. Project Institutional and Implementation Arrangements**

*a) Project administration mechanisms*

1. The Ministry of Economy will take responsibility for the overall Project design, supported by Armenia Territorial Development Fund (ATDF) for implementation of the Project activities. High level oversight of the Project will be carried out by a Project Steering Committee (PSC), chaired by Deputy Prime Minister. The PSC will be composed by MoE, MoTA&ES, MoC, MoF, MoNP, MoUD, DFA and the Project Implementing Entity with responsibilities of multi-agency coordination, high-level strategic decisions, approval of Investment Subproject proposals, and overall oversight of Project implementation.

2. An inter-agency Working Group, chaired by the Deputy Minister of Economy, will be established to support stakeholder coordination for the Project preparation and implementation. The DFA will serve as secretariat for the WG. The WG will review subprojects, monitor implementation progress, and address complex issues and concerns on time. They will be involved in various aspects of bid evaluation and supervision, technical recommendations to the PSC for high level decision-making matters. The Working Group will be composed by the technical representatives of, *inter alia*, MoE, MoTA&ES, MoC, MoF, MoUD, HCHPA, MoNP, the Project Implementing Entity, DFA, the Armenian Apostolic Holy Church, and local-self-governments benefitting from the Project. The Project will be carried out in accordance with the Project Operations Manual describing the rules, methods, procedures, guidelines, and standard documents.

**Project Implementation and Institutional Arrangements**



3. The ATDF was established in 2015 and has replaced the Armenia Social Development Fund (ASIF). The ATDF/ASIF has been successfully conducting traditional short-term community investment micro-projects for the past nine years, and has strong administrative capacity and technical expertise. ASIF was created in 1996 and has successfully completed two IDA-financed projects. ASIF (Credit No. 2784-AM) was implemented from 1996 to 2000 and ASIF II (Credit No. 3348-AM) was implemented from 2000 to 2006. ASIF has been implementing the ASIF III project since 2006, with the main credit (Credit No. 4238-AM) and three additional financings (Credit No. 4548-AM, Loan No. 7847-AM and Credit No. 5071-AM) already completed. ASIF generated a sound implementation record developed through 18 years of project implementation. Its new mandate includes the implementation of more long-term socioeconomic development projects involving larger geographic areas. ATDF is in the process of strengthening its capacity by adding new departments or units and hiring new staff. Here, the proposed Project will provide technical assistance and global experiences to the proposed ATDF to enable it to assume its mandate successfully.

4. ATDF, as the implementing agency, has been administering its operations as a semi-autonomous entity governed by its Board, with authority to manage and administer its program under operating guidelines and procedures set out in the Project Operations Manual (POM). The ATDF Board guides and supervises the administration and operations of ATDF and comprises the Prime Minister, Minister of Territorial Administration and Emergency Situations, Minister of Finance, Minister of Economy, Minister of Urban Development, Minister of Education and Science, Minister of Labor and Social Issues, and representatives of four NGOs and Armenian donor associations. ATDF, headed by the Executive Director, comprises five departments and a number of specialized units. The Institutional Support Department consists of three units: the Community Outreach and Promotion Unit, the Training and TA Coordination Unit, and the Public Relations and Fundraising Unit. The Project Appraisal and Implementation Department consists of four units: Appraisal and Analytic, Follow-up, and Estimation. The Finance and Administrative Department consists of the Accounting and General Administration units. The Procurement Department consists of the Works and Goods Procurement Consultants Selection units. The Management Information, Monitoring and Evaluation Department consist of the Information Technology Unit and the Monitoring and Evaluation Unit. There is also the Legal Unit reporting directly to the Executive Director.

5. ATDF will be responsible for the fiduciary implementation of the Project. This includes procurement and financial management (FM) functions. The FM function includes planning and budgeting, accounting, financial reporting, external auditing, funds flow, and internal controls. No significant weaknesses were identified at ATDF. It was agreed that prior to the Project implementation ATDF will (a) hire additional FM/accounting staff, acceptable to the Bank, to manage the increased workload; (b) develop the Project's Financial Management Manual (FMM), acceptable to the Bank, to reflect the FM arrangements and controls under the Project, and (c) finalize the upgrade of the accounting system. Those are capacity building actions but not conditions.

6. The ATDF has substantial experience in procurement under Bank-financed projects. It has three procurement specialists who have acquired significant knowledge and experience in procurement according to the World Bank's Procurement and Consultant Guidelines. ATDF's procurement capacity will have to be enhanced considering the scope and volume of its current and future operations. Until additional qualified procurement staff is in place, the procurement risk

rating will remain Substantial. Adequate mitigation measures will be put in place and will be closely monitored to ensure that the residual Project risk is acceptable.

7. The ATDF portfolio currently includes the World Bank Loan under the SILD project and the US\$303,000 grant from Swiss Development Cooperation (SDC) to support preparation of Component 2 of the SILD project and ASIF transition into the ATDF. SDC plans to support territorial development through a grant to the Government of Armenia to be implemented by ATDF under a Trust Fund arrangement with the World Bank. The grant will amount to CHF 2,885,000 (US\$3,095,000) and will provide financing for investments in inter-community infrastructure and services in seven clusters in Syunik and Vayots Dzor marzes, where consolidation of communities is taking place or planned. USAID plans to provide US\$8.6 million to support inter-community development subprojects through ATDF in the 14 pilot clusters. Besides USAID and SDC, other Donors are considering collaborating with ATDF for implementation of their projects. They include the Asian Development Bank (ADB) and the European Investment Bank (EIB), who are preparing a project to support seismic retrofitting of secondary schools throughout Armenia (US\$107 million for the initial phase of the ADB project supplemented by US\$125 million from the EIB). USAID, SDC and ADB plan to start disbursing to ATDF in this calendar year (the ADB project will have a provision for retroactive financing). Thus, the ATDF portfolio is expected to expand rapidly and simultaneously in breadth and scale, which is a risk for ATDF's capacity to implement.

8. The DFA will provide tourism specific policy and strategy development support to the Project. Together with the tourism department at the MoE, they provide overall policy development, management, monitoring and evaluation of all programs in the tourism sector. The DFA promotes the development of tourism to and within Armenia. The tourism branch within the new DFA is mandated with tourism policy development, tourism promotion, destination management and increasing tourism spending and receipts. The Project will provide technical assistance and global experiences to the tourism branch to help it assume its mandate successfully.

9. The highest governing and control body of the DFA is the Board of Trustees. The Board of Trustees consists of 13 members representing the public and private sectors, and is chaired by the Prime Minister of the Republic of Armenia.

10. The MoE and DFA are currently working with the USAID and GIZ. The current projects include Aviation Sector Reform, providing assistance to draft a new aviation law and supporting regulations; on-going support to negotiate and/or re-negotiate Air Service Agreements (ASAs); Technical assistance to set-up framework necessary for Armenia's readiness for accession to the European Common Aviation Area (ECAA), as well assistance to finalize the reorganization of aviation functions and responsibilities at the MoE and the General Department of Civil Aviation. In the tourism sector development, the cooperation between MoE and USAID involves support for drafting a tourism strategy and action plan; development of a Tourism Satellite Account; and the development of new tourism products. The MoE and DFA cooperates with GIZ on information Centers - development of the concept paper on Armenia Visitor Information Center network including the business plan for the Yerevan Visitor Information Center; certification of tour operators and tour guides (study tour); Tourism Statistics – feasibility study will be conducted for the development of a possible tourism satellite account in Armenia, in addition Tourism Concept

paper – Review of the National Tourism concept paper. The German Financial Co-operation with Armenia involves support Program for Protected Areas - focusing on the protected areas in southern Syunik with 50 percent supporting the development of better capacity in the protected areas and 50 percent investing into the communities around the Protected Areas. The MoE and DFA also cooperate with WWF and CNF on developing tourism products in the mentioned protected areas.

## **Financial Management, Disbursements and Procurement**

### ***Financial Management***

11. The FM arrangements in place at ATDF were reviewed and assessed as acceptable to the Bank for the Project's implementation<sup>2</sup>. The Project FM assessment undertaken in September 2015 confirmed that in particular (i) the FM/accounting staff at ATDF has extensive experience in the Bank-financed projects; (ii) the internal control and filing systems in place at ATDF are overall adequate; (iii) results from the latest annual audit of the Bank-financed projects implemented by ATDF were satisfactory, and (iv) the IFRs on the other Bank-financed projects implemented by ATDF were always received on time and in general found to be acceptable to the Bank.

12. As capacity building actions (but not conditions), it was agreed that prior to the Project implementation ATDF will (a) hire additional FM/accounting staff, acceptable to the Bank, to manage the increased workload; (b) develop the Project's FMM, acceptable to the Bank, to reflect the FM arrangements and controls under the Project, and (c) finalize the upgrade of the accounting system.

13. The overall FM risk for the Project is assessed as moderate with the Inherent Risk and Control Risk also assessed as Moderate.

14. ATDF is capable to prepare relevant budgets, which are approved by ATDF Board. The annual budget is based on the procurement plan. All changes in procurement plan are agreed in advance with the Bank. Once reviewed and endorsed by the MOF, the Project budget is included into the State Budget. For financial reporting purposes ATDF uses cash basis IPSAS (for the Project reporting) and IFRS (for the entity reporting). The chart of account used for the ongoing Bank-financed project can be adapted to be used for this Project. For accounting purposes ATDF utilizes an in-house developed system, which incorporates both the accounting module and the MIS. The software automatically generates SOEs and IFRs, and is considered to be adequate. Given recently increased multi-donor portfolio of ATDF, it currently upgrades the accounting system to meet the requirements for multi-donor reporting, which needs to be completed by the Project implementation (a capacity building action but not a condition).

