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Report No: PAD1109

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$30 MILLION

TO THE

REPUBLIC OF ARMENIA

FOR A

SOCIAL INVESTMENT AND LOCAL DEVELOPMENT PROJECT

February 20, 2015

Social Protection and Labor Global Practice  
South Caucasus Country Unit  
Europe and Central Asia Region

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## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective: January 31, 2015)

Currency Unit = Armenian Dram (AMD)  
AMD 476 = US\$1

## **FISCAL YEAR**

January 1 – December 31

## **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
ADS	Armenia Development Strategy
AMD	Armenian Dram
APSAS	Armenian Public Sector Accounting Standards
ASIF	Armenia Social Investment Fund
ATDF	Armenian Territorial Development Fund
CBO	Community-based Organization
CDD	Community-driven Development
CHF	Swiss Franc
CIS	Commonwealth of Independent States
CoE	Council of Europe
CPS	Country Partnership Strategy
CPAR	Country Procurement Assessment Review
CSO	Civil Society Organization
CQS	Consultant Qualification Selection
DA	Designated Account
DL	Disbursement Letter
DPF	Development Policy Financing
ECD	Early Childhood Education
ED	Executive Director
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
EU	European Union
FBS	Fixed Budget Selection
FM	Financial Management
FMM	Financial Management Manual
FMS	Financial Management Specialist
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GIZ	Gesellschaft für International Zusammenarbeit
GNI	Gross National Income
GOA	Government of Armenia
GPN	General Procurement Notice
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant
ICB	International Competitive Bidding
ICR	Implementation Completion Report
IDA	International Development Association

IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFAC	International Federation of Accountants
IFR	Interim Financial Report
ILCS	Integrated Living Conditions Survey
IMF	International Monetary Fund
IPF	Investment Project Financing
IRR	Internal Rate of Return
ISA	International Standards on Auditing
LCS	Least Cost Selection
M&E	Monitoring and Evaluation
MIS	Management Information System
MMIS	Municipal Management Information System
MOF	Ministry of Finance
MTAES	Ministry of Territorial Administration and Emergency Situations
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
O&M	Operation and Maintenance
PAD	Project Appraisal Document
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PIC	Project Implementation Committee
PFM	Public Financial Management
POM	Project Operational Manual
QBS	Quality-based Selection
QCBS	Quality- and Cost-based Selection
RAP	Resettlement Action Plan
RFP	Request for Proposal
RPF	Resettlement Policy Framework
SDC	Swiss Agency for Development and Cooperation
SDP	Sustainable Development Program
SIF	Social Investment Fund
SH	Shopping
SILD	Social Investment and Local Development
SOE	Statement of Expenses
SPN	Specific Procurement Notices
TA	Technical Assistance
TDS	Territorial Development Strategy
TTL	Task Team Lead
TOR	Terms of Reference
UNDB	United Nations Development Business
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

Regional Vice President:	Laura Tuck
Country Director:	Henry G.R. Kerali
Senior Global Practice Director:	Arup Banerji
Practice Manager:	Andrew D. Mason
Task Team Leader:	Erkin Mamadaliev



## Armenia Social Investment and Local Development Project (P148836)

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Map: IBRD 33364

# PAD DATA SHEET

Armenia

Armenia Social Investment and Local Development Project (P148836)

## PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

Report No.: PAD1109

Basic Information			
Project ID P148836	EA Category B - Partial Assessment	Team Leader Erkin Mamadaliev	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date March 14, 2015	Project Implementation End Date December 31, 2019		
Expected Effectiveness Date: July 1, 2015		Expected Closing Date: June 30, 2020	
Joint IFC: No			
Practice Manager/Manager Andrew D. Mason	Senior Global Practice Director Arup Banerji	Country Director Henry G. R. Kerali	Regional Vice President Laura Tuck
Borrower: Republic of Armenia			
Responsible Agency: Armenia Social Investment Fund			
Contact: Telephone No.:	Ashot Kirakosyan (374-10) 247-123	Title: Email:	Executive Director asif@armeniasif.am
Project Financing Data(in USD Million)			
[ X ] Loan	[ ] IDA Grant	[ ] Guarantee	
[ ] Credit	[ ] Grant	[ ] Other	
Total Project Cost:	42.85	Total Bank Financing:	30.00
Financing Gap:	0		

.										
<b>Financing Source</b>							<b>Amount</b>			
Borrower							11.01			
International Bank for Reconstruction and Development							30.00			
Local Communities							1.84			
Total							42.85			
.										
<b>Expected Disbursements (in USD Million)</b>										
Fiscal Year	2015	2016	2017	2018	2019	2020				
Annual	0.50	5.00	7.50	8.10	6.20	2.70				
Cumulative	0.50	5.50	13.00	21.10	27.30	30.00				
.										
<b>Institutional Data</b>										
<b>Practice Area / Cross Cutting Solution Area</b>										
Social Protection & Labor										
<b>Cross Cutting Areas</b>										
[ ] Climate Change										
[ ] Fragile, Conflict & Violence										
[ ] Gender										
[ ] Jobs										
[ ] Public Private Partnership										
<b>Sectors / Climate Change</b>										
Sector (Maximum 5 and total % must equal 100)										
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Health and other social services				Other social services		87				
Public Administration, Law, and Justice				Public administration-Other social services		13				
Total						100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.										



<b>Themes</b>		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Rural development	Rural services and infrastructure	30
Human development	Other human development	30
Urban development	Municipal governance and institution building	20
Public sector governance	Decentralization	10
Social development/gender/inclusion	Participation and civic engagement	10
Total		100
<b>Proposed Development Objective(s)</b>		
Improve the quality and use of and access to community and intercommunity infrastructure.		
<b>Components</b>		
<b>Component Name</b>	<b>Cost (USD Millions)</b>	
Support to Socioeconomic Development and Capacity Building at the Local Level	24.30	
Support to Intercommunity Social and Economic Development Initiatives	13.50	
Armenia Social Investment Fund (ASIF) Institutional Strengthening and Project Management	5.00	
<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 [ ] No [X]	
Have these been approved by Bank management?	Yes [ ] No [ ]	
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]	
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	<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>
Forests OP/BP 4.36		<b>X</b>
Pest Management OP 4.09		<b>X</b>
Physical Cultural Resources OP/BP 4.11		<b>X</b>
Indigenous Peoples OP/BP 4.10		<b>X</b>
Involuntary Resettlement OP/BP 4.12	<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50	<b>X</b>	
Projects in Disputed Areas OP/BP 7.60		<b>X</b>
<b>Legal Covenants</b>		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Suspension	X	
<b>Description of Covenant</b>		
The Additional Events of Suspension consist of the following, namely that ASIF's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of ASIF to perform any of its obligations under the Project Agreement.		
<b>Legal Covenants</b>		
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>
Safeguards	X	
<b>Description of Covenant</b>		
ASIF shall hire and thereafter maintain at all times during Project implementation or as agreed with the Bank, a social specialist, whose qualifications, experience, and terms of reference shall be acceptable to the Bank.		
<b>Conditions</b>		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IBRD	Effectiveness	Effectiveness Condition
<b>Description of Condition</b>		
(a) The Implementation Agreement has been executed on behalf of the Borrower and ASIF, in a manner acceptable to the Bank; and		

(b) The Operational Manual, has been updated and adopted by ASIF, in a manner satisfactory to the Bank.			
Conditions			
Source Of Fund	Name	Type	
IBRD	Disbursement	Disbursement Condition	
Description of Condition			
No withdrawals can be made under Category (2), unless ASIF has submitted evidence satisfactory to the Bank that the Project Operational Manual has been updated, as referred to in Section I. B. 2 of the Project Agreement, in order to include, inter-alia, the criteria for selecting Subprojects, Eligible Beneficiaries, and the implementation and fiduciary arrangements for the carrying out of the activities under said part of the Project.			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Armine Aydinyan	Consultant	Procurement	ECCAR
Vahan Danielyan	Consultant	Operations Support	GSPDR
Ivan Drabek	Senior Operations Officer	Operations	GSPDR
Yousif Mubarak ElFadil	Senior Social Development Specialist	Social Development	GSURR
Anna Goodman	Program Assistant	Program Assistant	GSPDR
Aleksan Hovhannisyan	Senior Operations Officer	Operations	ECCAR
Nairuhi Jrbashyan	Consultant	Consultant	GSPDR
Darejan Kapanadze	Senior Environmental Specialist	Environment	GENDR
Rocio Mariela Malpica Valera	Senior Counsel	Legal	LEGLE
Jose C. Janeiro	Senior Finance Officer	Finance Controller	WFALA
Eric Ranjeva	Finance Officer	Finance Controller	WFALA
Erkin Mamadaliev	Social Protection Specialist	Task Team Lead	GSPDR
Sarah G. Michael	Senior Social Development Specialist	Social Development	GSURR
Satik S. Nairian	Program Assistant	Program Assistant	ECCAR
Garik Sergeyen	Senior Financial Management Specialist	Financial Management	GGODR
Irina Tevosyan	Program Assistant	Procurement	ECCAR

Penelope Jane Aske Williams	Senior Operations Officer	Operations	GSPDR		
Briana N. Wilson	Senior Operations Officer	Operations	GSPDR		
Non-Bank Staff					
Name		Title	City		
Vahan Danielyan		Consultant	Yerevan		
Nairuhi Jrbashyan		Consultant	Yerevan		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

## I. STRATEGIC CONTEXT

### A. Country Context

1. Armenia experienced strong economic growth before the global economic crisis; since then recovery has been slow. Before 2009, Armenia's per capita gross domestic product (GDP) grew at an average of about 8 percent for more than a decade. The economic crisis broke this pattern and negatively affected the Armenian economy through different channels, leading to a substantial decline in GDP per capita by 14 percent in 2009. Economic growth resumed afterwards and real GDP growth increased to 7 percent in 2012 before slowing to 3.5 percent in 2013. With a per-capita gross national income (GNI) of US\$3,790, Armenia is a lower-middle-income country.<sup>1</sup>

2. The global economic crisis had a profound impact on consumption poverty in Armenia and recovery after the crisis has been very slow. National poverty rate increased from 27.6 percent in 2008 to 35.8 percent in 2010. Between 2010 and 2012, the poverty rate decreased by only 3.4 percentage points to 32.4 percent, which was almost five percentage points higher than the pre-crisis 2008 level.<sup>2</sup> A profiling of households shows that the poor are more likely to: (a) be out of the labor force or unemployed; (b) have less education; (c) live in urban areas outside the capital; (d) have larger households with more children; and/or (e) live in households headed by women. Education is important for escaping poverty; yet, nationally, 21 percent of households have at least one household member with less than five years of education or one child of compulsory schooling age (6 to 14 years of age) who does not attend school.<sup>3</sup>

3. Armenia is characterized by significant territorial disparities.<sup>4</sup> Economic activity is largely concentrated in Yerevan, which accounts for about one-third of the country's population, about a quarter of the nation's poor, and more than half of the national GDP. Since the early 2000s, territorial disparities have been growing and contributed to widespread migration out of the country, particularly from economically depressed areas outside of Yerevan. In 2012, regional poverty rates ranged from 21 percent in Vayots Dzor (with 1.2 percent of the poor and 1.8 percent of the population) to 46 percent in Shirak (with 12.2 of the poor and 8.5 of the population). Data from the national household survey—the Integrated Living Conditions Survey (ILCS)—show that 36.9 percent of the poor population lived in three regions which account for only 28.2 percent of the total population: Lori, Kotayk, and Shirak. Figure 1A illustrates that almost all regions (except for Vayots Dzor) experienced higher levels of consumption poverty in 2012 than before the crisis hit the country in 2008. Territorial disparities lead to underutilization of the economic potential of lagging territories, hamper economic development and job creation, and reduce the efficiency of public policy.

4. The availability, accessibility, and quality of economic and social infrastructure and of social services provided at the community level are still very low, especially outside of Yerevan. Deficits in basic education attainment and quality of regional infrastructure show sharp variations across regions. Figure 1B focuses on deprivation of education and presents the share of population with low education or with children out of school (29 percent in Tavush and 18 percent in Sjunik). This share is higher

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<sup>1</sup> World Bank. 2014. *World Development Indicators 2014*. Washington, D.C: World Bank.

