

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC14759

Project Name	Local Economy and Infrastructure Development Project (P150327)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Sub-national government administration (20%), SME Finance (10%), Rural and Inter-Urban Roads and Highways (35%), General water, sanitation and flood protection sector (35%)
Theme(s)	Micro, Small and Medium Enterprise support (10%), Cultural Heritage (20%), Urban Economic Development (25%), City-wide Infrastructure and Service Delivery (35%), Infrastructure services for private sector development (10%)
Lending Instrument	Investment Project Financing
Project ID	P150327
Borrower(s)	Ministry of Finance
Implementing Agency	Development Foundation of Armenia
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	23-Mar-2015
Date PID Approved/ Disclosed	26-Mar-2015
Estimated Date of Appraisal Completion	14-Sep-2015
Estimated Date of Board Approval	22-Oct-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Armenia is a small (29,800 km²), landlocked lower-middle income country with a population of about 3 million, with a large diaspora population of around 7 million, and an average per capita Gross National Income (GNI) of US\$3,720 in 2012. In the decade preceding the global economic and financial crisis, real Gross Domestic Product (GDP) growth was more than 10 percent, strongly fueled by remittances. In 2009, there was a substantial contraction. Growth has since resumed, although at a slower pace, reaching 4.7 percent in 2011 and 7.2 percent in 2012. The largest components of GDP are services including construction, tourism and travel (43 percent), industry including mining and energy (33 percent), and agriculture (23 percent). Inflation has dropped to

about 4 percent at present from as high as 9 percent in 2010, but was less than 5 percent throughout most of the last decade.

According to the Armenia Development Strategy (ADS), incoming tourism is Armenia's second export line item after 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 \$2.5 billion annually. Remittances from the Armenian diaspora, amounting to more than US\$1 billion, foreign direct investment of around US\$900 million, and donor funding help to close the gap. 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 39th in the Index of Economic Freedom and 32nd in the 2013 Doing Business index, with a major constraint identified as connection to the electricity grid. The population increase has remained stable in recent years, with about 64 percent living in urban areas. In the 1990s, more than 50 percent were classified as poor. This figure was reduced to 27 percent in 2008, but increased to around 36 percent in 2010 and 35 percent in 2011 due to the economic and financial crises. Poor households are distributed equally between urban and rural areas.

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

The Government's strong counter-cyclical fiscal policy focused mainly on increased spending on infrastructure, social protection, and emergency financing for enterprises. While the fiscal expansion helped protect the poor and maintain jobs, the pace of recovery remained slow with around 4 percent real growth expected for 2013.

Sectoral and Institutional Context

Despite economic downturns in key generating markets, especially in Europe, the outlook for Armenian tourism and its contribution to economic growth is cautiously optimistic. As demonstrated around the world, with careful strategic planning and relatively modest public sector investments, the sector is nurtured into a critical source of economic and employment growth. International tourist arrivals have been growing steadily in Armenia, well above the world average. In 2011, the number of international travelers increased more than 10 percent to 758,000. And 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 seemed to accelerate in 2014 with RA National Statistics Service (NSS) reporting 941,151 travelers, 13.6 percent increase for the period of January-September compared to the same period of 2013. The top generating markets, which account for approximately 71 percent of total international arrivals, include CIS (41.5 percent), Iran (18.4 percent), USA (8.2 percent), Argentina (3 percent), France (3 percent), Lebanon (3 percent),

Germany (2.7 percent), Greece (1.5 percent), UK and Italy (1 percent). According to the WTO 2012 statistics, 34 percent of visitors came through organized tours.

At least 35 percent of all visitors are believed to be coming to visit family or friends (VFF). According to the WTO, some 31 percent come for business or professional reasons. The CIS, Iran and the USA were the top three origins in 2011, comprising 61 percent of total international arrivals. Compared to the period between 2005 and 2010, international tourism receipts slowed down substantially, yet were still able to record a positive yet small annual increase of one percent, reaching US\$451 million in 2012.

Domestic tourism is also significant and has potential for growth. An analysis of the Southern Corridor (AECOM, 2011) estimated domestic tourism nationwide at over 450,000 travelers and this is expected to increase as disposable income rises. 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 2.1 percent of the country's GDP (AMD87.4 billion in 2013) and is expected to contribute indirectly a total of 8.2 percent every year until 2023. The sector generated 7.3 percent of total employment in 2013 (2 percent directly and 5.3 percent indirectly) and is expected to maintain employment at about 6 percent over the next decade. The industry amounts to nearly 17 percent of export earnings.

With over 4000 historical monuments throughout the country dating from pre-historic to Hellenistic and early Christian eras – three of which are 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 corridors and itineraries are the North Corridor (Gyumri-Vanadzor-Dilijan-Sevan) and the South Corridor (Garni-Geghard-Khor Virap-Areni-Jermuk-Sisian-Tatev-Goris-Meghri), which could be improved, integrated with other routes, and replicated.

The average receipts earned per visitor have steadily declined from US\$699 per visitor in 2005 to US\$479 per visitor in 2013. This 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 and/or not succeeding in capturing higher spending visitors. Lower spending static tourism markets run the risk of being less competitive and thus less able to sustain increased earnings. An integrated approach to development of tourism corridors and circuits, one that explicitly aims at diversifying and improving Armenia's tourism products could help increase spending and deliver more robust tourism-led development.