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<sup>2</sup> There will be no changes relating to the project implementation agency and the FM arrangements under the project, in case the disbursements under the Contingent Emergency Response component are triggered. It is envisaged that under the contingent emergency response sub-component no co-financing would be required, and the Bank will finance 100 percent of the eligible expenditures under the sub-component in case a major disaster occurs.

15. ATDF has overall adequate internal control system in place for implementation of the Project, including adequate segregation of duties among the FM/accounting staff. The internal controls and procedures in place at ATDF are documented in the FMM. It was agreed that prior to the Project implementation, ATDF will develop a separate FMM for this Project (a capacity building action but not a condition) to reflect the FM arrangements and controls under the Project.

16. The reconciliation of the Project accounts with the Bank Client Connection system is done after each withdrawal application is sent/funds received. The project SOEs are generated from the accounting software. The stocktaking is conducted annually. The backup of the accounting data is done on every working day on an external hard disk.

17. Project management-oriented Interim Un-Audited Financial Reports (IFRs) will be used for the Project monitoring and supervision. ATDF has significant experience in IFR preparation, and the IFRs of projects implemented by ATDF were always received on time and found to be in general acceptable to the Bank. The format of the IFRs has been confirmed during assessment and includes: (i) Project Sources and Uses of Funds, (ii) Uses of Funds by Project Activity, (iii) Designated Account Statements, (iv) A Statement of the Financial Position, and (v) SOE Withdrawal Schedule. ATDF will be producing a full set of IFRs every calendar semester throughout the life of the Project. These financial reports will be submitted to the Bank within 45 days of the end of each calendar semester. The first semi-annual IFR will be submitted after the end of the first full semester following the initial disbursement.

18. ATDF's current auditing arrangements are satisfactory to the Bank (there are no pending audits for the projects implemented by ATDF, and no major issues have arisen in the latest audit of the project implemented by ATDF), and it has thus been agreed that similar audit arrangements will be adopted for the Project, to cover the Project financial statements. The audit of the entity (ATDF) and the Project will be conducted (i) by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank and procured by ATDF, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

19. The annual audits of the entity and the Project financial statements will be provided to the Bank within six months since the end of each fiscal year; and for the Project also at the Project closing. If the period from the date of effectiveness of the loan to the end of the Borrower's fiscal year is no more than six months, the first audit report may cover financial statements for the period from effectiveness to the end of the second fiscal year. The Borrower has agreed to disclose the audit reports for the Project and the entity within one month of their receipt from the auditors and acceptance by the Bank, by posting the reports on its official web site. Following the Bank's formal receipt of these reports from the Borrower, the Bank will make them publicly available according to World Bank Policy on Access to Information. The cost of the audit will be financed from the proceeds of the Project.

## *Disbursements*

20. The FM/accounting staff of ATDF is well aware of the Bank disbursement policies and procedures. ATDF will establish a Designated Account (DA), in US\$, specifically for this Project, in the Single Treasury Account of the Ministry of Finance (MOF) at the Central Bank of Armenia (CBA), which is holding almost all DAs for ongoing World Bank projects in Armenia. The Project's DA will be managed by ATDF. Project funds will flow from the Bank, either: (i) via the DA to be maintained in the State Treasury, which will be replenished on the basis of SOEs or full documentation; or (ii) on the basis of direct payment withdrawal applications and/or special commitments, received from ATDF. Withdrawal applications documenting funds utilized from the DA will be sent to the Bank at least every three months. The following disbursement methods may be used under the Project: Reimbursement, Advance, Direct payment and Special Commitment. The DA's ceiling is proposed to be established at US\$4,000,000. Detailed instructions on withdrawal of loan proceeds are provided in the Disbursement Letter.

21. The government funding will be made via the State Treasury through normal budget allocation procedures initiated by the implementing agency in accordance with standard Treasury and Budget execution regulations. The government counterpart funding is assessed to be adequate for a number of years. Meanwhile the recent economic slowdown and accompanied sharp depreciation of the local currency, if they persist, may have an adverse impact on the level and timeliness of the government counterpart funding.

22. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in US\$)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, consultants' services and Training under components 1 and 2 of the Project	53,962,500	80%
(2) Operating Costs	900,000	80%
(3) Front-end Fee	137,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Goods, works, non-consulting services, consultants' services under component 3 of the Project	0	100%
<b>TOTAL AMOUNT</b>	<b>55,000,000</b>	

## ***Procurement***

23. Procurement for the Project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services Under IBRD Loans and IDA Credits and Grants" dated January 2011 and revised as of July 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised as of July 2014 (Consultant Guidelines) and the provisions stipulated in the Legal Agreement (LA) and POM. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply.

### Thresholds for Procurement Methods

24. **Goods:** Goods and equipment estimated to cost US\$1,000,000 or more would be procured through International Competitive Bidding (ICB). Goods estimated to cost less than US\$1,000,000 and more than US\$100,000 would be procured through National Competitive Bidding (NCB). Readily available off-the-shelf goods estimated to cost equal to or less than US\$100,000 each would be procured through Shopping (SH) on the basis of at least three written quotations obtained from qualified suppliers. Direct Contracting (DC) may be used in accordance with the requirements outlined in para 3.7 of the Procurement Guidelines.

25. **Works:** Works estimated to cost equal to US\$5,000,000 or more would be procured through ICB. Works estimated to cost less than US\$5,000,000 and equal to or more than US\$200,000 would be procured through NCB. Contracts estimated to cost less than US\$200,000 each would be procured through Shopping (SH) procedures on the basis of at least three written quotations obtained from qualified contractors. Direct Contracting (DC) for works may be used in accordance with the requirements outlined in para. 3.7 of the Procurement Guidelines.

26. **Consultant Services:** Consultancy services to be provided by consulting firms estimated to cost more than US\$300,000 would be procured through Quality and Cost Based Selection (QCBS) method. Consultancy services to be provided by consulting firms estimated to cost equal to or less than US\$300,000 may be procured through Consultants' Qualifications Selection (CQS) method. Other methods such as Fixed Budget Selection (FBS), Quality Based Selection (QBS), and Least Cost Selection (LCS) shall be made available through the Legal Agreement irrespective of the amount. Individual Consultants (IC) will be selected in accordance with Section V of the Consultant Guidelines. Single Source Selection (SSS) method for firms and individuals will also be specified in the Legal Agreement. For assignments estimated to cost equal to or less than US\$300,000, the shortlist may comprise only of national firms according to the paragraph 2.7 of the Consultant Guidelines. However, if foreign firms express interest, they shall be considered.

27. NCB of the Borrower may be used for procurement of goods, works and non-consulting services for the project, provided that the following provisions are complied with:

- (a) Entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the government unless they are and can be shown to be legally and financially autonomous and operate under commercial law.
- (b) Post-qualification criteria shall only pertain to past contract performance, financial, managerial, and technical capabilities of bidders.
- (c) Joint venture partners shall be jointly and severally liable for their obligations.
- (d) Estimated contract prices shall not be advertised.
- (e) Except for late bids, no bids shall be rejected at the bid opening. The opening procedures shall comply with conditions of paragraph 2.45 of the Procurement Guidelines.
- (f) No bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of paragraphs 2.61–2.64 of the Procurement Guidelines are met.
- (g) All bid evaluation criteria shall be quantifiable in monetary terms or expressed as pass/fail criteria.
- (h) Without limitation to paragraph 3 of Appendix 1 to the Procurement Guidelines, advance Bank approval is required for any modifications in the contract scope/conditions during implementation.

Prior Review Thresholds

<i>Type of Procurement</i>	<i>Prior Review Threshold</i>
Goods	\$1,000,000
Works	First ICB regardless of value and contracts equal to or above \$10,000,000 and first NCB
IT System & Non-Consulting Services	\$1,000,000
Direct Contracting*	\$60,000
Consulting Services (Firm)	First QCBS regardless of value and contracts equal to or above \$500,000 and first CQS
Consulting Services (Individual)	\$200,000
Single Source Selection**	\$5,000

\*Must comply with the requirements of para 3.7 of the Procurement Guidelines.

\*\* Must comply with the requirements of paras. 3.8-3.11 of the Consultant Guidelines.

28. All TORs are subject to the Bank’s prior review irrespective of the prior or post review status of the consulting assignment in the procurement plan.



### Post Review Ratio

29. Contracts not subject to Bank's prior review will be post reviewed by Bank's supervision missions.

### Procurement Plan

30. All contracts to be financed under the project, the various procurement or consultant selection methods, the estimated costs, prior review requirements, and time frame have been agreed between the Borrower and the Bank and presented in the Procurement Plan (see below). The Procurement Plan will be updated as required to reflect the actual Project implementation needs and improvements in institutional capacity. The Procurement Plan its updates or modifications, shall be subject to the Bank's prior review and no objection before implementation. The final version of the Procurement Plan will be disclosed (without cost estimates) and posted in the Bank's external website in accordance with paragraph 1.18 of Procurement Guidelines and paragraph 1.25 of the Consultants Guidelines, ATDF's database, and [www.procurement.am](http://www.procurement.am).

31. Works contracts to be procured under the project include rehabilitation of heritage hubs, construction of tourism facilities and improvement of access roads and parking areas. There is no prequalification anticipated under the project and works are to be procured using NCB procedure.

32. Consultants to be selected under the project include services for preliminary assessment of buildings to undergo rehabilitation, preparation of detailed designs for the rehabilitation of heritage hubs and author's supervision, technical supervision of works, destination management, marketing and promotion, audit services, monitoring and evaluation, and training and site management plan. UNESCO will be contracted under Single Source Selection for advisory services for cultural heritage.