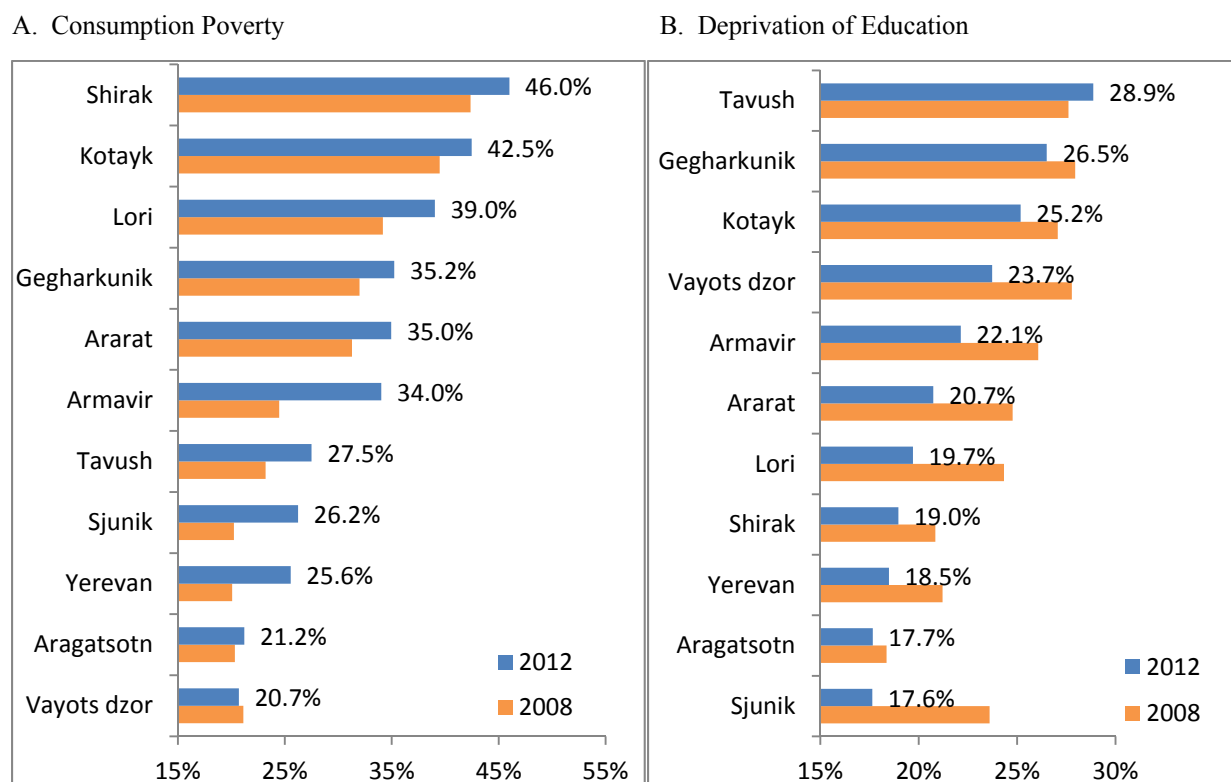
<sup>2</sup> National Statistics Service of the Republic of Armenia, November 2013, "Social Snapshot and Poverty in Armenia", p. 30-32.

<sup>3</sup> World Bank Group. June 2014. "Armenia: Poverty Assessment," Report Number 884122- AM.

<sup>4</sup> The term territorial disparities used in this Project Appraisal Document (PAD) refer to disparities between and within regions/territories (*marzes*). Armenia consists of ten *marzes* (regions) and the capital Yerevan, which has a status equal to a *marz*. *Marzes* are further divided into a total of 915 rural and urban communities.

for rural areas (24 percent) than for urban areas (20 percent); even in Yerevan, 18 percent of the population shows deprivation in education. Similarly, according to the ILCS, the national preschool enrollment rate in 2012 was only 27 percent. Due to the absence of functioning kindergartens nearby or low service quality in existing ones, 11.4 percent of preschool-aged children are not enrolled. For 18.6 percent of preschool-aged rural children the nearest preschool facility is more than 5 km from their houses. Rural communities' accessibility to potable water is lower than in urban areas: only 48.3 percent of rural households have 24-hour access to potable water compared to 64.2 percent of urban households. The main reason for this disparity is the poor condition of water supply infrastructure and resulting loss of potable water in rural areas.<sup>5</sup>

**Figure 1. Comparison of *Marzes* in 2008 and 2012**



Source: National Statistics Office, Armenia and World Bank staff calculations, based on ILCS Armenia 2008 and 2012.

Note: Poverty rates are based on the upper national poverty line in Armenia. A household is considered to be deprived of education if at least one household member has less than five years of education and/or at least one child of compulsory schooling age (6 to 14 years of age) is not attending school.

<sup>5</sup> National Statistics Service of the Republic of Armenia, November 2013, "Social Snapshot and Poverty in Armenia", p. 129, 130, and 131.

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

### **Sectoral Context**

5. The governance system in Armenia is highly centralized with the central government being responsible for capital investment and key areas of public service provision, including health care, education, and social protection. The regional *marz* authorities represent the central government in the field and oversee implementation of its policies. Communities are governed by elected Community Councils and Heads of the Community (local government level). In contrast to *marz* authorities, local governments have their own budgets. Local governments are primarily responsible for administrative functions and operation and maintenance (O&M) of existing local level infrastructure. Armenia's 915 communities, of which 866 are rural and 49 are urban, differ greatly in terms of their size and development levels. Nearly half of them have fewer than 1,000 inhabitants. This fragmentation is exacerbated by insufficient budgets and leads to inefficiencies and the inability of local governments to effectively deliver services to their constituencies. The large number of extremely small local government jurisdictions also hampers efforts to develop the local economy.

6. The Government of Armenia (GOA) recognizes that a highly centralized governance system and high concentration of wealth in Yerevan are not conducive to sustainable economic and social development of the country and exacerbate high and persistent territorial disparities. The Armenia Development Strategy (ADS) for 2012–2025 aims to overcome territorial development disparities, ensure even territorial development,<sup>6</sup> and implement targeted territorial development policies as medium- and long-term priorities. Targeted territorial development programs should ensure accelerated economic development for the most depressed territories and enable them to approach the average economic development level of the country.

7. The Ministry of Territorial Administration and Emergency Situations (MTAES) has also prioritized overcoming territorial disparities in its 2011 Concept for Territorial Development. This concept emphasizes the creation, rehabilitation, and development of economic infrastructure and an increase in the quality and accessibility of public social services (such as educational, health, cultural, and environmental) at the territorial/community level.

### **Institutional Context**

8. For almost 20 years, the GOA has addressed territorial imbalances by implementing small-sized investment projects, known as microprojects, to support social infrastructure at the local level through the Armenia Social Investment Fund (ASIF) (see Box 1).<sup>7</sup> Currently the GOA is preparing a new territorial development strategy which will identify approaches to address territorial disparities in addition to ASIF's traditional community-level microprojects. The GOA intends to support this strategy through the design and implementation of territorial development projects. These projects will involve multiple communities or groups over wider geographic areas and will aim to promote job

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<sup>6</sup> The term territorial development here refers to development of territories not limited by the administrative boundaries of *marzes* and communities within the country. Furthermore, a territory here does not mean a distinct administrative unit and its size could be as small as geographic boundaries of two communities intending to undertake a joint development project.

<sup>7</sup> ASIF is used throughout the text to refer to the implementing agency, but it is expected that in the first year of the project, the name will change to the Armenian Territorial Development Fund (ATDF). The two should be considered the same in this document.

creation and livelihood opportunities, strengthen the environment for further economic investment, and provide additional incentives for communities to explore potential development synergies.

### **Box 1. Armenia Social Investment Fund Past Results**

The Armenia Social Investment Fund (ASIF) was founded in 1996. Since its inception, it has received total funding of US\$115.2 million (US\$83 million from three World Bank projects) and has completed over 900 microprojects, benefiting almost half of Armenia's population.

The community investment microprojects completed under ASIF III (December 2006–March 2015) mainly include schools (41 percent), followed by community/cultural centers (28 percent); kindergartens (13 percent); health care facilities (6.9 percent); and other community infrastructure support, such as potable water supply, social care institutions, and irrigation systems. Needy communities have been identified using a poverty targeting strategy developed by ASIF that is based on criteria relating to social, demographic, economic, financial, geographic, and infrastructure conditions. Approximately 80 percent of the funding was channeled to the vulnerable or highly vulnerable communities.

In addition to having generated visible social and economic benefits for poor communities across Armenia, ASIF microprojects have also proven to be an effective tool for mitigating the impact of the financial crisis and promoting economic growth by supporting small-scale, labor-intensive, community infrastructure projects and creating employment.\* ASIF III alone has generated over US\$10.5 million of income and created almost 630,000 man-days of short-term employment from completed microprojects. A large share of generated income and employment has been channeled to underdeveloped parts of the country, as workers are mostly hired from the local communities. On average eight temporary and two permanent jobs were generated for each microproject implemented by ASIF.\*\* Moreover, an independent beneficiary assessment survey showed that nearly 80 percent of the inhabitants of ASIF-beneficiary communities felt that their ASIF microproject was very important for raising living standards in the community.

ASIF has also made an important contribution to community capacity for local development. Over 5,200 local community members (from 355 communities) received training on investment planning and management, while over 715 municipal officials from 145 communities received training on financial management, 80 percent of whom evaluated the experience positively. Three specialized centers that provide integrated social care services to vulnerable groups have been established.

Finally, although ASIF's operations have been funded predominantly by World Bank loans and the state budget, ASIF has also been successful in raising funds for its operations through grants from donor countries, Armenian diaspora, and the private sector, totaling US\$11.8 million (10 percent of its total funding).

\* Over 41 percent of ASIF funds provided under the Second and Third Additional Financing for ASIF III were spent in the most vulnerable communities, 39 percent in vulnerable communities, and 20 percent in the least vulnerable communities. The most poor/vulnerable communities of the country were identified through a community vulnerability ranking and mapping, allowing calculation of a composite socio-economic vulnerability index and ranking for each community of the country. This methodology was developed by ASIF and is being revised as part of the preparation of this operation.

\*\* Avag Solutions: "Assessment of Sustainability, Infrastructure, and labor impacts of microprojects under ASIF III". Yerevan (2012).

9. ASIF is an autonomous public organization that is accountable to the ASIF Council, chaired by the Prime Minister of the Republic of Armenia. It was created in 1996, with World Bank technical and financial assistance, to provide immediate support to the rehabilitation of local infrastructure and to enhance the living conditions of the poorest using a demand-driven approach and direct community involvement. ASIF's interventions have focused on: (a) rehabilitating and improving local community infrastructure and services with the aim to reduce vulnerability, satisfy basic socioeconomic needs, and



generate employment at the local level; and (b) providing training and technical assistance (TA) to local authorities to support decentralization reforms and local institutional capacity building. The main strengths of ASIF include its capacity to reach remote, isolated, and poor communities; to promote effective discussion on their development priorities; and to help them develop project proposals to serve their needs. ASIF is a well-known and respected development agency throughout Armenia.

10. The microproject activities of ASIF have been complemented by local government capacity building to ensure the sustainability of facilities rehabilitated or constructed by ASIF and to provide support for the GOA's decentralization program. In particular, training of mayors, community accountants, and village council members conducted by ASIF has contributed to improving the quality of local administration and has laid a strong foundation for the leadership role of the mayors. According to surveys of training participants, local capacity for developing community development programs and local budgets improved significantly following ASIF training of approximately 3,800 local government staff.

11. In March, 2014, the GOA approved ASIF's Evolution Strategy, which envisages a gradual evolution of ASIF into the Armenian Territorial Development Fund (ATDF) to support ADS's objectives and address the growing territorial disparities. It involves ASIF transitioning from providing only social infrastructure microprojects to adding new territorial development projects as well as diversifying the funding of ASIF's operations with the objective of eventually making it sustainable. This transition will require an enhancement of ASIF's existing structure, functions, operational procedures, and capacity (such as staffing, training, and facilities).

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

12. The Country Partnership Strategy (CPS) for period 2014–2017 envisages selective support of the ADS and aims to build on progress achieved to date in reducing poverty and improving access to quality social services. In particular, it identifies the importance of continuing to promote a community-driven approach to basic infrastructure service delivery. The proposed project is consistent with the second strategic cluster of the CPS, 'Improving Efficiency and Targeting of Social Services'. Support to the implementation of ASIF's evolution strategy is listed as a key objective under this cluster.

13. The project is also strongly aligned with the World Bank's twin goals, supporting elements of the ADS that focus on eliminating extreme poverty, mitigating poverty of the poorest 40 percent of the population, boosting their prosperity, and reducing territorial development disparities. This includes the rehabilitation and creation of social infrastructure aimed at improving social welfare in poor and vulnerable communities, mitigating territorial disparities through the implementation of projects in these vulnerable communities and areas, and strengthening efficiency in community governance. The project will establish a minimum percentage of resources under Component 1 that must go to the most vulnerable communities and will prioritize intercommunity projects including vulnerable communities under Component 2.

14. Moreover, the Project will support the GOA's Territorial Development Strategy (TDS), which is currently under development, through its support to ASIF's transition to the ATDF. Key dimensions of this support will include the implementation of intercommunity socioeconomic development projects; the improvement of the targeting and efficiency of state, donor, and private investments aimed at territorial development; and the strengthening of institutional and financial capacities at the national, community, and territory levels.

## **II. PROJECT DEVELOPMENT OBJECTIVES (PDO)**

### **A. PDO**

15. The project development objective (PDO) is to improve the quality and use of and access to community and intercommunity infrastructure.

### **B. Project Beneficiaries**

16. The direct project beneficiaries will be residents living in communities where Social Investment and Local Development (SILD) projects will be carried out. Local populations will benefit from improved social infrastructure such as schools, kindergartens, health and social service facilities, community centers, water supply, and waste management. Local residents and businesses will also benefit from improved economic infrastructure such as irrigation systems, agro-processing and storage facilities, and markets, which will be identified through assessments of economic development potential and prioritization by the communities.<sup>8</sup> Temporary and permanent jobs that will be created under the Project will contribute to income generation in participating communities. Employment opportunities for women will also be particularly emphasized, notably under Component 2 which is expected to create opportunities for them. ASIF and the MTAES will benefit from institutional and capacity-building activities under the project.

