

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

August 18, 2015
Report No.:

99433

Operation Name	Third Development Policy Operation
Region	Europe and Central Asia
Country	Armenia
Sector	Other domestic and international trade (20%); Capital markets (20%); SME Finance (20%); Central government administration (20%); Other social services (20%)
Operation ID	P153234
Lending Instrument	Development Policy Financing
Borrower(s)	Republic of Armenia
Implementing Agency	Ministry of Finance
Date PID Prepared	August 18, 2015
Estimated Date of Appraisal	September 28, 2015
Estimated Date of Board Approval	November 17, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision	

I. Key development issues and rationale for Bank involvement

The proposed Development Policy Operation (DPO-3) is the third in a programmatic series of four operations envisaged during 2013-16. It builds on the World Bank's engagement with the government under the umbrella of the Country Partnership Strategy (CPS) for FY2014-17, and the Armenia Development Strategy for 2013-25. It is an extension of support under the previous three-year DPO series (2009-12), which aimed at supporting the government to mitigate the impact of the global financial crisis. The DPO-3 is envisaged to contribute US\$50 million to the government's budget.

This DPO series was modified during DPO-3 identification to include an additional operation in FY2017 (DPO-4), to better align with the ongoing government reform program, and also respond to the country's increased financing needs in the context of adverse economic and geo-political developments in the region in late 2014 and early 2015.

II. Proposed Objective(s)

The main objectives are to support more resilient growth and job creation through the reorientation of the economy towards industry and exports. The measures supported by this DPO series stand on two pillars, (i) enhancing fiscal, social, and environmental sustainability and (ii) strengthening competitiveness. The envisaged measures indicate that the government is ready to continue implementing bold and transformative reforms to reach its objectives and position the Armenian economy for more resilient growth after the global crisis. The measures are supported by extensive analytical and capacity building assistance.

Some of the key outcome indicators include: Streamlining of the inspections regime, Armenia's performance in Doing Business Indicators, the export volume in priority sectors, frequency and capacity of flights to and from Yerevan, the tax-to-GDP ratio, number of households covered by the Family Benefit Program, the number of consolidated social service access points, financial sustainability of the

drinking water and irrigation sectors, and environmental impact analyses of mining and other industrial projects.

III. Preliminary Description

The main objectives are to facilitate more resilient growth and job creation through the reorientation of the economy toward industry and exports. This DPO series shifts focus to a medium-term growth agenda as the recovery from the global financial crisis is clearly underway. The policy stance is directed towards (i) rebuilding macroeconomic policy buffers, in particular through fiscal consolidation and the reduction of public debt; (ii) improving the effectiveness of social protection; and (iii) enhancing environmental sustainability in connection with mining, currently the most important exporting sector. Measures to shift economic activity to manufacturing and exportable sectors and foster more resilient growth are intended to improve competition, the business environment, and the financial sector. Social protection policies are aimed at broadening the coverage within a sustainable fiscal envelope. This operation also supports reforms which will facilitate the implementation of other elements of the World Bank's lending portfolio with policy measures that are aimed at improving their chances of success and sustainability.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The team will analyze potential adverse effects of the policy actions on the poor and work with the government on appropriate mitigating measures. Some measures supported under the first objective, which is aimed at enhancing fiscal, social, and environmental sustainability may have adverse effects on some population groups. A Poverty and Social Impact Assessment (PSIA) will be undertaken with respect to the envisaged reforms in taxes, drinking water, and irrigation. Under the second objective, which is aimed at strengthening competitiveness, are expected to have only positive effects on poverty reduction by strengthening growth and bolstering employment creation.

The proposed operation is expected to have positive impacts on poverty reduction on the whole, through its impacts on employment, economic growth, and job creation. In addition, the proposed operation emphasizes safeguarding or increasing allocations and effectiveness of social protection in the budget. Furthermore, the operation supports improved service delivery and higher utilization of basic health-care by larger groups of the population as a result of reduced out of pocket payments.

Environment Aspects

It is expected that the measures supported by the DPO are aimed at improving specific policies for management of environment and natural resources. They will support the development of a legal and regulatory environment conducive to sustainable development. It aims to strengthen national environmental regulatory capacity by enhancing the implementation of the regulatory provisions concerning environmental and social issues in the mining sector.

V. Tentative financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		50
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	50

VI. Contact point

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