33. Goods to be procured under the project include vehicles, furniture, and equipment for the rehabilitated sites and tourism facilities.

A General Procurement Notice (GPN) will be published in UNDB on-line and in its printed version after negotiations. Specific Procurement Notices (SPN) for all ICB packages and consulting contracts each with cost estimate above US\$300,000 will also be published in the UNDB. In addition, the SPNs for civil works contracts will be provided to the Union of Builders of Armenia.

### Filing and Record Keeping

34. ATDF will keep complete files of all procurement packages under the project to facilitate post review and Project audit.

35. **Procurement Plan.** See table below

ARMENIA LOCAL ECONOMY & INFRASTRUCTURE DEVELOPMENT PROJECT						
Package No.	Description of Contract Packages	No. of Packages	Estimated Cost (US\$) (including local taxes)	Estimated Cost (US\$) (Loan proceeds)	Procurement Method	Review By Bank (Prior/ Post)
1	2	3	4	5	6	7
<b>WORKS</b>						
<b>Component 1 - Urban Regeneration and Tourism Circuit Development</b>			<b>57,132,000.00</b>	<b>47,610,000.00</b>		
<b>Subcomponent 1.1 Heritage Hub Regeneration</b>			<b>25,284,000.00</b>	<b>21,070,000.00</b>		
<b>1.1.1</b>	<b>Heritage Hub Regeneration in Areni</b>		<b>6,600,000.00</b>	<b>5,500,000.00</b>		
<i>1.1.1 a</i>	<i>Areni UR (houses restoration, upgrading of access road to Areni village, village square, street lighting, pedestrian trails, vehicular and pedestrian access to Momik church, multifunctional green areas, water, drainage, etc. tbd)</i>	tbd	3,600,000.00	3,000,000.00	NCB	Post
<i>1.1.1 b</i>	<i>Areni Discovery Complex (Areni market place, show cave visitor center, amphitheater and urban landscape)</i>	tbd	3,000,000.00	2,500,000.00	NCB	Post
<b>1.1.2</b>	<b>Heritage Hub Regeneration in Goris</b>		<b>10,884,000.00</b>	<b>9,070,000.00</b>		
<i>1.1.2 a</i>	<i>Goris Parks Rehabilitation and river-front linear park</i>	tbd	1,680,000.00	1,400,000.00	NCB*	Prior
<i>1.1.2 b</i>	<i>Restoration of Historical Bath under PPP</i>	1	2,640,000.00	2,200,000.00	NCB	Post
<i>1.1.2 c</i>	<i>Goris UR houses restoration, municipal infrastructure, Road/sidewalks, street lighting, water, drainage)</i>	tbd	4,644,000.00	3,870,000.00	NCB	Post
<i>1.1.2 d</i>	<i>Refurbishment of Goris Theater</i>	1	960,000.00	800,000.00	NCB	Post
<i>1.1.2 e</i>	<i>Refurbishment of Goris ICT Youth Center with PPP</i>	1	960,000.00	800,000.00	NCB	Post
<b>1.1.3</b>	<b>Heritage Hub Regeneration in Meghri</b>	<b>1</b>	<b>4,200,000.00</b>	<b>3,500,000.00</b>		
<i>1.1.3 a</i>	<i>Restoration of old houses</i>	tbd	1,800,000.00	1,500,000.00	NCB	Post
<i>1.1.3 b</i>	<i>Meghri UR (Municipal infrastructure projects, road/sidewalks, street lighting, water, drainage)</i>	tbd	2,400,000.00	2,000,000.00	NCB	Post
<b>1.1.4</b>	<b>Village Heritage Restoration in Tatev and neighboring villages</b>		<b>3,600,000.00</b>	<b>3,000,000.00</b>		
<i>1.1.4 a</i>	<i>Revitalization of Tandzatap heritage village with PPP</i>	1	1,800,000.00	1,500,000.00	NCB	Post

1.1.4 b	Revitalization of Tatev heritage village with PPP	1	1,800,000.00	1,500,000.00	NCB	Post
<b>Subcomponent 1.2 Infrastructure for Tourism Circuit Development</b>			<b>20,160,000.00</b>	<b>16,800,000.00</b>		
<b>1.2.1</b>	<b>Integrated Revitalization of Cultural Heritage Sites</b>		<b>13,800,000.00</b>	<b>11,500,000.00</b>		
1.2.1 a	Construction of archeological observatory, parking and access in Khor Virap	1	1,200,000.00	1,000,000.00	NCB	Post
1.2.1 b	Construction of tourism facilities in Garni	1	1,200,000.00	1,000,000.00	NCB	Post
1.2.1 c	Construction of tourism facility in Gehard	1	1,200,000.00	1,000,000.00	NCB	Post
1.2.1 d	Construction of Discovery Centers and access/parking improvement in Sanahin and Haghpat	1	3,600,000.00	3,000,000.00	NCB	Post
1.2.1 e	Conservation works in Haghpat and Sanahin	tbd	1,800,000.00	1,500,000.00	NCB	Post
1.2.1 f	Construction of tourism facilities and Cave restoration for Mozrov Cave	1	2,640,000.00	2,200,000.00	NCB	Post
1.2.1 g	Construction of tourism facilities, access and parking improvement in Karahunge (Shonehenge)	1	960,000.00	800,000.00	NCB	Post
1.2.1 j	Construction of Divin museum	1	1,200,000.00	1,000,000.00	NCB	Post
<b>1.2.2</b>	<b>Improvement of Access Roads and Parking</b>		<b>6,360,000.00</b>	<b>5,300,000.00</b>		
1.2.2 a	Rehabilitation of access road to Garni/Gehard	1	1,800,000.00	1,500,000.00	NCB	Post
1.2.2 b	Improvement of on-road parking and safety along Areni winery section of H40 highway	1	720,000.00	600,000.00	NCB	Post
1.2.2 c	Rehabilitation of access road and parking to Garni Stone Symphony park	1	1,440,000.00	1,200,000.00	NCB	Post
1.2.2 d	Rehabilitation of access road to Stephanavans Botanical garden	1	960,000.00	800,000.00	NCB	Post
1.2.2 e	Rehabilitation of access road to Khndzoresk	1	1,440,000.00	1,200,000.00	NCB	Post
<b>Subcomponent 1.3 Public-Private Infrastructure (PPI)</b>			<b>6,000,000.00</b>	<b>5,000,000.00</b>		
1.3.1	Public Infrastructure for PPI Dev (8-10 packages)	mult	6,000,000.00	5,000,000.00	NCB	Post
<b>Subcomponent 1.4</b>	<b>Project Management, Design, Supervision and Operating Costs</b>		<b>5,688,000.00</b>	<b>4,740,000.00</b>		
1.4.1	Consultant services for HHR		2,028,000.00	1,690,000.00		
1.4.1 a	Detailed design and construction Author's supervision	mult	1,200,000.00	1,000,000.00	QCBS/CQS	tbd
1.4.1 b	Expertise of buildings stability, ventilation, power and water supplies and drainage	1	144,000.00	120,000.00	CQS	Prior

1.4.1 c	Technical Supervision for Construction/Regeneration	mult	540,000.00	450,000.00	CQS	Post
1.4.1 d	Expertise of Architectural Design	1	144,000.00	120,000.00	CQS	Post
<b>1.4.2</b>	<b>Consultant services for TDC</b>		<b>1,500,000.00</b>	<b>1,250,000.00</b>		
1.4.2 a	Detailed design and construction Author's supervision	mult	900,000.00	750,000.00	QCBS/CQS	tbd
1.4.2 b	Expertise of buildings stability, ventilation, power and water supplies and drainage systems	1	90,000.00	75,000.00	CQS	Post
1.4.2 c	Technical Supervision for Construction/Regeneration	mult	420,000.00	350,000.00	CQS	Post
1.4.2 d	Expertise of Architectural Design	1	90,000.00	75,000.00	CQS	Post
<b>1.4.3</b>	<b>Consultant services for PPI</b>		<b>450,000.00</b>	<b>375,000.00</b>		
1.4.3 a	Detailed design and construction Author's supervision	mult	270,000.00	225,000.00	CQS	Post
1.4.3 b	Expertise of buildings stability, ventilation, power and water supplies and drainage systems	1	30,000.00	25,000.00	CQS	Post
1.4.3 c	Technical Supervision for Construction/Regeneration	mult	120,000.00	100,000.00	CQS	Post
1.4.3 d	Expertise of Architectural Design	1	30,000.00	25,000.00	QCS	Post
1.4.4	Project Audit	5	90,000.00	75,000.00	CQS	Post
1.4.5	Furniture	1	36,000.00	30,000.00	Shopping	Post
1.4.6	Vehicles	1	84,000.00	70,000.00	Shopping	Post
1.4.7	Operating Costs		1,080,000.00	900,000.00		
	Unallocated Amount		420,000.00	350,000.00		
<b>Component 2 - Institutional Development</b>			<b>5,340,000.00</b>	<b>4,450,000.00</b>		
<b>Subcomponent 2.1 Capacity Building for the Tourism and Culture Sector</b>			<b>4,380,000.00</b>	<b>3,650,000.00</b>		
2.1.1	Destination Management, Marketing, Promotion and Mobile Application	1	1,200,000.00	1,000,000.00	QCBS	Prior
2.1.2	Training (workforce development)	mult	480,000.00	400,000.00	CQS	Post
2.1.3	Cultural Heritage Advisory Service (UNESCO)	1	420,000.00	350,000.00	SSS	Prior
2.1.4	Site management plan	mult	960,000.00	800,000.00	QCBS/CQS	tbd
2.1.5	Organizing Tourism Promotion Workshops	1	720,000.00	600,000.00	NCB	Post

2.1.6	Monitoring and Evaluation	1	600,000.00	500,000.00	QCBS	Prior
2.1.7	Technical Support Consultancy Services	tbd	240,000.00	200,000.00	tbd	tbd
<b>Subcomponent 2.2 Business Advisory Services for SME Development</b>			<b>960,000.00</b>	<b>800,000.00</b>		
2.2.1	Advisory Services to SME Development	mult	960,000.00	800,000.00	QCBS/CQS	tbd
	<b>GOODS</b>		<b>1,128,000.00</b>	<b>940,000.00</b>		
	<b>Total</b>		<b>63,600,000.00</b>	<b>53,000,000.00</b>		
	<b>Price and Work Contingencies</b>		<b>2,235,000.00</b>	<b>1,862,500.00</b>		
	<b>Front-End Fee</b>		<b>165,000.00</b>	<b>137,500.00</b>		
	<b>Grand Total</b>		<b>66,000,000.00</b>	<b>55,000,000.00</b>		

The Procurement Plan's subprojects and their estimated costs are indicative, which will be vetted by the Ministry of Economy, the Working Group and endorsed by Project Steering Committee before a no objection is provided by the World Bank for any subproject.