### **C. PDO Level Results Indicators**

17. PDO level indicators are the following:

- Number of direct project beneficiaries and female beneficiaries
- Average percentage increase in access to and use of SILD infrastructure
- Percentage of beneficiaries in project areas who are satisfied with the quality of infrastructure (disaggregated by gender and between component 1 and component 2 projects)

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

**Component 1. Support to Socioeconomic Development and Capacity Building at the Local Level (US\$24.3 million, of which US\$17.6 million is an IBRD loan)**

18. Under this component, SILD will follow the model of previous ASIF projects to implement microprojects that target vulnerable communities to address priority basic needs. Community investment microprojects will be chosen using a two-stage poverty targeting strategy, with the first level defining broad allocations for *marzes* and the second level identifying needy communities. Needy communities are identified using a community profiling and mapping exercise based on criteria relating to social, demographic, economic, financial, geographic, and infrastructure conditions. Under ASIF's community-driven development approach, through Project Implementation Committees (PICs), communities are responsible for: (a) identifying their priorities using participatory methods; (b) contributing to the financing of the selected microprojects (at a 5-10 percent community

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<sup>8</sup> While ASIF could foreseeably enter into public- private partnerships, this project will only fund public goods.

contribution rate); and (c) maintaining these projects after completion. This operational model, successfully implemented under past ASIF projects, will continue to be the primary mode of SILD's operations under the project, particularly during its first years.

19. This component will fund approximately 120 microprojects.<sup>9</sup> Through the microproject process, SILD will: (a) rehabilitate and develop community infrastructure and services (public, social, economic, and environmental); (b) build institutional and financial capacity at the community level to develop and implement these projects and services; and (c) provide consultancy and TA to local partners, such as PICs and community councils. The selection methodology for microprojects under this component will continue to be based on the vulnerability ranking of the community and the technical quality of submitted applications/projects. As part of SILD preparation, ASIF is reviewing and updating its methodology and tools for community assessment and vulnerability ranking. The revised methodology will continue to classify all the communities into three clusters based on their vulnerability. SILD will maintain the policy implemented under ASIF III targeting at least 40 percent of loan funds under this component to communities in the most vulnerable cluster and providing up to 20 percent of funds to finance microprojects in communities in the least vulnerable cluster. The updated targeting methodology will be included in the Project Operational Manual (POM).

20. The menu of microprojects to be financed under this component includes renovation and rehabilitation of key social, publicly owned infrastructure covering education (kindergarten, primary, secondary, and special schools) and health (primary health care clinics); multipurpose community centers; social service centers for vulnerable groups; water supply systems; sanitation systems; minor irrigation works; rural electrification; school heating systems; and rehabilitation of gymnasiums and playgrounds. Depending on the priority needs identified by selected communities, new small-scale construction projects may be financed. This component will also finance goods, primarily in the form of furniture and equipment, for rehabilitated infrastructure, such as schools, kindergartens, and community centers; as well as for other social infrastructure in accordance with criteria set forth in the Operational Manual. To ensure proper design and supervision of community infrastructure microprojects, this component will finance local consultancies for microproject design, supervision, and field work in the form of TA and logistical support.

21. Capacity building for community councils, school boards, and PICs to effectively plan and maintain their investments will be undertaken under this component. SILD will reinvigorate existing sustainability measures and will introduce new ones to improve O&M of new and rehabilitated community infrastructure under the project as outlined in the Sustainability section. To further build local institutional and financial capacity, key stakeholders such as municipal officials, village council members, and community leaders will be trained in areas such as financial management (FM), budgeting, accounting, and asset management.

## **Component 2. Support to Intercommunity Social and Economic Development Initiatives (US\$13.5 million, of which US\$10.1 million is an IBRD loan)**

22. This component will directly support the ADS 2012–2015 objectives of reducing regional socioeconomic disparities and promoting harmonic territorial development by financing innovative intercommunity socioeconomic development initiatives. These initiatives, known as subprojects, will finance publicly owned infrastructure and services which have both social and economic impact and can catalyze future economic growth and human capital development for a region or group of

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<sup>9</sup> The maximum amount to be financed out of the Loan proceeds for a microproject is US\$310,000.

communities. Through this component, SILD will also strengthen intercommunity dialogue, priority setting and development planning and management. The component will include a particular focus on vulnerable and lagging regions.

23. This component is aligned with the GOA's planned territorial development reform which targets the agglomeration of community clusters into structures optimal for balanced development.<sup>10</sup> As the agglomeration process, which is yet to be fully defined by the GOA, will happen in phases rather than over a set and established timeline, this component will proceed in parallel with the process but in alignment with its overall objectives. The component will supplement the agglomeration process in two ways. First, it will foster linkages and shared opportunities for socioeconomic development between and among communities. This component will support inter or multi-community projects (subprojects<sup>11</sup>) and will support shared capacity building and planning. Second, subprojects will expand beyond the traditional ASIF model of infrastructure-focused microprojects to longer-term sustainable territorial development subprojects able to promote social capital and livelihood and employment opportunities. Subprojects should also strengthen the environment for further economic investment and provide incentives for communities to explore potential development synergies and exploit economies of scale where feasible.

24. As this is a novel component for ASIF, a series of preliminary studies are being undertaken to inform its detailed design.<sup>12</sup> These include analyses of international good practices around regional socioeconomic development and social inclusion schemes, of regional socioeconomic development and growth potential throughout Armenia, of institutional and legal modalities to enable intercommunity development collaboration, and of methodologies and tools for the preparation and evaluation of subprojects. These studies are expected to be completed during the project preparation process and before project signing.

25. A phased implementation approach has been adopted for this component. In this approach, the first year of the project will be used to finalize the design of this component in light of the findings of the preparatory studies with respect to: (a) local potential for economic growth and socioeconomic development; (b) the appropriate level of local co-financing, including co-financing from communities and private business; (c) mechanisms for coordination and synergy with other development initiatives in project areas; (d) links to the medium-term development program of the region; (e) the potential for subproject sustainability; and (f) capacity-building needs within ASIF and at the community, *marz*, and national level for the successful implementation of this component. The specific types or menu of subprojects to be supported under this component will also be confirmed at this time. Based on international experience, these will be expected to be productive communal investments which could,

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<sup>10</sup> The agglomeration process is predominantly related to combining existing settlements into new administrative arrangements by redrawing boundary lines; it is not, however, expected to include any forced resettlement. The specific criteria for agglomeration will be defined through a TDS being prepared by the GOA under a combined aid and TA portfolio involving the European Union (EU), the United States Agency for International Development (USAID), the Swiss Agency for Development and Cooperation (SDC), and the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ).

<sup>11</sup> The average size of a subproject under Component 2 is expected to be about US\$500,000.

<sup>12</sup> As part of its wider program to support local self-governance reform in Armenia, the SDC has entered into a partnership with the MTAES to support ASIF's transition into a territorial development fund through a specific grant. The grant supports a variety of background analyses and ASIF capacity-building activities, including an institutional assessment to review ASIF's present structure and capacity and to develop an institutional development plan. The grant totals CHF 288,000 (US\$303,000) and will be implemented from August 2014 through May 2015. Following a separate agreement with the SDC, the World Bank provides quality assurance, fiduciary supervision, and support to implementation of the activities under the grant.

for example, support improved agricultural production or commerce (for example, irrigation and transport), improved conditions for production or manufacturing (for example, waste management and water systems) or improved human capital development opportunities (for example, training and skills development centers). However, only public goods which are sustainable with public investment will be supported. It is expected that this component will also support necessary technical assistance to ensure proper design and supervision of subprojects, as well as provide necessary goods as part of subprojects' design. It will also support capacity building for eligible communities to successfully implement subprojects.

26. A piloting process for the component will then begin in project year 2. During this year, a small number of subprojects will be financed, with the focus on generating experience and models that can be widely applied throughout the country and on necessary refinements to the component design. In project year 3, the component will be scaled up, with more complex subprojects becoming eligible for support. During the piloting process, the Project will focus on communities that are most ready to cooperate and develop viable investment proposals, overlapping as feasible, with those communities identified by the GOA for agglomeration. There is a risk, however, that these communities might not be the poorest. As such, the Project will prioritize intercommunity collaborations that include vulnerable communities and will develop a program of support for accompaniment of more vulnerable communities in preparation and finalization of subprojects. Overall, SILD will be expected to fund the design, selection, and implementation of approximately 25–30 intercommunity subprojects.

**Component 3. ASIF Institutional Strengthening and Project Management (US\$5 million, of which US\$2.2 million is an IBRD loan)**

27. This component will finance project management and operating costs, including salaries, health insurance, utilities, office equipment, field supervision (by ASIF staff), training, financial audits, fiduciary and safeguards oversight, monitoring and evaluation (M&E), and management information systems. In addition, it has been recognized that to reduce dependence of ASIF and the future ATDF on World Bank financing, it will be appropriate for the Bank's share in funding operating costs to decline over the life of the project. Whereas the Bank financed 50 percent of project operating costs throughout previous projects, the Bank's share of funding for operating costs will decline over the course of SILD implementation by 5 percentage points each year thereafter, bringing it down to 30 percent in year 5. It is expected that the financing gap will be covered by the GOA and, potentially, by other donors.

28. This component will also support ASIF's transition to ATDF. The GOA passed a formal decision on 'Approval of ASIF's Development Strategy and the Creation of a Territorial Development Fund on the Basis of the Restructuring of ASIF,' which targets the transformation of ASIF into ATDF as of January 2015. ASIF will transition to ATDF with the objective of supporting territorial development policies to reduce territorial disparities and support balanced and sustainable development of all Armenian regions. As ASIF has been the primary channel of capital investment funding to communities, it is expected that when it transitions into ATDF it will also become the primary channel to deliver capital investment funding for territorial development. ASIF also intends to evolve its funding model, moving away from a predominantly Bank-financed model toward a greater diversity of funding sources through which it can improve its financial sustainability. This component will support ASIF to develop this fund-raising capacity.

29. An institutional assessment to review ASIF's existing structure and capacity is currently ongoing as part of the SDC grant. It will propose recommendations and an action plan for filling any

gaps that are identified, building capacity, and enhancing the structure and operations of ASIF to meet its new mandate. This component will build on the findings of that assessment and support implementation of its recommendations. These are expected to include a range of activities which will directly support ASIF's institutional development, including: (a) development of new tools and approaches, including methodologies and guidelines for appraisal, promotion, and selection of projects;<sup>13</sup> (b) procedural improvements, including in M&E and FM; (c) staff capacity building; (d) organizational/structural changes; and (e) outreach strategy to assist ASIF to diversify its sources of funding by helping it brand itself and reach out to potential financiers to finance its programs.

## B. Project Financing

30. The proposed Project will take the form of an Investment Project Financing (IPF) operation implemented over a period of five years. The Project's total cost will be US\$42.85 million of which US\$30 million will be covered by IBRD. Counterpart funds in the amount of US\$12.85 million will be provided on a joint co-financing basis by the state budget and local communities.<sup>14</sup> It is expected that financing from other development partners for SILD may be mobilized over the course of project implementation. Should additional donor or counterpart funds become available, these could also be incorporated within the project as additional financing or as parallel financing.

31. To promote timely and efficient implementation of SILD, ASIF is expected to initiate some activities, notably under the first component, before SILD effectiveness. This will include selection and contracting of companies to develop designs for the microprojects, civil works, supervision of civil works, and supply of furniture under Component 1 and operating expenditure under Component 3 of the Project. Retroactive financing will therefore be made available under SILD to cover such financing needs. The amount of retroactive financing will not exceed US\$3 million equivalent (or 10 percent of the total loan amount).

## Project Cost and Financing

**Table 1. Project Costs by Components**

<b>Project Components</b>	<b>Project cost (US\$ millions)</b>	<b>IBRD Financing (US\$ millions)</b>	<b>%IBRD Financing</b>
1. Support to socioeconomic development and capacity building at the local level	24.3	17.6	72.2
2. Support to intercommunity social and economic development initiatives	13.5	10.1	75.0
3. ASIF institutional strengthening and project management	5.0	2.225	44.5
Total Project Costs	42.775	29.925	
Front-End Fees	0.075	0.075	
<b>Total Financing Required</b>	<b>42.85</b>	<b>30.0</b>	

<sup>13</sup> This will include methodologies and human resources to undertake economic analyses and determine economic rates of return for subprojects, measures ASIF is currently not able to make but which will be essential as ASIF moves to implementing more sophisticated economic development projects.

<sup>14</sup> The local communities' contributions may involve immaterial in-kind contributions on an exceptional basis. However, this is expected to be very rare and insignificant.

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

32. The main lessons integrated into the design of SILD come from the implementation of the ASIF III project, including three additional financings, and relate to poverty targeting, quality and effectiveness of works, and O&M as described below. As part of the ASIF III midterm review, four additional studies were carried out in 2010 and 2011, as described in Annex 7. The lessons and recommendations from these studies have been embedded in the SILD project design and will be incorporated in the POM.

### **Poverty Targeting**

33. Some of the lessons learned from the implementation of social fund projects financed by the Bank and the ASIF I and ASIF II projects related to poverty targeting include: (a) clearly formulated poverty targeting and an allocation mechanism based on objective criteria and poverty data will ensure the flow of project benefits to the neediest segments of the population; (b) the use of a well-developed targeting strategy and an allocation mechanism will mitigate political pressures in the allocation of funds; and (c) a well-developed targeting strategy should have sufficient flexibility, within the overall allocations, to target specific needs on a demand-driven basis. In particular, the review of ASIF I by the Independent Evaluation Group (IEG) recommended improvement of targeting of the poor and vulnerable.