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 \$10,000, lift 800,000 people out of poverty by 2025. 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.

Relationship to CAS

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 SME creation, growth, and

innovations. The Project is also in line with the Armenia Development Strategy (ADS) for 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 country's competitiveness in employment through creation of quality and well-paid jobs.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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

Key Results (From PCN)

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

PDO Level Results Indicators:

Indicator 1: Increased tourism spending by 15 percent in 2020, from a current level of US\$726.

Indicator 2: Increased number of visitors from 924,965 to 1,500,000 per annum by 2020

Indicator 3: Increased number of tourism-related SMEs (disaggregated by gender of entrepreneurs) by 15 percent in 2020

Intermediate Indicators

Improved infrastructure

Indicator 1: Improved road accessibility in project areas, measured as trip time between capital and tourist destinations

Indicator 2: Improved water supply in project areas, measured in continuity and quality of service

Tourism Economy

Indicator 3: Increased number of tourism beds

Indicator 4: Increased amount of private sector investment in tourism sector by US\$ 20 million

Institutional Capacity

Indicator 5: Increased capacity of the tourism department of Development Foundation of Armenia

Indicator 6: Establishment of Destination Management Organization (DMO)

III. Preliminary Description

Concept Description

The proposed Project will support the increased contribution of tourism to the local economies of selected regions. It will do so 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.

The design of the Project incorporates lessons based on experiences under similar operations in Georgia (the first and the second Regional Development Projects), and recommendations from the World Bank's 2014 Economic Sector Work (ESW) on Regional Development in the South Caucasus Program. The latter helped identify some of the opportunities for regional development and shared prosperity in Armenia, Azerbaijan and Georgia by analyzing the regional profile of each 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.

In Armenia, the Bank's ESW focused on the Southern Corridor (Garni- Geghard- Khor Virap- Areni- Jermuk- Sisian- Tatev- Goris- Meghri), which crosses four regions (Kotayk, Ararat, Vayots Dzor and Syunik) combining 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. It 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 tourist visitation facilitates local businesses and spreads prosperity over a broader range of stakeholders.

The key conclusion of the ESW 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 responsible tourism destination, and achieve economic development objectives all along Corridor.

The ESW 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: Urban Regeneration and Tourism Circuit Development (US\$48 million):

Heritage Hub Regeneration. This sub-component includes restoration of public infrastructure, building facades, public spaces, museums, roads and water. Based on product development and marketing potential, infrastructure needs, and Marz employment needs, the destination hubs with the greatest potential to be catalysts for tourism development along the Corridor are: Areni, Goris, and Meghri.

Tourism Circuits Development. This sub-component will finance implementation of an integrated approach to cultural heritage site upgrading and improved management in the most attractive cultural heritage sites located along the main tourism circuit/route in Southern and Northern

Corridors. These activities include: a) site management plans, b) construction of tourism facilities at each attraction, such as information centers, cafés, rest areas, public toilets, parking, c) preservation of cultural heritage monuments, museums, etc., and improving the Southern Corridor access roads. Based on the ESW, the following spokes were selected for enhancement of tourism circuit: Garni (temple and gorge), Geghard Monastery, Khor Virap Monastery, Areni cave, Mozrov cave, Yeghegis, Shaki waterfall, Karahunge, and Khndzoresk. Two World Heritage Sites in the Northern Corridor, Haghpat and Sanahin, will also be restored and developed.

Public-Private Infrastructure (PPI). This sub-component will finance selected public sector investments in municipal or regional infrastructure which will benefit the selected community as a whole and will lead to increased medium-size private sector investments along the corridors. To encourage private sector investments in the region, this component is to support a selected number of private sector entities which show interest in and capacity to invest along the Corridors in the tourism sectors or in agro-processing, but seek complementary public infrastructure necessary to make their investments viable (e.g., public facilities within vicinity of the investments, road/sidewalk, water/sanitation, communications, etc.). They would be subject to screening by a selection committee and there will be appropriate conditions tied to that. Selection of private sector investments will be based on transparent and competitive processes. The support offered will include streamlined business startup procedures and provisions of the public infrastructure mentioned above.

Component 2: Institutional Development (US\$7 million):

Capacity Building: Enhancing the institutional capacity and performance of the Development Foundation of Armenia and other tourism and cultural heritage entities (local and regional) to carry out the following activities: destination management and promotion, marketing and promotion; workforce development with specific gender focus; construction supervision and sustainable site management of cultural heritage; and performance monitoring and evaluation activities with specific gender disaggregation.

Business Advisory Services for SME Development: Private investors, particularly those investing in small and medium enterprises, shall be incentivized through the provision of various incentive schemes such as public infrastructure and streamlined business start-up procedures. This component can help encourage local communities to start up, or expand, small and medium enterprises. This component will provide business advisory services for SME development – for example, to guest-houses, restaurants, handicraft workshops, organic food and beverage firms; so that SMEs can access micro-credit financing resources available at the Ministry of Economy (MoE).

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. 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. 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. 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, such as wine tasting vs. experimenting lavash bread baking or carpet knitting.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	66.00	Total Bank Financing:	55.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			11.00
International Bank for Reconstruction and Development			55.00
Total			66.00

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