36. The procurement related risks are summarized in Table 3.1 below.

**Table 3.1: Summary Risk Assessment**

Description of Risk	Rating of Risk	Mitigation Measures	Rating of Residual Risk
Current procurement staff is not able to cope with the increased workload under LEIDP.	Substantial	ATDF will hire additional qualified procurement staff or procurement consultant.	Moderate
High turnover of procurement staff due to low salary.	High	ATDF will hire additional qualified procurement staff or procurement consultant.	Substantial
Newly procurement staff may not have sufficient knowledge and experience in Bank procurement.	Substantial	ATDF's procurement staff should continuously improve their knowledge of Bank's procurement procedures by attending training/workshops offered by the World Bank, familiarizing themselves with the Procurement and Consultant Guidelines and on-the-job training.	Moderate
Given the multi-stakeholder environment, possibility of unnecessary intervention and pressures resulting in implementation delays	Substantial	(a) Educate stakeholders about the POM through ATDF's Institutional Support Department. (b) Ensure transparent decision making based on evaluation criteria disclosed in bidding documents and proposal documents.	Moderate

Inadequate capacity in the DFA to prepare TORs and technical specifications and implement Bank-financed Project.	Substantial	(a) DFA will apply additional efforts to improve the technical parts of procurement documents and quality of TORs for consulting services. (b) Project to finance consulting services to build capacity in the DFA.	Moderate
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*Environmental and Social (including safeguards)*

37. OP/BP 4.01 Environmental Assessment is triggered, because the Project includes investment components to develop infrastructure. None of the activities are expected to have significant, long-term, or irreversible impacts on the natural environment. Thus, the Project is classified as environmental Category B. The Borrower prepared ESMF for the Project implementation purposes. ESMF guides conduct of environmental, social, and cultural heritage screening of investment subprojects and PPP initiatives; carries instruction for the preparation of subproject-specific environmental and social management documents (ESMPs, ESRs, or ESIA reports, whichever applicable); and lays out methodology for undertaking environmental and social monitoring of works. The SESCHA was carried out to analyze South Corridor Tourism Destination Strategy and regional development plans/programs prepared by the Government of Armenia for Kotayk, Ararat, Vayots Dzor and Syunik marzes. The SESCHA identified opportunities and risks associated with the overall development vision proposed for the beneficiary marzes. It a) collected and analyzed baseline information about the target marzes; b) analyzed the expected long-term, cumulative, and direct/indirect impacts of the Government’s development programs, South Corridor Tourism Destination Strategy as well as of the designed Project activities; and c) assessed the institutional capacity of the Government agencies to manage environmental, cultural, and social implications of the development in the four marzes, including identifying gaps and making recommendations about capacity building.

38. OP/BP 4.04 Natural Habitats is triggered because the Project interventions may cover areas adjacent to the especially protected natural areas, which may have indirect and/or induced impacts on the valuable natural habitats conserved in these protected areas. The policy is triggered to ensure that any interventions into the protected areas and the areas in their immediate vicinity are fully harmonized and supportive of the habitat conservation goals. Site-specific ESIA reports, ESRs and/or ESMPs to be developed for individual subprojects related to protected areas will explain how the above principles are integrated into the design and implementation arrangements of each subproject.

39. OP 4.11 Physical and Cultural Resources is triggered as the Project will sponsor activities within grounds of or in close proximity to sites of cultural and historical significance. Subproject works may be also considered in or around UNESCO World Heritage sites in Armenia such as Haghpat and Sanahin monasteries. Works in or around heritage sites will carry risks to structural damage to constructions and impact on their historic/aesthetic value, and the increased likelihood of chance finds. ATDF will follow the procedures specified in Armenian national legislation to ensure that the Project does not cause damage to cultural and historical resources, and that all necessary permissions for project works at heritage sites are obtained from relevant authorities in the Ministry of Culture. The responsibilities for monitoring compliance with OP 4.10 and national

legislation on physical cultural resources will be allocated to DFA. A contact person will be designated within the Ministry of Culture to provide necessary information and oversight on compliance with physical and cultural resource policies. Site-specific environmental and social management documents (ESIA reports, ESRs or ESMPs, whichever applicable) will lay out results from screening of risks to cultural heritage resources, and prescribe actions and procedures to mitigate these risks.

40. OP/BP 4.12 Involuntary Resettlement is triggered because while no physical relocation of households is expected, land acquisition (of private land or reallocation of public, community, Church-owned lands) is likely to occur in many subprojects. Project activities may also have temporary or permanent impact on livelihoods and small businesses located in the Project area. The Project will finance multiple subprojects in four selected marzes. Each subproject may involve construction and/or rehabilitation of infrastructure related to the local economy and tourism development, such as visitor centers, rest stops, parking lots, lifeline roads or small bridges, marketplace spaces, among others. Most subprojects are likely to be implemented on public or church-owned land (in the cases of vicinity to historic churches or monasteries); however, some privately-owned land may also be affected. Subproject designs may include proposals to demolish old or unused structures on the Project site. Due to these possible impacts, careful screening will be undertaken, based on provisions specified in the RPF and ESMF. Site-specific safeguard screening reports, environmental and social management documents, and RAPs, if applicable, Resettlement Action Plans will be completed for each subproject.

41. OP/BP 7.50 Projects on International waterways is triggered. The Project's sub-component 1.1 will finance urban regeneration of old towns and villages through restoration of building facades, public spaces, museums, roads, and water supply and sanitation systems, and enhancement of cultural and natural heritage sites. Subcomponent 1.3 will provide complementary public infrastructure to stimulate tourism and agribusiness related private investment. Therefore, activities that may be suggested for the Project's interventions include upgrade or extension of the infrastructure in the two target regions, including water supply, wastewater collection and water drainage schemes. Because water-related infrastructure is eligible for the Project funding and because the target marzes of the Republic of Armenia lie in the watershed of River Araks which falls under the category of international waterways as defined by OP/BP 7.50, this policy is triggered. However, construction of new water and wastewater infrastructure that may end up using or polluting the water from these international waterways will be excluded from the Project funding. Investments for rehabilitation of the existing schemes that are aimed at cutting water loss due to seepage, leaks, overflows, and malfunctioning of hydraulic structures will be supported on the condition that no alteration of water intake and/or discharge results from the Project implementation. If any activity under an Investment Subproject will involve any international waterway, then: (a) such activity will be limited to ongoing schemes, projects involving additions or alterations that require rehabilitation, construction, or other changes that: (i) will not adversely change the quality or quantity of water flows to the other riparian; and (ii) will not be adversely affected by the other riparian's possible water use; and (b) such activity will be limited to only minor additions or alterations to the ongoing scheme and it does not cover works and activities that would exceed the original scheme, change its nature, or so alter or expand its scope and extent as to make it appear new or different scheme. Due to these rules of subproject selection included in the POM, communication to the riparians is deemed unnecessary and exemption from the

requirement of communication to the riparians was approved by the Bank's Vice President on November 5, 2015.

42. ATDF has a long history of implementing World Bank-supported projects with a good track record of complying with safeguards. A series of Armenia Social Investment Fund (SIF) projects implemented with the World Bank support over the years did not result in any tangible environmental or social damage. All three SIF projects remained satisfactory or moderately satisfactory on safeguards compliance throughout their life. Shortfalls noted during their implementation included occasional errors in environmental classification of subprojects and poor record keeping on environmental monitoring outcomes. Social Investment and Local Development Project has just entered the implementation phase and is on-track in terms of safeguard compliance. Due to the innovative and cross-sectoral nature of LEIDP, it carries greater challenges of safeguarding mainstream Project activities from the unintended negative impacts on the natural and social environment. The ATF's present in-house capacity to monitor application of measures to mitigate negative impacts of civil works is limited because of the ATDF's large portfolio of subprojects with a wide geographic span, and due to lack of experienced safeguard professionals. Considering this limitation and acknowledging that LEIDP implementation will have a variety of environmental, social, and cultural implications, the ATDF will considerably strengthen its in-house capacity through completing a team of two environmental and two social specialists. Also, environmental and social monitoring function will be included into the tasks of a technical supervisor to be hired by ATDF for the purposes of exercising oversight and quality control of works.