34. The ASIF III poverty targeting approach, which is being refined for use under SILD, incorporates an improved targeting strategy. This uses a two-stage process tested under multiple social fund programs in Europe and Central Asia. It consists of geographical targeting of project funds by region followed by the identification of needy communities within each region through a community mapping and profiling exercise, based on a set of detailed criteria. The resultant ranking from the neediest to those with the least priority needs together with a classification into three clusters (most vulnerable, vulnerable, and least vulnerable) has proven to be very effective in Armenia.

### **Quality and Cost-Effectiveness of Works**

35. Experience under SIF programs has underlined the importance of delivering good quality and cost-effective community works projects. A number of measures have been taken under the ASIF program to improve the quality, cost-effectiveness, sustainability, and maintenance of works; obtain client satisfaction with services received; increase contractor accountability; and address the issue of corruption. The most recent civil works cost-effectiveness assessment in 2010 found ASIF's unit costs of construction to be more cost-effective than any of the other donor and government agency programs studied. ASIF's ongoing commitment to efficiency and cost-effectiveness will also be embedded within SILD. To ensure that communities are well informed about the implementation of microproject activities, new procedures have also been developed with the active participation of engineers to disseminate information to communities on the status of civil works activities. These procedures, together with regular post procurement reviews carried out by Bank procurement specialists, reviews of the quality of works, and regular FM reviews and financial audits, comprise a comprehensive and effective approach to dealing with quality of works that will be included under the proposed Project.

### **Operation and Maintenance of Rehabilitated Infrastructure**

36. An assessment of O&M of the infrastructure that is renovated or constructed by ASIF, carried out by ASIF in 2011 as part of the midterm review of ASIF III, provided recommendations for

improving O&M of the infrastructure rehabilitated under ASIF microprojects. Although some of the recommendations have been implemented, there is still a need to improve the maintenance of project-supported infrastructure. SILD will therefore include new policies as follows: (a) require applicants to describe planned sustainability measures for project-supported infrastructure within their proposals; (b) require applicants who had previously received an ASIF microproject to provide evidence of the current state of that microproject within their new application; and (c) strengthen the O&M component of the training provided by SILD to local officials from the communities that have implemented SILD projects.

## **IV. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

37. The proposed SILD will be the fourth World Bank-financed project implemented by ASIF, an implementing agency with strong administrative capacity and technical expertise. ASIF was created in 1996 and has successfully completed two IDA financed projects (ASIF I and II). It is currently implementing the ASIF III project, which includes three additional financings. ASIF has generated a sound implementation record through 18 years of project implementation. Since its inception, ASIF has implemented over 900 local social and economic infrastructure microprojects. It has a solid foundation in local social infrastructure project management and has overseen some of the most cost-effective, efficient, and high-quality local social infrastructure projects in Armenia.

38. ASIF administers its operations as an autonomous entity governed by its board, chaired by the prime minister, with authority to manage and administer its program under operating guidelines and procedures set out in the POM. Given that ASIF is an autonomous legal entity and that the Loan is issued to the Republic of Armenia for purposes of implementing the activities of the Project, the Ministry of Finance (MoF) makes the proceeds of the Loan available to ASIF through an Implementation Agreement under terms and conditions satisfactory to the Bank. The ASIF Board guides and supervises the administration and operations of ASIF. To be able to execute its new, broader mission as envisioned under the future ATDF, ASIF will need to strengthen its capacity by adding new departments or units and hiring new staff.

39. ASIF, headed by the executive director (ED), comprises four departments and a number of specialized units. As part of the project preparation, an institutional assessment of ASIF will be carried out under the SDC grant to ASIF which is supervised by the Bank. It is expected that, as a result of the institutional assessment, ASIF should, at a minimum, create departments or units responsible for territorial development projects—that will be implemented under Component 2—and for fund-raising, while its procurement and M&E units should be strengthened. During the transition process, ASIF will continue using the existing organizational structure to support the increased volume and new types of operations. This will include use of the fiduciary systems and reporting mechanisms, which are expected to be strengthened, including around economic analysis, safeguards management, and project communications.

40. The proposed Project will be carried out in accordance with the POM describing the rules, methods, procedures, guidelines, and standard documents. ASIF will prepare and submit annual SILD work plans and budgets for the World Bank's review and approval. As the design of Component 2 is not yet finalized, updating of the POM to include Component 2 procedures will be a disbursement condition for all Component 2 expenditures.



41. ASIF will be responsible for the implementation of the FM arrangements of the Project including planning and budgeting, accounting, financial reporting, external auditing, funds flow, and internal controls. Although the Project is driven by needs identified by communities, all FM functions (including the funds flow) under the Project will be implemented by ASIF with no involvement of the communities' FM systems as no funds will flow via communities.

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

42. The process of M&E project outcomes and results will be carried out continuously and systematically by ASIF's M&E Unit during project implementation. The ASIF III project supported the creation and strengthening of the M&E Unit under the newly created Management Information, Monitoring and Evaluation Department. The project also supported enhancement of ASIF's management information system (MIS), operated by the Data Generating and Office Technology Unit, located in the same department. The proposed Project will continue to support further development of the M&E function as part of ASIF's evolution to ATDF and will strengthen the MIS to meet evolving needs of the organization. M&E of microprojects will also be carried out in collaboration with entities such as the PICs (elected community-based bodies directly responsible for microproject implementation in their communities), beneficiaries, civil society stakeholders, local universities, consultants, and the World Bank project team. The World Bank project team will also be providing significant support to ASIF on improving data collection and evaluation methodologies.

43. As part of project monitoring, key results indicators (see Annex 1) will be used to monitor outcomes under the Project. Targets of these indicators were derived from the ASIF evolution strategy targets; historical results from ASIF's MIS, beneficiary surveys, and quality assessments; and ASIF's self-defined targets where no strategy targets or historical data exist. ASIF's M&E Unit will be responsible for reporting on these indicators through the preparation of semiannual, mid-term, and annual progress reports, which are subject to review and approval by the ASIF Board. ASIF's MIS will also track safeguards activities. ASIF will continue using the existing F&M systems, as well as the same procurement and reporting mechanisms that are currently used under the ASIF III project.

44. SILD will also incorporate lessons and recommendations from assessments of M&E under previous ASIF projects. For example, according to IEG's review of the last two Implementation Completion Reports (ICRs) for ASIF I and ASIF II, evidence on outcomes was weak and largely based on the results of limited surveys carried out in a small number of communities. This limited the extent to which local impacts could be seen as broadly representative of all ASIF subprojects. Learning from these lessons, several studies will be undertaken during the course of this project to analyze and evaluate performance and outcomes.

45. Planned and budgeted M&E analyses under SILD include:

- (a) A process evaluation of Component 2 implementation, including ASIF transformation and capacity building based on the recommendations proposed by the institutional assessment currently underway. The evaluation will cover aspects of Component 2 implementation such as experience to date on identification, development, selection, and appraisal of subprojects, including facilitation of intercommunity collaboration. The process evaluation will be expected to use qualitative research methodologies and rely primarily on consultations with beneficiaries and ASIF staff. The process evaluation is expected to be conducted before, and as an input to, the Project mid-term review.

- (b) Pre- and post-completion data collection for micro and subprojects, including a strong role for communities in data collection and the use of regular beneficiary surveys, to evaluate change in indicators of access to and use of infrastructure.
- (c) Formal beneficiary assessments at year 3 and year 5.
- (d) An assessment of the quality, maintenance, and cost of civil works in years 3 and 5.

46. Gender-informed M&E and measurement of project impact will be conducted throughout SILD M&E activities. Direct beneficiary feedback on quality, satisfaction, and impact will also help improve the indicators and methodology for monitoring the implementation of subprojects on the ground—in terms of impact on the general population, as well as on the most vulnerable target groups and including gender-sensitivity throughout—and promote ongoing citizen engagement in project implementation.

### **C. Sustainability**

47. Experience under social investment fund (SIF)/community-driven development (CDD) projects has shown that sustainability of SILD investments can best be achieved through innovative designs that integrate multisector community-based projects with local institution building and self-management. Such projects can be effective in demonstrating that it is possible to bridge macro and micro activities by linking local communities to civil society and local governments in a way that builds up local institutions that empower the poor. The success of this approach derives from the convergence of several mutually reinforcing factors: (a) deliberate responsiveness to local needs and priorities; (b) local institutional capacity building complementing the GOA's decentralization policy; (c) innovations in poverty targeting, promotion, and outreach; and (d) systematic and continuous M&E.

48. SILD will also prioritize capacity building aimed at improving the ability of community groups, including women, the poor, and other vulnerable groups, to actively participate in microprojects and progressively enhance their roles as active agents in their communities with a greater sense of commitment, ownership, and accountability in service delivery on a sustainable basis.

49. The framework of SILD incorporates measures to ensure the sustainability of its development program in Armenia. Under the CDD approach adopted by ASIF, communities are responsible for identifying their priorities using participatory methods, contributing to the financing of the selected microprojects and maintaining these projects after completion. Under SILD, communities will acknowledge their responsibilities for maintaining and sustaining the investment by signing an agreement with ASIF before the completion of microproject appraisal.

50. The assessment of sustainability and infrastructure maintenance of microprojects implemented under ASIF III, as well as feedback from beneficiary assessments, showed that the two main obstacles to proper community maintenance were insufficient funding and a lack of knowledge of proper maintenance and management techniques. Under ASIF III, ASIF has provided relevant training to communities to improve their knowledge of proper maintenance, which has proved useful and successful. ASIF will continue providing similar trainings under this project. In addition, following the recommendation from the assessment of sustainability and infrastructure maintenance, under the Third Additional Financing for ASIF III, ASIF required provision of O&M costs to be included in the community's annual budget by the community council's decision. This also contributed to sustainability of infrastructure, and such practice will remain unchanged under the proposed Project. The additional measures to improve O&M will include: (a) a requirement built into micro and subproject applications for evidence of the current status/sustainability of existing investments in

communities that have previously received an ASIF microproject; (b) the full O&M budget and financing plan to be included in communities' proposals ; (c) issues of management of assets to be included within the POM and training related to O&M and sustainability to be enhanced within training for micro- and subproject committees; and (d) innovative financing of projects to be supported by building the capacity to secure alternative funding sources for O&M, including alternative uses for existing assets to generate revenues.

51. From an institutional perspective, the sustainability of ASIF's transition to ATDF will also be reflected in a diversification of the funding sources and an increase in the GOA's share in funding of ASIF's operating expenditure, as well as in the longer-term nature of socioeconomic development projects.

## **V. KEY RISKS AND MITIGATION MEASURES**

### **A. Risk Ratings Summary Table**

<b>Risk Category</b>	<b>Rating</b>
<b>Stakeholder Risk</b>	<b>Moderate</b>
<b>Implementing Agency Risk</b>	
- Capacity	<b>Substantial</b>
- Governance	<b>Moderate</b>
<b>Project Risk</b>	
- Design	<b>Moderate</b>
- Social and Environmental	<b>Low</b>
- Program and Donor	<b>Moderate</b>
- Delivery Monitoring and Sustainability	<b>Moderate</b>
<b>Overall Implementation Risk</b>	<b>Moderate</b>

### **B. Overall Risk Rating Explanation**

52. The risk for SILD implementation is considered Moderate given that the ASIF evolution strategy envisions significantly more complex activities, which will be more demanding and require more coordinated efforts and capacity building to implement successfully. Retaining sufficient procurement capacity has been a problem under ASIF and may continue to be so under the proposed Project. Preparation and implementation will require strong intra-governmental coordination, which has been lacking in the past, as well as significant capacity building and institutional development of ASIF. Moreover, the timeline for ASIF's institutional transition into ATDF and for the overall territorial development reform has not yet been finalized due to political uncertainties. This may cause delays in the overall process of territorial reform and affect ASIF's activities. However, the Project is not contingent upon this reform and can continue even if the reform is delayed.

## **VI. APPRAISAL SUMMARY**

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

53. Development impact. The Project will contribute directly to the objective of reducing poverty and boosting shared prosperity through: (a) contribution to the growth of living standards and access to basic services in the most vulnerable communities and territories through the implementation of investment microprojects; and (b) facilitation of economic and investment activity through cross-community development projects. The Project will have an indirect effect on the decrease of territorial development disparities through: (a) contribution to the improvement of the targeting and efficiency of state, donor, and private investments aimed at territorial development; (b) support to upcoming territorial administration reform; and (c) contribution to the strengthening of institutional and financial capacities at the community and territory levels.

54. A large share of the proposed investment (US\$17.3 million) is for microprojects in social infrastructure for vulnerable communities, most of which can be deemed to be essential for human development. The experience of ASIF III suggests that microprojects have led to higher quality of social service provision and greater service utilization. Although its quantification is difficult, due to the lack of baseline information on service usage, qualitative methods provide rich narratives on the impacts of projects on the population. This includes greater attractiveness and equipment of health facilities, leading to higher utilization; higher school and preschool attendance in winter months; and net increase in the quantity of potable water. Second, a recent study comparing the construction of comparable microprojects in ASIF and in other public and donor agencies (Gyozalyan, 2010) provides suggestive evidence that SILD, as many other CDD projects, is a cost-effective mechanism to deliver social infrastructure.