43. Being an integral part of the World Bank's safeguard policies, disclosure of information, stakeholder consultation, and public engagement in all into the Project implementation will be responsibility of ATDF. Draft ESMF, RPF and SESCHA report will be disclosed in Armenian and English languages through the web page of ATDF. Stakeholder consultation meetings will be held to discuss them and generate public feedback. Documents finalized through the consultation process will be finalized and re-disclosed in-county, and will be posted in the World Bank's electronic database. Site-specific environmental and social management documents (ESIA reports, ESRs, and ESMPs, whichever applicable) and RAPs, if applicable, will also be disclosed in both languages through the web and delivered in a few printed copies to the local administrations of the settlements in the vicinity of subproject sites. Local communities will be given opportunity to familiarize with the draft site-specific safeguards documents. ATDF will advertise upfront and hold stakeholder consultation meetings in locations convenient for subproject-affected people to attend. Site-specific safeguards documents will then be finalized, minutes of public consultation process will be attached, and the documents will be re-disclosed through ATDF's web page.

#### *Monitoring & Evaluation*

44. The ATDF will be responsible for monitoring and evaluating the outcomes of the Project against agreed indicators as set out in the Results Framework. The DFA capacity in data collection and analysis will be strengthened during Project implementation through engagement of consulting firms.



45. The M&E will assess the success of implementation of the Project and beneficiary (resident and tourists) access to Project resources and infrastructure through indicators defined for the Project. In addition, the M&E will be designed to monitor socio-economic outcomes at both individual and community-level, including job creation and increased spending.

46. The M&E consulting firm will compile the baseline data already available in the SARs/SSRs and economic analysis report, and collect additional data from the government agencies, as well as through field visits and surveys. The Project's Intermediate Indicators, as defined in the Results Framework, will also be monitored on an annual basis.

### *Role of Partners*

47. The Project builds on earlier investments financed by the Bank and other donor partners in infrastructure, social, health and agriculture sectors.

48. The USAID signed a contract with Smithsonian Institution aiming at improving Armenia's cultural heritage tourism product offering, workforce skills improvement; and improving tourism services along the major tourism corridors or circuits including the sites under this Project.

49. German Cooperation (GIZ) has been actively involved in tourism sector development, particularly drafting a tourism strategy and action plan; developing a Tourism Satellite Account concept adaptable for Armenia; development of new tourism products and concept paper on Armenia Visitor Information Center network; review of certification of tour operators and tour guides, the National Tourism concept paper and Tourism Statistics and support Program for Armenia's Protected Areas.

50. Since 2010, the German development cooperation with the Southern Caucasus region has been conducted purely through regional programs under the Federal Government's Caucasus Initiative. Priority areas of the Caucasus Initiative are sustainable economic development, energy, the environment, developing democracy and the rule of law and strengthening local administration. KfW Development Bank is supporting Armenia in water and sanitation sector through establishing a hygienically safe water supply and adequate sewage disposal systems; in energy sector promoting regional transmission network with Georgia and the promotion of renewable energy in the country; in nature conservation field supporting protected areas of Armenia in identifying new protected areas and strengthening existing ones; ensuring South Caucasus countries exchange of expertise; promotion of harmonization of nature conservation programs that serves to ensure the financial viability of the protected areas in the long run.

51. The Asian Development Bank (ADB) has been working with the Government of Armenia since 2005, providing multi-tranche financing facilities (MFFs) and public sector loans to finance regional road projects, urban transport and development, water supply and sanitation, and general public programs. ADB's country partnership strategy, 2014-2018 helps Armenia integrate its economy regionally and rebalance it toward more resilient, inclusive, and environmentally sustainable growth. It supports improving transport links, upgrading secondary towns, and strengthening energy security. Under urban development in secondary cities ADB provides Policy and Advisory Technical Assistance for city development plans (CDPs) for Dilijan, Vanadzor,

Gyumri and Jermuk that will address improvement of economic growth by developing cities along trade gateways and those with tourism potential and will focus on key development and policy challenges related to urban sectors including urban transport, water supply and sanitation, solid waste management, district heating, housing, economic development, logistics, tourism and lighting.

52. In Armenia, the European Bank for Reconstruction and Development (EBRD) focuses on developing the financial sector, improving transport infrastructure, supporting the development of value-added industrial companies, improving the business environment and strengthening corporate governance, and supporting the development of sustainable energy infrastructure and investments in mining projects with high standards of environmental and social protection. EBRD supports Armenia in construction of the first EU compliant regional landfill and relevant infrastructure in the country; in improving water supply services; modernizing and upgrading transport infrastructure leading to and including three Border Control Points along the Armenian border with Georgia.

**Annex 4: Implementation Support Plan**  
**ARMENIA: Local Economy and Infrastructure Development Project**

**Strategy and Approach for Implementation Support**

1. The implementation support strategy was developed considering the risks and mitigation measures identified in the Results Framework and Monitoring and targets provision of flexible and efficient implementation support to the client.
2. **Procurement:** The procurement related implementation support will include: (a) timely advice from the designated procurement specialist (DPS) on various procurement related issues and guidance on the Bank's Procurement and Consultant Guidelines; (b) monitoring of procurement progress against the procurement plan; and (c) post-review of contracts.
3. **Financial Management:** As part of its project implementation support and supervision missions, the Bank will conduct risk-based financial management implementation support and supervisions within a year from the Project effectiveness, and then at appropriate intervals. During the Project implementation, the Bank will supervise the Project's financial management arrangements in the following ways: (a) review the Project's semi-annual IFRs as well as the Project's annual audited financial statements and auditor's management letters and remedial actions recommended in the auditor's management letters; and (b) during the Bank's on-site missions, review the following key areas (i) Project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement arrangements and financial flows, including counterpart funds, as applicable; and (iv) any incidences of corrupt practices involving Project resources. As required, a Bank-accredited Financial Management Specialist will participate in the implementation support and supervision process.
4. **Environmental and social safeguards:** The Bank's environmental and social specialists will provide regular support in strengthening the capacity of DFA and ATDF in tackling safeguards related issues. Additionally, the Bank's safeguards specialists will closely monitor implementation of the agreed ESMF and will provide guidance to the client to address the issues that may arise. The Environment and Social Safeguard specialists are based in Tbilisi and Beirut, Lebanon and can provide daily support to the client.
5. **Operation support:** The Bank Task Team Leader, who is also the Program Leader for the South Caucasus, is based in the Georgia Country Office and co-Team Leader, Senior Infrastructure Specialist is based in Washington DC. They have had ongoing communication with the client during the identification and preparation of the Project. Supported by local and international short-term consultants, they will continue to provide regular implementation support during implementation, including monthly visits to all Project sites especially during the first year of Project implementation. They will keep the Bank team appraised and provide implementation support and guidance to ATDF and DFA on various aspects of interventions as needed.

**Implementation Support Plan**

6. The Project team will provide timely and effective implementation support through daily supervision since the Task Team Leaders and several team members are based in the region and local offices. The task team will provide the following detailed inputs to support project implementation:

- **Technical inputs:** Engineers, Tourism and Cultural Heritage Consultants will carry out regular site visits and review of documentation to ensure compliance to plans, quality, safeguards and timetable.
- **Fiduciary requirements and inputs:** The Procurement Specialist, based in HQ, and the Financial Management Specialist, based in Yerevan country office, will provide timely implementation support. The financial management specialist will conduct risk-based FM missions within a year after the Project effectiveness, and then at appropriate intervals, while the procurement supervision will be carried out as per Bank's procurement rules and guidelines.
- **Safeguards:** The Environmental Specialist, based in the Tbilisi country office, and Social Development Specialists, based in Washington DC, will closely supervise implementation of the ESMF and RPF of the Project. The environmental and social specialists will conduct field visits on semi-annual basis to monitor implementation of safeguards policies.

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate (Support Weeks/SWs)</i>
<i>First twelve months</i>	<i>Technical review of the SARs/SSRs</i>	<i>TTL, cultural heritage specialist, water and road engineers, safeguards specialists and economist</i>	<i>5 SWs</i>
	<i>Procurement review of the bidding documents</i>	<i>Procurement specialist</i>	<i>6 SWs</i>
	<i>Project implementation support</i>	<i>Cultural heritage specialist, water and road engineers</i>	<i>5 SWs</i>
	<i>Financial management and disbursements</i>	<i>Sr. Financial management specialist</i>	<i>3 SWs</i>
	<i>Environmental and social supervision</i>	<i>Sr. Environmental specialist</i>	<i>6 SWs</i>
	<i>Tourism institutional development implementation support</i>	<i>Tourism development consultants</i>	<i>4 SW</i>
	<i>Task management</i>	<i>Task Team Leader</i>	<i>12 SWs</i>
<i>12-48 months</i>	<i>Project implementation support</i>	<i>Cultural heritage specialist, water and road engineers</i>	<i>18 SWs</i>
	<i>Procurement support</i>	<i>Procurement specialist</i>	<i>12 SWs</i>
	<i>Financial management and disbursements</i>	<i>Sr. Financial management specialist</i>	<i>6 SWs</i>
	<i>Environmental and social supervision</i>	<i>Sr. Environmental specialist</i>	<i>6 SWs</i>
	<i>Tourism institutional development implementation support</i>	<i>Tourism development consultants</i>	<i>4 SW</i>