55. The potential impact of the project on generating economic opportunities is difficult to assess; these impacts are more likely to derive from the implementation of the ‘Support to Intercommunity Social and Economic Development Initiatives’ component. With careful planning and the necessary TA, project funds will be used in lagging areas with untapped economic potential in growth sectors such as tourism, although the impact may only be realized beyond the end of the proposed Project. Both Components 1 and 2 will also generate temporary and longer-term employment opportunities, whose impact on medium-term poverty alleviation is likely to be modest. Based on ASIF III’s results,<sup>15</sup> the microprojects under Component 1 are expected to create nearly 250 permanent jobs and 1,000 temporary jobs in vulnerable communities. Components 1 and 2 are expected to generate approximately US\$7-8 million of wage income. Most of the economic impact anticipated from projects under Component 2 is likely to be realized in the medium term and beyond the life of the project.

56. Due to the demand-driven nature of the project and the typology of some of the interventions, it is not feasible to calculate expected internal rates of return (IRRs) for the full portfolio. The list and typology of the microprojects to be financed cannot be known up front and several of the interventions that microprojects have financed in the past are not suitable to the same type of economic analysis that is normally carried out for infrastructure projects (computation of IRRs).

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<sup>15</sup> Avag Solutions. 2012. “Assessment of Sustainability, Infrastructure, and Labor Impacts of Microprojects under ASIF III”. Yerevan.

57. However, for those project typologies where IRRs are computable, such as kindergartens, potable water, or rehabilitation of schools, past economic analyses can inform the expected IRR in those sectors of investment. For instance, existing analysis suggests a substantial rate of return to the development of infrastructure in areas where this was missing; in Armenia, the rehabilitation of secondary schools was estimated to have a benefit-cost ratio of 3.3 per student and building potable water connection was estimated to have an IRR of 26 percent. Additionally, assuming that the microprojects related to kindergartens developed through SILD have the same cost and number of beneficiaries as the average microproject on kindergartens in ASIF III and using the expected returns from early childhood education (ECD) modelled in the economic analysis of the Armenia Education Quality Project, the microprojects in SILD meant to improve the supply of kindergartens are expected to have an IRR of 18 percent. Therefore, for those project typologies that have been subject to economic analysis, IRRs have proved to be substantial and higher than the discount rate of this project.

58. Rationale for public intervention. The microprojects planned under SILD represent public goods. This is especially the case when taking into consideration: (a) the areas where microprojects are being developed (mostly rural and remote); (b) the expected level of local private resources (low, given that targeted communities rank highest in poverty mapping); and (c) the current pricing policy in Armenia for the services delivered (all are provided either for free or well below cost recovery). These investments are unlikely to crowd out private sector initiatives.

59. Rationale for Bank support. The World Bank has been providing 18 years of successful support to the ASIF program in Armenia, and overall the World Bank Group has developed a large portfolio of investments in the area of CDD/SIF around the world, including in the Europe and Central Asia Region. As such, compared to other agencies, the Bank is well-positioned to support the GOA in realizing its goals of reducing territorial disparities through community-driven development. The Bank's involvement in this area is also expected to result in increased investment by other donors.

60. Financial sustainability. The sustainability of SILD investments is likely because of three main factors: (a) microprojects will include more stringent sustainability plans and requirements; (b) the GOA has showed clear commitment to maintain the institutional infrastructure that will be developed during the project, envisaging a key role for ASIF in the planned territorial development reform; and (c) the GOA will share costs from the outset in the administrative costs and micro- and subproject investments, a sign of the progressive incorporation of SILD subprojects within the GOA's regular budget.

## **B. Technical**

61. The promotion of intercommunity socioeconomic development projects is strongly aligned with the ADS and is an emerging concept in Armenia around planned agglomeration of communities. Moreover, the design of the project, notably of Component 2, is also novel for the country and the project implementing agency. As such, Component 2 of the project has been designed as a phased pilot through which the client can learn more about instruments and approaches to foster territorial socioeconomic development and develop the requisite capacity to design and manage such projects. The project design accommodates an early period of learning, notably through the foundational studies being undertaken as part of the SDC grant. These will be internalized into the preparation of Component 2 during the first year of the project, during which the component's design will be finalized and ASIF's capacity will be strengthened to allow for efficient piloting of subprojects during the second year of project implementation. Component 1, on the other hand, will be launched officially immediately upon project effectiveness – in fact, some activities have already started that will be

financed using the retroactive financing provided under the Project. This phased approach allows for maximum learning, while not sacrificing delivery of on-the-ground benefits from the start of the Project. Moreover, the project will build on territorial development good practices, including those of the Georgia Municipal Development Fund, and has allocated sufficient time and resources for ASIF to investigate other good international practices and incorporate them into project implementation. A focus on learning and ongoing improvement will be prioritized throughout SILD and strong channels for beneficiary feedback are planned to encourage ongoing refinements in project activities.

### **C. Financial Management**

62. ASIF has adequate FM arrangements in place for the Project implementation, particularly: (a) the FM staff at ASIF has extensive experience in Bank-financed projects; (b) the internal control and filing systems in place are overall adequate; and (c) results from the latest annual audit of the active project implemented by ASIF were satisfactory. As part of the Operational Manual, ASIF will develop the Project's Financial Management Manual (FMM) acceptable to the Bank to reflect the FM arrangements<sup>16</sup> and controls under the Project. It is expected that this will happen by project effectiveness.

63. The Project will produce a full set of semiannual, unaudited interim 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.

64. ASIF will establish and manage a designated account (DA), in USD, specifically for this project in the Single Treasury Account of the Ministry of Finance at the Central Bank of Armenia, which is holding almost all DAs for ongoing Bank-financed projects in Armenia. The Project's Designated Account will be managed by ASIF. For all the other FM elements the ASIF's systems are going to be used for the Project.

65. The accounting staff of ASIF is well-acquainted with the World Bank's FM and disbursement procedures. All FM functions (including the funds flow) under the project will be implemented by ASIF with no involvement of the beneficiary communities' FM systems. The communities will transfer their cash contributions to ASIF's account that will be maintained specifically for pooling the beneficiaries' contributions, from which the respective payments to contractors/suppliers/consultants will be made by ASIF. No issues are expected with the government counterpart funding as the level and timeliness of the government counterpart funding under the Armenian portfolio has been adequate. In addition, the level and timeliness of the beneficiaries' contribution under the ASIF III project has been adequate.

66. The Public Expenditure and Financial Accountability (PEFA) 2013 report found that, although some improvements were observed in Public Financial Management (PFM) elements since the 2008 PEFA assessment, including cash management, internal audit, accounting and financial reporting, and external audit (Supreme Audit Institution), some of those critical PFM elements still remain weak.

67. There are no pending audits for the project implemented by ASIF. The audit of ASIF and the Project will be conducted: (a) by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank and procured by ASIF; and (b) according to the International

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<sup>16</sup> The FM arrangements for the activities to be financed retroactively are the same as described in the FMM for the ASIF III project.

Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The annual audits of ASIF and the Project financial statements will be provided to the Bank within six months of the end of each fiscal year and for the Project also at the Project closing. The borrower will disclose the audit reports for the Project and ASIF within one month of their receipt from the auditors and acceptance by the Bank, by posting the reports on its web site ([www.armeniasif.am](http://www.armeniasif.am)) or other official websites of the Borrower or ASIF. Following the Bank's formal acceptance of these reports, the Bank will make them publicly available according to the World Bank Policy on Access to Information.

#### **D. Procurement**

68. 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 and is expected to remain unchanged for this project.

69. Procurement will be carried out by ASIF, which has substantial experience in managing similar projects and is familiar with the World Bank's procurement rules and procedures. ASIF's procurement capacity, however, has shown weaknesses over past years due to frequent losses of procurement specialists. Currently, ASIF has two procurement specialists who have gained knowledge and experience in procurement according to the World Bank's Procurement and Consultant Guidelines. ASIF's procurement capacity will have to be enhanced as ASIF will increase the scope and volume of its operations in the coming years.

70. The procurement risk for the Project is rated as Moderate given that: (a) ASIF has satisfactory experience in implementing Bank-financed projects; (b) ASIF's current procurement staff has gradually improved its knowledge of the Bank's Procurement and Consultant Guidelines; (c) ASIF has agreed to hire additional procurement specialists because of expected increased scope and volume of ASIF's activities; (d) ASIF applies adequate efforts to improve the technical specifications (scope of works/bill of quantities) for goods and works and the TORs for the consulting services; and (e) adequate mitigation measures have been put in place and will be closely monitored to ensure that the residual project risk is acceptable.

71. A Procurement Plan covering the first 18 months of project implementation has been prepared by ASIF and agreed upon 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), as well as on ASIF's website.

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

72. The social impacts of the Project are expected to be positive. The Project will improve social infrastructure and services for the poor and vulnerable through microprojects targeting urgent basic needs. Through its support for productive intercommunity, socioeconomic development subprojects, the Project will also be expected to contribute to improved living standards and local economic development potential.

73. To mitigate social risks, the project will lay emphasis on participatory decision-making, beneficiary feedback mechanisms, and entry points for citizen engagement. Following the ASIF

model, SILD supported microprojects will each have a PIC, selected by the community. PICs will act as focal points through which local communities provide feedback or voice their concerns on Project implementation, works quality, and collaboration with ASIF, contractors, and other stakeholders. PICs will be responsible for providing regular information to the community on progress of the Project, for calling community general meetings when required, for maintaining a special board for these purposes, and for distributing project documents to members of the community upon request. While women's participation in PICs was strongly encouraged under ASIF III, under SILD, a minimum quota of 20 percent for women will be applied and additional gender training of PICs will be undertaken to enhance the participation of women, the poor, and other vulnerable groups in these committees. The PIC model will also be extended and appropriately tailored to territorial development projects.

74. The beneficiary feedback and grievance redress mechanisms for SILD will build on those used in the ASIF III project and will include the identification of a grievance officer in each PIC, a telephone feedback line to ASIF, and a committee in ASIF to review grievances if they cannot be resolved. Further, a beneficiary assessment has been commissioned for the ASIF III project and its findings will be used to enhance the social impact of SILD, including to further identify opportunities to reduce potential social risks linked to the Project; opportunities and strategies for reaching out to Project stakeholders, particularly poor and vulnerable groups, including women and youth; and to enhance their involvement in microprojects and sustainability of microproject investments. The beneficiary assessment will also explore opportunities to strengthen PIC capacity and operating arrangements; strategies for strengthening beneficiary feedback opportunities; and opportunities to promote collaboration between SILD and other local stakeholders (for example, local governments, nongovernmental organizations (NGOs), community-based organizations (CBOs), and private sector enterprises). Additional capacity will be retained by ASIF to support the citizen engagement agenda as well as to ensure oversight and monitoring of social safeguards.

75. SILD will also seek to promote gender-inclusive project benefits, including around labor opportunities. In Armenia, female participation in the labor force is lower than men's (55 versus 75 percent) while women's unemployment rate is higher (35 versus 22 percent), particularly among youth (55 versus 37 percent). While community infrastructure supported by past ASIF projects was often in sectors where women were well-represented in the workforce (for example, education and health centers, where women represent a significant number of teachers and health workers), the majority of jobs created by ASIF projects were related to construction, where women make up less than 5 percent of the labor force. However, subprojects anticipated under SILD Component 2 will be expected to support diversified job opportunities in sectors such as agro-processing and manufacturing where women make up approximately 55 percent and 35 percent of the labor force, respectively. Appropriate M&E (Annex 1) has been devised to measure gender-related inclusion within project activities and will be tracked closely through supervision and semiannual reports by ASIF's dedicated M&E specialist.

76. OP/BP 4.12 Involuntary Resettlement is triggered on a precautionary basis as the type and location of new project activities under Component 2 (subprojects) are not yet known, and the type and scale of civil works are still to be determined. A Resettlement Policy Framework (RPF) has therefore been prepared and will be followed by all Project activities. The RPF was consulted with stakeholders and disclosed publicly. Site-specific Resettlement Action Plans (RAPs) will be prepared and implemented prior to commencement of works at any site where resettlement, land use or acquisition is required. However, as was the case under the ASIF III project, under component 1 of SILD project, no microprojects involving land acquisition (permanent or temporary) or resettlement will be approved; and no civil works are planned under Component 3. As ASIF does not have



experience with oversight of OP/BP 4.12 (Involuntary Resettlement), additional capacity will be retained for SILD project and safeguards will be closely supervised and supported by the Bank team.

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

77. Environment risks are low and the majority of the subproject proposals are likely to fall under environmental Category B or C. Any subproject that may use or potentially pollute the waters of an international waterway, or tributaries of such an international waterway will be filtered out through environmental screening and will not be supported under the SILD project; as well as any microproject or subproject proposal that falls under environmental Category A. Armenia is earthquake prone, which is a risk to the project investments and will be considered in the process of microprojects and subprojects selection. Because the microproject and subproject proposals will arrive and be reviewed on a rolling basis, most of them were not known by the time of the project appraisal. Therefore, an Environmental and Social Management Framework (ESMF) has been developed to establish the guiding principles of: (a) environmental and social screening of microproject and subproject proposals; (b) identification of the expected impacts of microprojects and subprojects at their construction and operation phases; (c) establishing of measures for mitigating environmental and social risks; and (d) monitoring of environmental performance under the supported microprojects and subprojects. Site-specific Environmental Management Plans (EMPs) will be developed, disclosed, and consulted with local communities before commencement of works at any individual investment site. Environmental due diligence will be built into the general procedures of microprojects' and subprojects' selection, approval, and monitoring and the POM will provide step-by-step guidance on this. Adherence to these procedures and implementation of EMPs will be closely supervised by ASIF.