*Skills Mix Required*

<i>Skills Needed</i>	<i>Number of Staff Weeks 2015-2020</i>	<i>Number of Trips</i>	<i>Comments</i>
<i>Task team leader</i>	<i>40</i>	<i>Field trips as required</i>	<i>HQ based</i>
<i>Environmental specialist</i>	<i>12</i>	<i>Field trips as required</i>	<i>Country office based</i>
<i>Social specialist</i>	<i>12</i>	<i>Eight</i>	<i>HQ based</i>
<i>Procurement specialist</i>	<i>12</i>	<i>Field trips as required</i>	<i>HQ based</i>
<i>Financial management specialist</i>	<i>12</i>	<i>Field trips as required</i>	<i>Country office based</i>
<i>Water engineer</i>	<i>20</i>	<i>Eight</i>	<i>Region based</i>
<i>Road engineer</i>	<i>20</i>	<i>Eight</i>	<i>Region based</i>
<i>Tourism/Cultural Heritage specialist</i>	<i>30</i>	<i>Eight</i>	<i>HQ based</i>
<i>Short-term consultants for supervision</i>	<i>12</i>	<i>Field trips as required</i>	<i>Country office based</i>
<i>Program Assistants</i>	<i>40</i>	<i>Field trips as required</i>	<i>Country office based</i>

## **Annex 5: Economic and Financial Assessment**

### **ARMENIA: Local Economy and Infrastructure Development Project**

For the Project's economic and financial analyses, a cost-benefit assessment following global best practice experiences for this type of projects was carried out. Analysis also considered the government tourism development targets under the ADS and all completed strategies with technical support from the World Bank and other donor agencies. Secondary data were collected from various government entities, including DFA, Ministry of Finance, Ministry of Territorial Administration and Emergency Situations, Public Register, Tax Revenue Service, as well as from real estate brokers and completed studies from similar projects, e.g. the USAID-funded EDMC tourism project. The primary data was derived from small-scale surveys using structure questionnaires and administered to selected groups of stakeholders (restaurants, cafes, hotels, guest-houses, and domestic and foreign visitors).

Benefit streams were calculated based on the following data and assumptions:

#### **Increase in tourist arrivals, overnight stays and spending**

- As a result of the proposed integrated development approach under the Project:
- Both domestic and international tourist arrivals are expected to increase by 5 percent per annum during the life of the Project until 2021 and 2 percent thereafter. It is expected that the number of domestic and international tourist arrivals to the country will increase from 941,151 in 2014 to 1,256,117 by 2021.
- Overnight stay is expected to increase from 1.8 days to 2.5 days on average by 2021; and
- Expenditures on food, lodging, new activities (e.g., guided tours), and purchase of local products and handicrafts are expected to increase by 5 percent per annum during the 5 years of the Project and 2 percent thereafter.

#### **Increase in number and profitability of economic enterprises**

The development of tourism circuits and destination management and marketing/promotion as new tourist destinations, and improvement of infrastructure are expected to attract private sector investors to establish new economic enterprises or expand existing ones:

- The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1;
- By the end of the Project, the number of hotel beds is expected to increase from 3,213 to 4,392 beds in the Southern Regions in order to serve the expected increased number of tourists at additional destinations;
- Secondary sales multiplier will equal 1.5; and
- New economic enterprises and increased profitability will increase amounts of collected corporate tax (by 20 percent), VAT (by 20 percent), and personal income tax (by 20 percent).

#### **Property value appreciation**

- Tourism development and improvement of infrastructure are expected to create more opportunities for businesses to invest and increase demand for real estate. Therefore real estate value is expected to appreciate. Based on evidence-data collected from other cities in

Armenia, which underwent similar urban regeneration activities, i.e. Dilijan, Goris, Jermuk and Sevan, the following assumptions are made:

- Property tax (0.8 percent) collection will increase because of new buildings and housing restoration created by the Project and leveraged private investments.

### **Temporary job creation**

During implementation of various Project activities, temporary jobs will be created. Temporary jobs also will be created during the construction of assets by investing leveraged capital. Analysis of the infrastructure projects implemented by ATDF during the last 5 years showed that, on average, infrastructure civil works have about 28.7 percent labor component (including production and transportation). There is around 24.8 percent labor component for general infrastructure and around 36.5 percent in the case of building construction. The following assumptions are made:

Due to the specific nature of conservation/restoration works (large proportion of labor intensive work), the labor component for the Project activities could be more than 1.5-2 percent higher than in the case of general infrastructure works;

The proportion of the labor component during construction activities funded by leveraged private capital will be 36.5 percent. It is assumed that most of the assets created will be buildings and recreational areas; and

Personal income taxes from labor expenditures (20 percent) will be flowing to the government.

### **Cost Benefit Analysis**

The Cost-Benefit Analysis (CBA) was prepared for the Project as a whole, rather than for each component or subproject. The Net Present Value (NPV), Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR) were calculated for the next 15 years from 2016 up to 2030, including 4 years of Project implementation period.

Fiscal impact and economic analysis show that NPV at 5 percent for the Project is positive and equals US\$ 14,529,269.47. FIRR equals 12.06 percent. EIRR equals 23.43 percent.

Overall, the implementation of the Project will yield net economic benefits over and above the Project costs, as well as the cost of complementary investments in additional tourism enterprises to be financed by private sector investors.

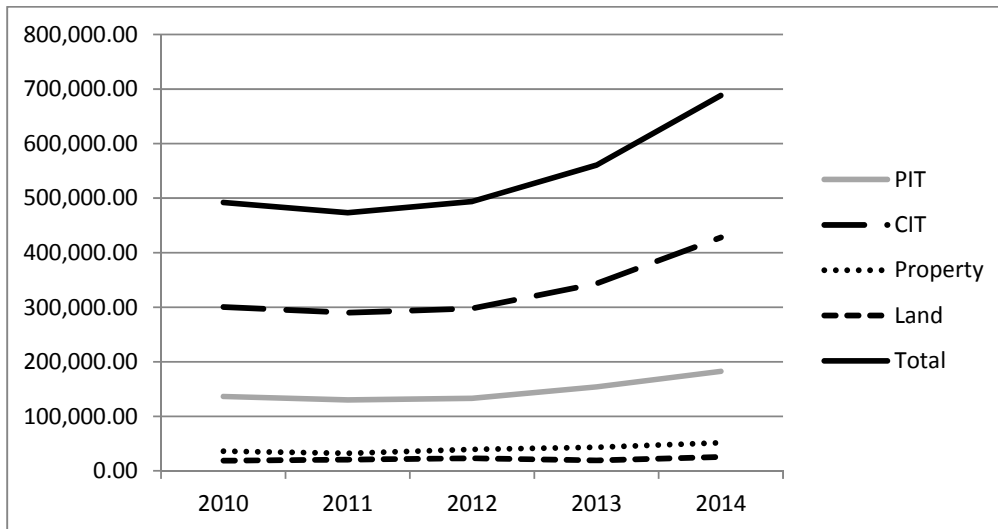
The CBA demonstrates that capital investments in the regions are profitable. The marginal amount of capital investment necessary for an entity to generate the next unit of production is positive. The larger base of assets, economic activities and skilled labor in the regions gives high returns estimates. The proposed investment in the regions is justified and is expected to (a) reduce regional disparities that currently exist in regions, (b) leverage private sector investments, and (c) create jobs.

### **Details of Cost Benefit Analysis**

Before making the assumptions and forecasts for Local Economy and Infrastructure Development Project tax revenue data collected from other cities in Armenia, which had undergone similar urban regeneration activities, i.e. Dilijan and Goris, was analyzed. Where possible, tax revenue data was collected separately for the Personal Income Tax (PIT), Corporate Income/Profit Tax (CIT), Property and Land tax.

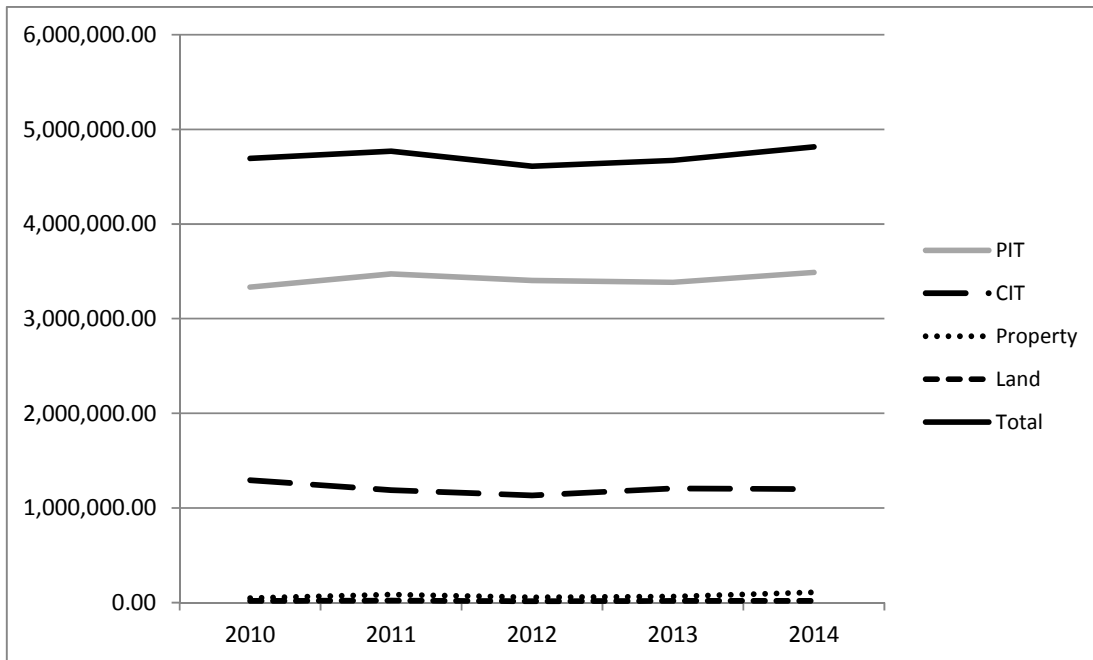
Below is presented the data from cities of Dilijan and Goris

Figure 5.1: Tax Revenues receipts in Dilijan, US\$ (2010-2014)



Data from Dilijan shows the trends of increasing flow of tax receipts to the Government (though mostly coming from corporate profit tax). During 2010-2014 the average yearly growth rate for Dilijan was 8.74 percent. However, almost no growth was seen in 2010-2012 and growth accelerated in 2013 to 13.89 percent and in 2014 it increased to 22.76 percent. So, all growth happened in 2013-2014.