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

78. Some irrigation schemes operated in Armenia abstract water from trans-boundary rivers and/or their tributaries. Discharge from a number of waste water collection systems enters surface water bodies that flow into international waterways. Since the final design of some activities under Component 2 (subprojects) will be only completed at a later stage, and the features of those activities are currently unknown; the criteria for the selection of subprojects will exclude activities that may involve the use or potential pollution of international waterways. On the other hand, as part of the activities under Component 1 (microprojects), the SILD project may support renovation/rehabilitation of existing community level water supply, sanitation, and irrigation schemes which are not known upfront and will be identified on a rolling basis during the project's life. Hence, there is a likelihood of financing works on the infrastructure that intakes or discharges water into international waterways. However these activities will not exceed the scope of the existing schemes owing to the small size of individual investments. As such, they: (a) will not adversely change the quality or quantity of water flows to the other riparians; and (b) will not be adversely affected by the other riparians' possible water use. The vast majority of physical works under Component 1 of the SILD project will be confined to the repair of the existing infrastructure. For water, wastewater and irrigation systems this would exclude increase in their design capacity of water intake and/or discharge. Rehabilitation works on water-related infrastructure will be predominantly aimed at cutting water loss due to leakages and overflows from damaged/clogged passages and malfunctioning of dilapidated hydraulic structures. Therefore, while OP/BP 7.50 "Projects on International Waterways" is triggered, communication between the riparian states on the project interventions is deemed unnecessary. An exception from the requirement for the notifying the other riparian states was obtained from World Bank Management on January 15, 2015.

**Annex 1. Results Framework and Monitoring**  
**Armenia Social Investment and Local Development Project**  
**Results Framework**

Project Development Objectives											
PDO Statement: Improve the quality and use of and access to community and intercommunity infrastructure.											
These results are at		Project Level									
Project Development Objective Indicators											
Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5					End Target
Direct project beneficiaries (Number) - (Core)	0	18,037	70,026	131,564	169,760	186,736					186,736
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0	50	50	50	50	50					50
Average percentage increase in access to and use of SILD infrastructure (Percentage)		Targets to be defined following data collection in early calendar year 2015.									
Percentage of beneficiaries in project areas (Component 1) who are satisfied with the quality of infrastructure (Percentage)	85 <sup>17</sup>			85		85					85
Percentage of beneficiaries (female) in project areas (Component 1) who are satisfied with the quality of infrastructure (Percentage - Sub-Type: Supplemental)	85			85		85					85

<sup>17</sup> Baseline values other than zero are current values of the ASIF 3 project, which Component 1 continues.

Percentage of beneficiaries in project areas (Component 2) who are satisfied with the quality of infrastructure (Percentage)	0			70		75					80
Percentage of beneficiaries (female) in project areas (Component 2) who are satisfied with the quality of infrastructure (Percentage - Sub-Type: Supplemental)	0			70		75					80
<b>Intermediate Results Indicators</b>											
Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5					End Target
Percentage increase in primary visits to health centers rehabilitated under SILD (Percentage)		Targets to be defined following data collection in early calendar year 2015									
Percentage increase in events held in community centers rehabilitated under SILD (Percentage)		Targets to be defined following data collection in early calendar year 2015.\									
Percentage increase in enrollment in kindergartens rehabilitated under SILD (Percentage)		Targets to be defined following data collection in early calendar year 2015									
Percentage decrease in absences in schools rehabilitated under SILD (Percentage)		Targets to be defined following data collection in early calendar year 2015									
Percentage increase in supplied water quantity in communities with a SILD water related intervention (Percentage)	70	No data will be available yet	70	70	70	70					70
Percentage of SILD micro and intercommunity projects that are well-maintained according to the quality, maintenance, and cost of civil works assessment (Percentage)	60			65		70					70

Number of microprojects completed (Number)	0	17	52	90	110	120					120
Number of intercommunity projects completed (Number)	0	0	7	17	25	28					28
Percentage of microprojects in the vulnerable and most vulnerable communities (Percentage)	81.8	80	80	80	80	80					80
Grievances registered related to delivery of project benefits addressed (%) (Percentage)	0	50	75	100	100	100					100
Number of key stakeholders (municipal officials, village council members, community leaders) trained in FM, budgeting, accounting, and asset management (Number)	0	51	198	372	480	528					528
Percentage of key stakeholders (municipal officials, village council members, community leaders) trained in FM, budgeting, accounting, and asset management who are satisfied with the training (Percentage)	80			80		80					80
Number of proposals for intercommunity projects evaluated (Number)	0	0	8	20	31	35					35
Amount of new funding for ATDF's operations mobilized (USD million) (Amount)	0	0	0	3	5	5					5
Institutional assessment completed and recommendations implemented (Yes/No)	No		Yes								Yes

Communications/outreach/fund-raising strategy developed and implemented (Yes/No)	No		Yes							Yes
Indicator Description										
Project Development Objective Indicators										
Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection						
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information <i>Supplemental Value: Female beneficiaries (percentage)</i> . Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Semiannually	ASIF semiannual reports. Defined as the total number of direct beneficiaries in the recipient communities of either micro or intercommunity projects. Official definition of direct beneficiaries is described in the POM.	ASIF						
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Semiannually	ASIF semiannual reports. Defined as the total number of direct female beneficiaries in the recipient communities of either micro or intercommunity projects.	ASIF						
Percentage of beneficiaries in project areas (Component 1) who are satisfied with the quality of infrastructure (Percentage)	Defined as the percentage of surveyed beneficiaries rating their satisfaction as 4+ on a five point scale of satisfaction with the quality of the project according to the post-completion beneficiary assessment.	Twice. Year 3 and Year 5	ASIF beneficiary assessments	ASIF						
Percentage of beneficiaries (female) in project areas (Component 1) who are satisfied with the quality of infrastructure (Percentage - Sub-Type: Supplemental)	Defined as the percentage of surveyed female beneficiaries rating their satisfaction as 4+ on a five point scale of satisfaction with the quality of the project according to the post-completion beneficiary assessment.	Twice. Year 3 and Year 5	ASIF beneficiary assessments	ASIF						

Percentage of beneficiaries in project areas (Component 2) who are satisfied with the quality of infrastructure	Defined as the percentage of surveyed beneficiaries rating their satisfaction as 4+ on a five point scale of satisfaction with the quality of the project according to the post-completion beneficiary assessment.	Twice. Year 3 and 5.	ASIF Beneficiary Assessments	ASIF
Percentage of beneficiaries (female) in project areas (Component 2) who are satisfied with the quality of infrastructure (Percentage - Sub-Type: Supplemental)	Defined as the percentage of surveyed female beneficiaries rating their satisfaction as 4+ on a five point scale of satisfaction with the quality of the project according to the post-completion beneficiary assessment. Targets were set lower than Component 1 projects given that Component 2 projects are new and innovative and they may not have the same satisfaction rates.	Twice. Year 3 and 5.	ASIF Beneficiary Assessments	ASIF
Average percentage increase in access to and use of SILD infrastructure (Percentage)	This indicator aggregates use and access measures of the various project subtypes. It is a weighted average of that project subtype's share in the total SILD portfolio. For example, if out of a total portfolio of 120 projects, 60 are schools with 20 percent average increase in attendance; 40 are kindergartens with 30 percent average increase in attendance; and 20 are water projects with 80% increase in water quantity, the average increase will be calculated as follows: $[60*20\%+40*30\%+20*80\%]/120$ .	Semiannually starting in Year 3	ASIF project appraisal and post-project review report	ASIF

#### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Percentage increase in primary visits to health centers rehabilitated under SILD	Average increase in the number of primary health visits per year before and a year after ASIF project implementation.	Semiannually starting in Year 2	ASIF project appraisal and post-project review reports	ASIF
Percentage increase in events held in community centers rehabilitated under SILD	Number of cultural events (concerts, performances) and classes as reported by the community before and after ASIF project implementation.	Semiannually starting in year 2	ASIF project appraisal and post-project review reports	ASIF
Percentage increase in enrollment in kindergartens rehabilitated under SILD	Average percentage increase in enrollment based on data before an ASIF project and a year after it is implemented.	Semiannually starting in year 2	ASIF project appraisal and post project review reports	ASIF

Percentage decrease in absences in schools rehabilitated under SILD	Average percentage of days absent per student per year before and a year after an ASIF project is implemented	Semiannually starting in Year 2	ASIF project appraisal and post-project review reports	ASIF
Percentage increase in supplied water quantity in communities with a SILD water related intervention (Percentage)	Average change [%] in supplied water quantity (liters/second) in ASIF water projects	Semiannually starting in Year 2	ASIF project appraisal and post-project review reports	ASIF
Percentage of SILD micro and intercommunity projects that are well-maintained according to the quality, maintenance, and cost of civil works assessment	Percentage of well-maintained infrastructure (those with a score of 3 and higher on a scale 1 to 4 (bad, satisfactory, good, excellent) in the quality of civil works assessment. This assessment will be conducted at Year halfway through year 2 and halfway through year 4 and then reported in Year 3 and 5 respectively.	Year 3 and Year 5	Quality, maintenance and cost of civil works assessment	ASIF
Number of microprojects completed	Number of ASIF Component 1 projects completed	Semiannually	ASIF semiannual reports	ASIF
Number of intercommunity projects completed	Number of projects completed under Component 2	Semiannually	ASIF semiannual reports	ASIF
Percentage of microprojects in the vulnerable and most vulnerable communities	Vulnerable and most vulnerable communities are identified by ASIF through an econometric analysis of 13 statistically significant and objective indicators on community vulnerability. ASIF has targets to commit 40 percent of resources to the most vulnerable and 40 percent of resources to vulnerable communities. Targets were set lower than the baseline given that Component 2 projects will be differently designed and perhaps not reach the current baseline in vulnerable communities.	Semiannually	ASIF semiannual reports	ASIF
Grievances registered related to delivery of project benefits that are actually addressed	ASIF is implementing a new complaints system and will start tracking complaints received and responded to. Because it is new, there baseline is zero.	Semiannually	ASIF semiannual reports	ASIF
Number of key stakeholders (municipal officials, village council members, community leaders) trained in FM, budgeting, accounting, and asset management	Defined as the number of trained officers (municipal officials, village council members, and community leaders).	Yearly	ASIF semiannual Reports	ASIF

Percentage of key stakeholders (municipal officials, village council members, community leaders) trained in FM, budgeting, accounting, and asset management who are satisfied with the training	Defined as the percentage of training recipients rating their satisfaction as 4+ on a five-point scale of satisfaction, with the training according to the post-training beneficiary assessment.	Year 3 and Year 5	ASIF beneficiary assessments	ASIF
Number of proposals for intercommunity projects evaluated	Number of proposals for Component 2 projects received and evaluated	Semiannually	ASIF MIS	ASIF
Amount of new funding for ATDF's operations mobilized (USD million)	New donor, private sector, and/or community funding mobilized	Yearly	ASIF	ASIF
Institutional assessment completed and recommendations implemented	ASIF has fully implemented the SDC-funded institutional assessment recommendations, including hiring for new positions, training staff and creating new departments, all where relevant.	Year 3	SDC consultant, ASIF, and process evaluation	ASIF
Communications/outreach/fund-raising strategy developed and implemented	SDC-funded communications and outreach strategy developed with ASIF fully implementing it, including hiring staff where relevant and implementing other recommendations	Year 3	SDC consultant, ASIF, and process evaluation	ASIF



## **Annex 2. Detailed Project Description**

### **Armenia Social Investment and Local Development Project**

#### **Component 1. Support to Socioeconomic Development and Capacity Building at the Local Level (US\$24.4 million, of which US\$17.7 million is an IBRD loan)**

Under this component, SILD will follow the model of previous ASIF projects to implement small-sized investment projects (known as microprojects) targeting vulnerable communities to address priority basic needs. Community investment microprojects will be chosen using a two-stage poverty targeting strategy, with the first level defining broad allocations for *marzes* and the second level identifying needy communities. Needy communities are identified using a community profiling and mapping exercise based on criteria relating to social, demographic, economic, financial, geographic, and infrastructure conditions. Under ASIF's community-driven development approach, communities, through PICs are responsible for: (a) identifying their priorities using participatory methods; (b) contributing to the financing of selected microprojects at a 5–10 percent community contribution rate; and (c) maintaining these projects after completion. This operational model, successfully implemented under past ASIF projects, will continue to be the primary mode of SILD's operations under the project, particularly during its initial years.

This component will fund approximately 120 microprojects.<sup>18</sup> Through the microproject process, SILD will: (a) rehabilitate and develop community infrastructure and services (public, social, economic, environmental); (b) build institutional and financial capacity at the community level to develop and implement these projects and services; and (c) provide consultancy and TA to local partners, such as PICs and community councils. The selection methodology for microprojects under this component will continue to be based on: (a) the vulnerability ranking of the community; and (b) the technical quality of submitted applications/projects. As part of SILD preparation, ASIF is reviewing and updating its methodology and tools for community assessment and vulnerability ranking. The revised methodology will continue to classify all the communities into three clusters based on their vulnerability. SILD will maintain the policy implemented under ASIF III, targeting at least 40 percent of loan funds under this component to communities in the most vulnerable cluster and providing up to 20 percent of funds to finance microprojects in communities in the least vulnerable cluster. The updated targeting methodology will be included in the POM.

The menu of microprojects to be financed under this component includes renovation and rehabilitation of key social publicly owned infrastructure covering education (kindergarten, primary, secondary, and special schools) and health (primary healthcare clinics), multipurpose community centers, social service centers for vulnerable groups, water supply systems, sanitation systems, minor irrigation works, rural electrification, school heating systems, and rehabilitation of gymnasiums and playgrounds. Depending on the priority needs identified by selected communities, new small-scale construction projects may be financed. This component will also finance goods, primarily in the form of furniture and goods for rehabilitated infrastructure, such as schools, kindergartens, and community centers; as well as for other social infrastructure in accordance with criteria set forth in the OM. To ensure proper design and supervision of community infrastructure microprojects, this component will finance local consultancies for microproject design, supervision and field work in the form of TA and logistical support.

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<sup>18</sup> The maximum amount to be financed out of the Loan proceeds for a microproject is US\$310,000.

Capacity building for community councils, school boards and PICs to effectively plan and maintain their investments will be undertaken under this component. SILD will reinvigorate existing sustainability measures and will introduce new ones to improve operation and maintenance of new and rehabilitated community infrastructure under the project as outlined in the Sustainability section. To further build local institutional and financial capacity, key stakeholders (municipal officials, village council members, and community leaders) will be trained in areas such as FM, budgeting, accounting, and asset management.

**Component 2. Support to Intercommunity Social and Economic Development Initiatives (US\$13.5 million, of which US\$10.1 million is an IBRD loan).**

This component will directly support the Armenia Development Strategy 2012–2015 objectives of reducing regional socioeconomic disparities and promoting harmonic territorial development by financing innovative intercommunity socioeconomic development initiatives. These initiatives, known as subprojects, will finance publicly owned infrastructure and services, which have both social and economic impact and can catalyze future economic growth and human capital development for a region or group of communities. Through this component, SILD will also strengthen intercommunity dialogue, priority-setting and development planning and management. The component will include a particular focus on vulnerable and lagging regions.

This component is aligned with the GOA's planned territorial development reform, which targets the agglomeration of community clusters into structures optimal for balanced development.<sup>19</sup> As the agglomeration process, which is yet to be fully defined by the GOA, will be in phases rather than over a set and established timeline, this component will proceed in parallel with the process but in alignment with its overall objectives. The component will supplement the agglomeration process in two ways. First, it will foster linkages and shared opportunities for socioeconomic development between and among communities. This component will support inter or multicomunity projects (subprojects<sup>20</sup>) and will support shared capacity-building and planning. Second, subprojects will expand beyond the traditional ASIF model of infrastructure-focused microprojects to longer-term sustainable territorial development subprojects that are able to promote social capital and livelihood and employment opportunities. Subprojects should also strengthen the environment for further economic investment and provide incentives for communities to explore potential development synergies and exploit economies of scale where feasible.

As this is a novel component for ASIF, a series of preliminary studies are being undertaken to inform its detailed design.<sup>21</sup> These include analyses of international good practices around regional

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<sup>19</sup> The agglomeration process is predominantly related to combining existing settlements into new administrative arrangements by redrawing boundary lines; it is not, however, expected to include any forced resettlement. The specific criteria for agglomeration will be defined through a territorial development strategy being prepared by the Government of Armenia under a combined aid and TA assistance portfolio involving the EU, USAID, the Swiss Agency for Development and Cooperation (SDC) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

<sup>20</sup> The average size of a subproject under Component 2 is expected to be about US\$500,000.

<sup>21</sup> As part of its wider program to support local self-governance reform in Armenia, the SDC has entered into a partnership with the Ministry of Territorial Administration and Emergency Situations to support ASIF's transition into a territorial development fund through a specific grant. The grant supports a variety of background analyses and ASIF capacity building activities, including an institutional assessment to review ASIF's present structure and capacity and to develop an institutional development plan. The grant totals CHF 288,000 (US\$303,000) and will be implemented from August 2014 through May 2015. Following a separate agreement with SDC, the World Bank provides quality assurance, fiduciary supervision and support to implementation of the activities under the grant.

socioeconomic development and social inclusion schemes, of regional socioeconomic development and growth potential throughout Armenia, of institutional and legal modalities to enable intercommunity development collaboration, and of methodologies and tools for the preparation and evaluation of subprojects. These studies are expected to be completed during the project preparation process and before project signing.

A phased implementation approach has thus been adopted for this component. In this approach, the first year of the project will be used to finalize the design of this component in light of the findings of the preparatory studies with respect to: (a) local potential for economic growth and socioeconomic development; (b) the appropriate level of local co-financing, including co-financing from communities and private business; (c) mechanisms for coordination and synergy with other development initiatives in project areas; (d) links to the medium-term development program of the region; (e) the potential for subproject sustainability; and (f) capacity-building needs within ASIF, and at community, *marz*, and national level for the successful implementation of this component. The specific types or menu of subprojects to be supported under this component will also be confirmed at this time. Based on international experience, these will be expected to be productive communal investments which could, for example, support improved agricultural production or commerce (for example, irrigation, transport); improved conditions for production or manufacturing (for example, waste management, water systems); or improved human capital development opportunities (for example, training and skills development centers). However, only public goods which are sustainable with public investment will be supported. It is expected that this component will also support necessary technical assistance to ensure proper design and supervision of subprojects, as well as provide necessary goods as part of subprojects' design. It will also support capacity building for eligible communities to successfully implement subprojects.

A piloting process for the component will begin in project year 2. During this year, a small number of subprojects will be financed, with the focus on generating experience and models that can be more widely applied throughout the country and on necessary refinements to the component design. In project year 3, the component will be scaled up, with more complex subprojects becoming eligible for support. During the piloting process, the project will focus on communities that are most ready to cooperate and develop viable investment proposals, overlapping as feasible, with those communities identified by the GOA for agglomeration. There is a risk, however, that these communities might not be the poorest. The Project will privilege intercommunity prioritize collaborations that include vulnerable communities and will develop a program of support for accompaniment of more vulnerable communities in preparation and finalization of subprojects. Overall, SILD will be expected to fund the design, selection, and implementation of approximately 25–30 intercommunity subprojects.

### **Component 3. ASIF Institutional Strengthening and Project Management (US\$5 million, of which US\$2.2 million is an IBRD loan).**

This component will finance project management and operating costs, including salaries, health insurance, utilities, office equipment, field supervision (by ASIF staff), training, financial audits, fiduciary and safeguards oversight, M&E and MIS. In addition, it has been recognized that to reduce dependence of ASIF and the future ATDF on Bank financing, it will be appropriate for the Bank's share in funding operating costs to decline over the life of the project. In previous projects, the Bank financed 50 percent of project operating costs throughout the project. However, the Bank's share of funding for operating costs will decline over the course of SILD implementation by 5 percentage points each year, thereafter, bringing it down to 30 percent in year 5. It is expected that the financing gap will be covered by the GOA and, potentially, by other donors.

This component will also support ASIF's transition to ATDF. The GOA passed a formal decision on 'Approval of ASIF's Development Strategy and the Creation of a Territorial Development Fund on the Basis of the Restructuring of ASIF' which targets the transformation of ASIF into ATDF as of January 2015. ASIF will transition to ATDF with the objective of supporting territorial development policies to reduce territorial disparities and support balanced and sustainable development of all Armenian regions. As ASIF has been the primary channel of capital investment funding to communities, it is expected that when it transitions to ATDF, it will also become the primary channel to deliver capital investment funding for territorial development. ASIF also intends to evolve its funding model, moving away from a predominantly Bank-financed model toward a greater diversity of funding sources through which it can improve its financial sustainability. This component will support ASIF to develop this fund-raising capacity.

An institutional assessment to review ASIF's existing structure and capacity is currently ongoing as part of the SDC grant and will be completed in January 2015. It will propose recommendations and an action plan for filling any gaps identified, building capacity and enhancing the structure and operations of ASIF to meet its new mandate. This component will build on the findings of that assessment and support implementation of its recommendations. These are expected to include a range of activities which will directly support ASIF's institutional development, including: (a) development of new tools and approaches, including methodologies and guidelines for appraisal, promotion, and selection of projects;<sup>22</sup> (b) procedural improvements, including in M&E and FM; (c) staff capacity building; (d) organizational/structural changes; and (e) outreach strategy to assist ASIF in diversifying its sources of funding by helping it in branding itself and reaching out to potential financiers to finance its programs.

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<sup>22</sup> This will include methodologies and human resources to undertake economic analyses and determine economic rates of return for subprojects, measures ASIF is not currently able to make but which will be essential as ASIF moves to implementing more sophisticated economic development projects.

### **Annex 3. Implementation Arrangements**

#### **Armenia Social Investment and Local Development Project**

#### **Project Institutional and Implementation Arrangements**

##### *Project Administration Mechanisms*

The proposed SILD project will be the fourth World Bank-financed project implemented by ASIF, an implementing agency with 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 two additional financings (Credit No. 4548-AM and Loan No. 7847-AM) already completed and the third additional financing (Credit No. 5071-AM) scheduled to close in March 2015. ASIF generated a sound implementation record developed through 18 years of project implementation.

ASIF, as the implementing agency, has been administering its operations as an autonomous entity governed by its Board, chaired by the prime minister, with authority to manage and administer its program under operating guidelines and procedures set out in the POM. The ASIF Board guides and supervises the administration and operations of ASIF 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, mayor of Yerevan, representatives of four NGOs and Armenian donor associations and the executive director of ASIF.

ASIF, headed by the executive director, comprises four 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 Unit. The Microprojects Department consists of four units: Appraisal, Follow-up, Estimation, and Procurement. The Finance and Administration Department consists of the Accounting and General Administration units. The Management Information, Monitoring and Evaluation Department consists of the Data Generating and Office Technology Unit and the Monitoring and Evaluation Unit. There is also the Legal Unit reporting to the executive director.

According to ASIF's evolution strategy and the prime minister's Decision No. 194-A dated March 18, 2014, ASIF should be transformed into the Armenian Territorial Development Fund (ATDF) in 2015. The ATDF should in addition to the traditional short-term community investment microprojects also implement longer term socioeconomic development projects involving larger geographic areas than single communities to be able to execute its broader mission as envisioned under the future ATDF, ASIF will need to strengthen its capacity by adding new departments or units and hiring new staff. As part of the project preparation, an institutional assessment of ASIF will be carried out under the SDC grant to ASIF that is supervised by the Bank. The institutional assessment will: (a) review ASIF's current organizational structure, functions, operational procedures, and capacity; (b) identify gaps required for restructuring and smooth startup of new activities; and (c) provide specific recommendations for filling the gaps, building capacity, and enhancing the institutional structure and operations. It is expected that at the minimum ASIF should create departments or units responsible for longer-term socioeconomic development projects (that will be implemented under Component 3) and for fund raising, while its procurement and M&E units should be strengthened. During the transition

process ASIF will continue using the existing organizational structure, including fiduciary systems and reporting mechanisms, which are expected to be strengthened to support the increased volume and new types of operations.

The proposed Project will be carried out in accordance with the POM describing the rules, methods, procedures, guidelines, and standard documents. The current POM for ASIF III will be modified and updated to reflect the new activities.

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

### *Financial Management*

ASIF has overall adequate FM arrangements in place for the Project implementation. In particular: (a) the FM staff at ASIF has extensive experience in Bank-financed projects; (b) the internal control and filing systems in place are adequate; and (c) results from the latest annual audit of an active project implemented by ASIF were satisfactory. As part of the Operational Manual, ASIF will develop the Project's FMM acceptable to the Bank to reflect the FM arrangements and controls under the Project. It is expected that this will happen by project effectiveness.

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

ASIF is capable of preparing relevant budgets. The project plans and budgets are developed by the ASIF management in close collaboration with GOA representatives. The final plans and budgets are submitted to the ASIF Board for approval. The budget is classified by categories, components, and sources of funds. All changes in the procurement plan are reviewed by the ASIF executive director and agreed in advance with the Bank, and only then are the changes incorporated in the annual budget. Once reviewed and endorsed by the MOF, the Project budget is included in the state budget.

For accounting purposes, ASIF uses a database system developed in-house named PRINSY, which incorporates both accounting modules and an MIS. The software automatically generates the statements of expenses (SOEs) and IFRs and is considered to be adequate. For financial reporting purposes, ASIF uses cash basis IPSAS (for project reporting) and IFRs (for entity reporting). The accounting policies and procedures are reflected in the current ASIF project's FMM.

Overall, ASIF has an adequate internal control system in place for implementation of the Project, including adequate segregation of duties among the FM/accounting staff. At the same time, ASIF needs to ensure that the contract management and monitoring processes in place are properly followed (particularly relating to time-based contracts and payment of retention monies under construction contracts). The internal controls and procedures in place at ASIF are documented in the FMM.

Project management oriented IFRs will be used for the Project monitoring and supervision. The format of the IFRs will include: (a) project sources and uses of funds; (b) uses of funds by project activity; (c) designated account statements; (d) a statement of the financial position; and (e) SOE withdrawal schedule. ASIF will produce 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.