Figure 5.2: Tax Revenues receipts in Goris, US\$ (2010-2014)

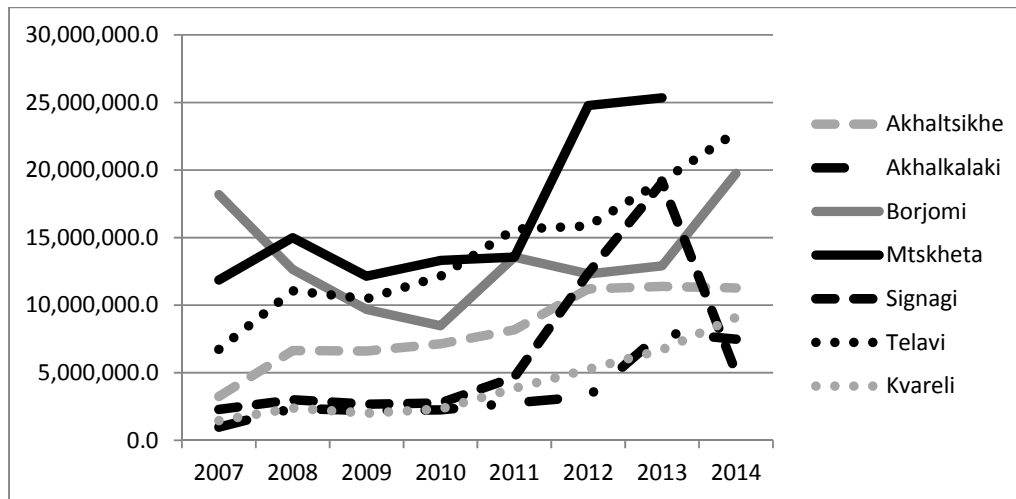




Data from Goris also shows the trends of increasing flow of tax receipts to the Government although growth is much slower than in Dilijan. During 2010-2014, the on average total tax revenues in Goris increased by 0.64 percent. However, the personal income tax collection increased on average by 1.15 percent and property tax collection increased on average by 22.21 percent (in 2014, property tax growth rate was 67.45 percent).

The experience of the similar projects in neighboring Georgia also can be analyzed. Below is the data from several Georgian cities that have undergone similar urban regeneration under Regional Development Projects (RDP, RDPII and RDPIII).

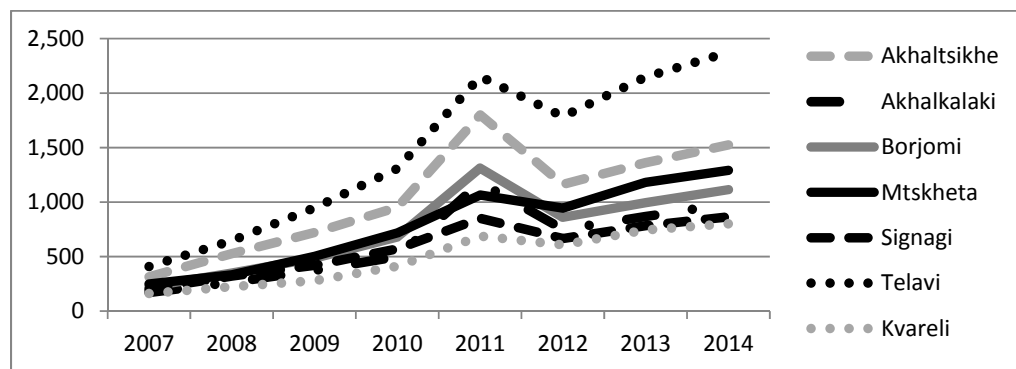
Figure 5.3: Tax collection (in Georgian Lari) in selected cities in Georgia that have undergone urban Regeneration (2007-2014)



The graph shows that in most of these cities urban regeneration has resulted in economic growth and increase in tax revenues. It should also be noted that government involvement was very large and in addition to RDPs financing, Government of Georgia has invested 3-4 times the amounts into these cities.

The following graph shows that in most of these cities urban regeneration and government policies also has resulted in an increase in the number of cash registers.

Figure 5.4: Number of cash registers in selected cities in Georgia that have undergone urban Regeneration (2007-2014)



## VISITOR SURVEY

In addition to the core CBA, 34 foreign tourists were questioned in Yerevan about the Northern (Lori, Kotayk) and Southern (Ararat, Vayots Dzor, Syunik) Regions. Visitor surveys were not administered to the local visitors in Yerevan.

In total, 34 foreign tourists were surveyed. For 6 out of 34, it was their second visit to Armenia. The average stay was 1.8 days.

Stay, # of days	# of Persons	percent
1	9	26.47percent
2	15	44.12percent
3	8	23.53percent
4	2	5.88percent
5	0	0.00percent
Total	34	100.00percent

Twelve (12) tourists were from Iran, eight (8) tourists from Russia, five (5) from USA, four (4) from France, three (3) from Germany, and (2) from UK.

The primary reason for visiting the area was leisure/vacation – 27 visitors stated it as primary reason for visiting this area. Business was stated by 2 visitors and 4 visitors did not state their primary reason for visiting.

The most important factor in the respondent's decision to visit Armenia was "interest in the cultural heritage" – average score of 3.47 and "Opportunities for rural/agricultural tourism" the average score was 3.06. The least important factor was "good local transportation system in visited area" with an average score of 1.40 and "interest in business investment" with an average score of 1.61.

The results from the survey on the importance of the factors are shown in Table below:

Factors	Average Score
Interest in the cultural heritage	3.47
Opportunities for rural/agricultural tourism	3.06
Interest in vineyards, wine making and landscapes	2.82
Opportunities for adventure/sports tourism	1.97
Good prices for quality received	1.97
Good local transportation system	1.41
Recommendations from a friend/book	2.88
Interest in business investment in visited area	1.61

All respondents would recommend to friends to visit Southern Region.

On average, foreign visitors spent US\$57.50 per day with hotel, transportation and restaurant/meals comprising most of their expenses. They spent very little money on souvenirs.

Annual income distribution among the foreign visitors is shown below:

<b>Annual Income Range</b>	<b># of persons</b>	<b>percent</b>
Below 20,000 US\$	8	25.81 percent
20,001 to 40,000 US\$	18	58.06 percent
40,001 to 60,000 US\$	5	16.13 percent
60,001 US\$ and more	0	0.00 percent
<b>Total</b>	31 <sup>3</sup>	100.00 percent

Age distribution of the respondents is shown below:

<b>Age Range</b>	<b># of persons</b>	<b>percent</b>
less than 25	4	11.76 percent
between 26 and 35 years	14	41.18 percent
between 36 and 45 years	12	35.29 percent
between 46 and 55 years	4	11.76 percent
between 56 and 65 years	0	0.00 percent
over 65 years	0	0.00 percent
<b>Total</b>	34	100.0 percent

## **HOTEL SURVEY**

Five Hotel Employees/Managers were interviewed to understand how tourist spending is distributed within the different categories.

The hotels were:

1. Envoy Hostel, Yerevan
2. Villa Delenda, Yerevan
3. My Hotel, Yerevan
4. Bass Butique Hotel, Yerevan
5. Mirhav, Goris

Information from the hotels is provided in the full CBA report.

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<sup>3</sup> Three respondents did not disclose their income.

## Cost-Benefit Analysis

### A. FISCAL IMPACT ANALYSIS

Fiscal impact analysis is usually carried out to understand whether the government revenues from tourism related activities in the form taxes, direct fees, and other sources cover the added costs for infrastructure.

Fiscal impact analysis, as well as economic analysis was done for 15 years period. A 5 percent discount rate has been used for calculation of Net Present Value (NPV).

The primary monetary benefits of the Project are expected to come from the following streams and related assumptions:

1. Increase in tourist arrivals, overnight stays and spending
2. Increase in number and profitability of economic enterprises
3. Property value appreciation
4. Temporary job creation

#### *Assumptions used in fiscal impact*

When calculating ***Tax Revenues from Increase in Tourist Arrival, overnight stays and spending*** the following approach was used:

- Tourist spending was calculated by multiplying number of additional tourists by the average tourist spending that is calculated by multiplying average stay and average daily spending. Average daily spending was taken as US\$57.5<sup>4</sup>. It is assumed that average stay will increase from 1.8<sup>5</sup> days to 2.0 in 2018 and to 2.5 days in 2021, starting from 2016.
- It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 5 percent during the 5 years starting from 2016, after 2020 growth will be 2 percent.
- It is calculated that 22 percent of the tourist spending from direct sales will flow to the government, in the form of VAT, PIT, CIT and dividend taxes.

To calculate ***Tax Revenues from Increase in number and profitability of economic enterprises (Secondary sales)*** the following approach was used:

- Tax payments, which consists of VAT, PIT, CIT and expenditure on imported food and liquor are deducted from tourist spending and as the remainder is paid to employees (33 percent), local food and wine producers, utilities, etc. (23 percent) and 15percent is left to investors, then they will spend it locally and that will create secondary economic effects in the region. We used slightly lower number (1.5) than the widely used National Park Service Money Generating Model<sup>6</sup> sales multiplier that equals to 2. This implies that each dollar of

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<sup>4</sup> Survey

<sup>5</sup> Survey

<sup>6</sup> [http://35.8.125.11/mgm2\\_new/](http://35.8.125.11/mgm2_new/)

direct sales generates another dollar in secondary sales in this region<sup>7</sup>. We assumed that the tax payments for the secondary sales is the same and equals to 22 percent.

To calculate ***Tax Revenues from Property Value Appreciation*** the following approach was used:

- Leveraged Capital attracted by the Public expenditures on infrastructure improvements will construct assets and it is assumed that on these assets property taxes (0.8 percent of the value of the assets) will be paid.
- The leverage factor for the private investments attracted by the public expenditures will equal 1 to 1.

To calculate ***Tax Revenues from Temporary Job Creation*** the following approach was used:

- There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital;
- On average infrastructure works have a 28.7 percent labor component (including production and transportation), with around 24.8 percent labor component for general infrastructure and around a 36.5 percent in the case of restoration of buildings;
- The Labor component for the Project activities will be around 28.7 percent of the expenditures;
- Proportion of Labor component during construction activities funded by Leveraged Private Capital will be 36.5 percent - it is assumed that most of the assets created will be buildings and recreational areas;
- PIT from labor expenditures (20 percent) will be flowing to the government.

Fiscal impact analysis shows that the tax revenues generated in Southern Region after the Project implementation are well over the Project costs - NPV for the Project at 12 percent discount rate equal to US\$ 14,529,269 and FIRR equal to 12.06 percent.

Detailed calculation of fiscal impact is provided in the full CBA report.

## **B. ECONOMIC IMPACT ANALYSIS**

The economic analysis is based on the financial analysis. Hence, all the assumptions made in financial analysis are valid in the economic analysis.

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<sup>7</sup> Multipliers are used to capture the secondary effects of visitor spending in a region. There are two basic kinds of secondary effects:

**Indirect effects** are the changes in sales, jobs and income within backward-linked industries in the region, i.e., businesses that supply goods and services to tourism-related firms. For example, hotels purchase a variety of goods and services in the local area in order to produce a night of lodging. Each business that provides goods or services to hotels benefits indirectly from visitor spending in hotels. These indirect effects are captured by **Primary sales multiplier**.

$$\text{Primary sales multiplier} = (\text{direct sales} + \text{indirect sales}) / \text{direct sales}$$

**Induced effects** are the changes in sales, jobs and income in the region resulting from household spending of income earned either directly or indirectly from visitor spending. Employees in tourism firms and backward linked industries spend their income in the local region creating additional sales and economic activity. These impacts are most readily seen when there is a significant drop in tourism activity. Reduced income in the area results in reduced spending that will affect retail stores and other businesses that depend on household spending. **Secondary sales multipliers** capture both indirect and induced effects.

$$\text{Secondary sales multiplier} = (\text{direct sales} + \text{indirect sales} + \text{induced sales}) / \text{direct sales.}$$

Financial costs, both investments costs and operation and management costs were adjusted in order to correctly assess costs associated with the Project globally, from the point of view of the economy as a whole. In order to achieve this, payment of taxes were excluded from the financial costs as tax payments represent just a transfer of funds from the point of view of the country. Also, shadow prices have also been considered along with the inefficiency characteristic for a transitional economy. The assumptions made for the economic analysis are discussed below in detail.

Financial costs discussed above were corrected for conducting economic analysis as follows:

- Personal income tax (PIT), which is included in labor cost and makes up its 26 percent, has been deducted out of the labor costs reflected in the financial costs;
- Value Added Tax (VAT) at the current rate of 20 percent has been deducted out of the operations and maintenance as well as capital costs used in the financial analyses.

Identification of conversion factors required for the economic analysis was carried out in the following two stages:

1. Total Project costs were broken down into three components: Foreign Procurement; Local Procurement and Local Labor Force;
2. Then appropriate conversion factors were applied to each group.

Conversion factors applied to the mentioned cost items are given in Table 7 below:

**Table 7. Capital Costs Conversion Factors<sup>8</sup>**

Type of Work	Foreign Purchases		Local Procurement			
	Share in total costs, percent	Conversion factor	Materials		Labor force	
			Share in total costs, percent	Share in total costs, percent	Conversion factor	
Construction works	0 percent	1.0	80 percent	0.9	20 percent	0.94
Materials	15 percent	1.0	75 percent	0.9	10 percent	0.94

After the application of the conversion factors the resulting capital expenditures (both Public and Leveraged) were used for the economic analysis.

The primary economic benefits of the Project are expected to come from the following streams and related assumptions:

1. Economic Benefits from Incremental Tourist Expenditures
2. Economic Benefits from Temporary Job Generation
3. Economic Benefits from Secondary Sales

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<sup>8</sup> A standard conversion factor (SCF) of 0.9 is used for non-tradable items and a shadow wage rate factor (SWRF) of 0.94 for unskilled domestic labor.

### ***Assumptions made during Economic Analysis***

To calculate ***Economic Benefits from Incremental Tourist Expenditures*** the following approach was used:

- Tourist spending was calculated by multiplying the number of additional tourists by the average tourist spending that is calculated by multiplying average stay and average daily spending. Average daily spending was taken as US\$57.5<sup>9</sup>. It is assumed that average stay will increase from 1.8<sup>10</sup> days to 2.0 in 2016 and to 2.5 days in 2021, starting from 2016.
- It is assumed that both domestic and international tourist arrivals and spending are expected to increase by 5 percent during the 5 years starting from 2016, after 2020 growth will be 2 percent.
- Tax payments (20 percent) in the form of VAT, PIT, CIT and expenditures on imported food and liquor (10 percent) are deducted from tourist spending to calculate economic benefit

To calculate ***Economic Benefits from Temporary Job Generation*** the following approach was used:

- There will be two sources for Temporary Job Creation – Construction activities during Project implementation (Public funding) and during the construction of assets by Leveraged Capital.
- It is assumed that in the first case labor component will be 36.5percent and in the second – 28.7 percent.
- The PIT will be deducted from these payments to calculate economic benefits.

To calculate ***Economic Benefits from Secondary Sales*** the following approach was used:

- There will be two sources for Secondary sales - Economic Benefits from Incremental Tourist Expenditures and Economic Benefits from Temporary Job Generation.
- These payments can be spent locally to create secondary economic effects in the region. We used a slightly lower number (1.5) than the widely used National Park Service Money Generating Model sales multiplier that equals 2. This implies that each dollar of direct sales generates another dollar in secondary sales in this region.

Economic analysis shows that the total economic benefits in the Southern Region are well over the total costs and Economic IRR equals to 25.94 percent.

Detailed calculation of economic impact is provided in the full CBA report in files.

### **Sensitivity analysis.**

The NPV and FIRR are most sensitive to tourist arrivals and spending growth rate forecast variables. 10 percent increase or decrease in tourist arrivals and spending or secondary sales multiplier will increase or decrease NPV by US\$4,002,129 and US\$3,810,557 and FIRR by 1.61 percent and 1.64 percent accordingly. EIRR is also most sensitive to the tourist arrivals and spending growth rate forecast – 10 percent increase or decrease in tourist arrivals and spending will increase or decrease EIRR by 2.34 percent and 2.32 percent accordingly. At the minimum possible level of the Secondary sales multiplier (that is 1.0), and if other assumptions unchanged, NPV will be positive and equal to US\$4,193,017, FIRR 7.35 percent and EIRR 19.47 percent. If average stay will not change and will stay the same (1.8 days on average), and other assumptions remain

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<sup>9</sup> Survey

<sup>10</sup> Survey

unchanged, NPV will be still positive and equal US\$ 6,230,667, FIRR 8.59 percent and EIRR 19.68 percent.

The sensitivity analysis of the different factors for LEIDP is presented below:

		<b>Private Investment Leverage Factor</b>	<b>Tourist arrivals and spending growth rate forecast 2015-2020</b>	<b>Secondary Sales Multiplier factor</b>	<b>After Project Average stay after 2021</b>
<b>+10%</b>	<b>NPV</b>	\$15,017,978.60	\$18,531,399.00	\$17,630,145.04	\$16,928,883.93
	<b>Δ NPV</b>	\$488,709.13	\$4,002,129.53	\$3,100,875.57	\$2,399,614.46
	<b>FIRR</b>	12.28%	13.67%	13.28%	12.84%
	<b>Δ FIRR</b>	0.22%	1.61%	1.22%	0.78%
	<b>EIRR</b>	25.52%	25.77%	24.72%	24.20%
	<b>Δ EIRR</b>	2.09%	2.34%	1.29%	0.77%
<b>-10%</b>	<b>NPV</b>	\$14,040,560.34	\$10,718,711.95	\$11,428,393.90	\$12,129,655.01
	<b>Δ NPV</b>	-\$488,709.13	-\$3,810,557.52	-\$3,100,875.57	-\$2,399,614.46
	<b>FIRR</b>	11.84%	10.42%	10.77%	11.21%
	<b>Δ FIRR</b>	-0.22%	-1.64%	-1.29%	-0.85%
	<b>EIRR</b>	21.59%	21.10%	22.19%	22.60%
	<b>Δ EIRR</b>	-1.84%	-2.32%	-1.24%	-0.83%



## Annex 6: ARMENIA: Local Economy and Infrastructure Development Project Map