There are no pending audits for the project implemented by ASIF. The audit of ASIF and the Project will be conducted: (a) by independent private auditors acceptable to the Bank, on a TOR acceptable

to the Bank and procured by ASIF and (b) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the IFAC.

The annual audits of ASIF and the Project financial statements will be provided to the Bank within six months of 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 will disclose the audit reports for the Project and ASIF within one month of their receipt from the auditors and acceptance by the Bank, by posting the reports on its website ([www.armeniasif.am](http://www.armeniasif.am)) or other official websites of the Borrower or ASIF. Following the Bank's formal acceptance of these reports, the Bank will make them publicly available according to the World Bank Policy on Access to Information. The cost of the project and entity audits will be financed from the proceeds of the Project.

### *Disbursement Arrangements*

ASIF will establish and manage a DA specifically for this Project in the Single Treasury Account of the Ministry of Finance at the Central Bank of Armenia, which is holding almost all DAs for ongoing World Bank projects in Armenia. The Project's Designated Account will be managed by ASIF. Project funds will flow from the Bank, either: (a) via the DA to be maintained in the Treasury, which will be replenished on the basis of SOEs or full documentation; or (b) on the basis of direct payment withdrawal applications and/or special commitments received from ASIF. The government funding will be made available via the Treasury through regular budget allocation procedures initiated by the implementing agency in accordance with standard Treasury and Budget execution regulations. Withdrawal applications that document funds used from the DA will be sent to the Bank on a monthly basis. The following disbursement methods may be used under the Project: (a) reimbursement; (b) advance; (c) direct payment; and (d) special commitment. The DA ceiling is proposed to be established at US\$2,000,000, which will be finalized and reflected in the Disbursement Letter (DL). Detailed instructions for withdrawal of credit proceeds are provided in the DL.

Although the Project is driven by needs identified by communities, all FM functions (including the funds flow) under the project will be implemented by ASIF with no involvement of the communities' FM systems as no funds will flow via communities. The communities will transfer their cash contribution to ASIF's account that will be maintained specifically for pooling the beneficiaries' contribution, from which the respective payments to contractors/suppliers/consultants will be made by ASIF.

As the design of SILD Component 2 is not yet finalized, the updating of the POM to include Component 2 procedures will be a disbursement condition for all Component 2 expenditures.

### *Procurement*

The project risk for procurement is rated as Moderate. ASIF's procurement capacity, however, has shown weaknesses over the past years due to frequent losses of procurement specialists. Currently, ASIF has two procurement specialists who have gained knowledge and experience in procurement according to the World Bank's Procurement and Consultant Guidelines. ASIF's procurement capacity will have to be enhanced as the scope and volume of its operations increase in the coming years. The procurement related risks are summarized in Table 1.

**Table 1. Summary Risk Assessment**

<b>Description of Risk</b>	<b>Rating of Risk</b>	<b>Mitigation Measures</b>	<b>Rating of Residual Risk</b>
Current procurement staff are not able to cope with the increased workload under SILD.	Substantial	Fund will involve procurement consultants.	Moderate
While ASIF's current procurement staff has gained knowledge of the Bank's Procurement and Consultant Guidelines, it is not enough for the successful implementation of new Component 2 request.	Moderate	ASIF's procurement staff should continuously improve their knowledge of the Bank's procedures.	Moderate
Given the multi-stakeholder environment, possibility of interferences and pressures resulting in implementation delays	Moderate	Ensure (a) project implementation is protected from any illegitimate interference and pressure of special interest groups and (b) transparent decision making based on evaluation criteria disclosed in bidding documents and proposal documents.	Low
Inadequate quality of procurement/selection documents.	Substantial	The Fund will apply additional efforts to improve the technical parts of procurement documents and quality of TORs for consulting services.	Moderate

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 in 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 in July 2014 (Consultant Guidelines); and the provisions stipulated in the legal agreement 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 in January 2011, will also apply. The various items to be procured under the project and the different expenditure categories are described in the following paragraphs.

#### General Procurement Notice

A General Procurement Notice (GPN) was published on December 2, 2014, in UNDB online. Specific Procurement Notices (SPN) will be published for all procurement and consulting contracts as per Guidelines, as the corresponding bidding documents and RFPs become ready and available.

#### Thresholds for Procurement Methods

**Goods.** Goods and equipment estimated to cost US\$500,000 or more will be procured through International Competitive Bidding (ICB). Goods estimated to cost less than US\$500,000 and equivalent to or more than US\$100,000 will be procured through National Competitive Bidding (NCB). Readily available off-the-shelf goods estimated to cost less than US\$100,000 each may be procured through Shopping (SH) on the basis of at least three written quotations obtained from



qualified suppliers. The World Bank sample for Invitation to Quote shall be used. Direct Contracting method for goods consistent with justifications according to Procurement Guidelines will be subject to World Bank prior review.

**Works.** Works estimated to cost US\$4,000,000 and more will be procured through ICB. Works estimated to cost less than US\$4,000,000 and equivalent to or more than US\$200,000 will be procured through NCB. Contracts estimated to cost less than US\$200,000 each may be procured through Shopping (SH) procedures on the basis of at least three written quotations obtained from qualified contractors. Direct Contracting method for works consistent with justifications according to Procurement Guidelines will be subject to World Bank prior review.

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) 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 clause 2.61–2.64 of the Procurement Guidelines are met.
- (g) All bid evaluation criteria shall be quantifiable in monetary terms or expressed as a 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

**Consultant Services and Training.** Consultancy services to be provided by consulting firms will be procured through the Quality- and Cost Based Selection (QCBS) method. Other methods such as Consultant Qualification Selection (CQS), Fixed Budget Selection (FBS), Quality Based Selection (QBS), and Least Cost Selection (LCS) shall be made available through Legal Agreement. Individual Consultants (IC) will be selected in accordance with Section V of the Consultant Guidelines. Single/Sole Source Selection method for firms and individuals consistent with justifications according to Consultant Guidelines will be subject to the World Bank prior review. For assignments estimated to cost less than US\$200,000, the short list may comprise only national firms according to paragraph 2.7 of the Consultant Guidelines. However, if foreign firms express interest, they shall be considered.

**Community participation in procurement in accordance with paragraph 3.19 of the Procurement Guidelines.** Implementation procedures of procurement of Goods, Works and Non-Consulting services and selection of Consulting services, which are to be followed by the communities, shall be described in detail in the POM.

**Framework agreement in accordance with paragraph 3.6 of the Procurement Guidelines.** Implementation procedures of procurement of Goods, Works and Non-Consulting services and selection of Consulting services, which are to be followed by using this type of contracting, shall be described in detail in the POM.

**Operating Expenses:** The operating costs for ASIF may be needed and may cover expenditures such as: (a) procurement of office equipment; (b) salaries paid to staff hired for the purposes of the project, other than civil servants' salaries; (c) costs of staff training; and (d) MIS upgrade/maintenance for the duration of the project.

Other expenditures such as utilities, operating and maintenance expenditures of office equipment and vehicle and transportation costs may additionally be identified at appraisal/negotiations. All such costs will be disbursed on the basis of annual budgets to be prepared by ASIF and agreed with the Bank.

Operating expenditures are not subject to the Procurement and Consultant Guidelines. The procurement under this category may follow the national procedures. Nevertheless, in case of selection/appointment of the managerial and key staff of the implementing agency, the borrower shall provide the Bank team with the TOR and the qualification assessment report of the selected candidate for review and no-objection, before offering the contract to him/her. Operating expenditures will not include salaries of civil servants.

#### Post Review Ratio

Contracts not subject to Bank's prior review will be post reviewed by the Bank's supervision missions and/or during regular post reviews by Procurement Specialist on sampling basis, that is, one out of every five contracts. Post-review ratio is 20 percent.

#### Filing and Record Keeping

ASIF will be responsible for adequate filing and record keeping. The Fund has experience in this activity from other Bank-financed projects.

#### Anti- Corruption Measures

The borrower shall ensure that the project, including procurement, is carried out in compliance with the current version of the Bank's Anti-Corruption Guidelines. All bidding documents, including contracts, used under the Project shall include the latest version of the provisions on fraud and corruption. All members of the evaluation committees shall sign a disclaimer on absence of conflict of interest and confidentiality for each evaluation process.

**Procurement plan.** For each contract 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 (Annex 8). The procurement plan also discloses the prior review thresholds.

In case of a slice-and-package arrangement, the prior review threshold is determined based on the aggregate value of individual contracts to be awarded under such an arrangement. The TORs of consulting assignments (individual and firm) are subject to prior agreement with the task team lead (TTL). All cancellation of selection process and/or re-invitation shall be subject to the Bank's prior review. All the contracts whose cost estimates were below the Bank's prior review threshold are subject to prior review if the financial offer of the selected firm exceeds the threshold at the proposal evaluation stage. Irrespective of the thresholds, the selection of all consultants (firm and individuals) hired for legal work or for procurement activities as well as individuals hired for long-term TA or advisory services for the duration of the Project (or most of it) are subject to prior review.

The Procurement plan will be updated at least semiannually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan and 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 estimation) and posted on the Bank's external website in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, on ASIF's website and [www.procurement.am](http://www.procurement.am). In addition, the SPNs for civil works contracts will be provided to the Union of Builders of Armenia.

#### *Environmental and Social (including safeguards)*

The social impacts of the Project are expected to be positive. The Project will improve social infrastructure and services for the poor and vulnerable through microprojects targeting urgent basic needs. Through its support for productive intercommunity socioeconomic development subprojects, the Project will also be expected to contribute to improved living standards and local economic development potential.

To mitigate social risks, the project will emphasize participatory decision-making, beneficiary feedback mechanisms, and entry points for citizen engagement. Following the ASIF model, SILD-supported microprojects will each have a PIC that is selected by the community. PICs will act as focal points through which local communities provide feedback or voice their concerns on project implementation, works quality, and collaboration with ASIF, contractors, and other stakeholders. PICs will be responsible for providing regular information to the community on the progress of the Project, for calling community general meetings when required, for maintaining a special board for these purposes, and for distributing project documents to members of the community upon request. While women's participation in PICs was strongly encouraged under ASIF III, under SILD, a minimum quota of 20 percent for women will be applied and additional gender training of PICs will be undertaken to enhance the participation of women, the poor, and other vulnerable groups in these committees. The PIC model will also be extended and appropriately tailored to territorial development projects.

The beneficiary feedback and grievance redress mechanisms for SILD will build on those used in the ASIF III project and will include the identification of a grievance officer in each PIC, a telephone feedback line to ASIF and a committee in ASIF to review grievances if they cannot be resolved. Further, a beneficiary assessment has been commissioned for the ASIF III project and its findings will be used: (a) to enhance the social impact of SILD, including to further identify opportunities to reduce potential social risks linked to the Project; opportunities and strategies for reaching out to Project stakeholders, particularly poor and vulnerable groups including women and youth; and (b) to enhance their involvement in microprojects and sustainability of microproject investments. The beneficiary assessment will also explore opportunities to strengthen PIC capacity and operating arrangements;

strategies for strengthening beneficiary feedback opportunities; and opportunities to promote collaboration between SILD and other local stakeholders (for example, local governments, NGOs and CBOs, and private sector enterprises). Additional capacity will be retained by ASIF to support the citizen engagement agenda as well as to ensure oversight and monitoring of social safeguards.

SILD will also seek to promote gender-inclusive project benefits, including around labor opportunities. In Armenia, female participation in the labor force is lower than that of men (55 versus 75 percent) while women's unemployment rate is higher (35 versus 22 percent), particularly among youth (55 versus 37 percent). While community infrastructure supported by past ASIF projects was often in sectors where women were well-represented in the workforce (for example, education and health centers, where women represent a significant number of teachers and health workers), the majority of jobs created by ASIF projects were related to construction, where women make up less than 5 percent of the labor force. However, subprojects anticipated under SILD Component 2 will be expected to support diversified job opportunities in sectors such as agro-processing and manufacturing where women make up approximately 55 percent and 35 percent of the labor force, respectively. Appropriate M&E (annex 1) has been devised to measure gender-related inclusion within project activities and will be tracked closely through supervision and semiannual reports by ASIF's dedicated M&E specialist.

Environment risks are low and the majority of the subproject proposals are likely to fall under environmental Category B or C. Any subproject that may use or potentially pollute the waters of an international waterway, or tributaries of such an international waterway will be filtered out through environmental screening and will not be supported under the SILD project; as well as any microproject or subproject proposal that falls under environmental Category A. Armenia is earthquake prone, which is a risk to the project investments and will be considered in the process of selecting microprojects and subprojects. Because the microproject and subproject proposals will arrive and be reviewed on a rolling basis, most of them were not known by the time of the project appraisal. Therefore, an ESMF has been developed to establish the guiding principles of: (a) environmental and social screening of microproject and subproject proposals; (b) identification of the expected impacts of microprojects and subprojects at their construction and operation phases; (c) establishing of measures for mitigating environmental and social risks; and (d) monitoring of environmental performance under the supported microprojects and subprojects. Site-specific EMPs will be developed in consultation with local communities and disclosed before commencement of works at any individual investment site. Environmental due diligence will be built into the general procedures of subprojects' selection, approval, and monitoring and the POM will provide step-by-step guidance on this. Adherence to these procedures and implementation of EMPs will be closely supervised by ASIF.

Some irrigation schemes operated in Armenia abstract water from trans-boundary rivers and/or their tributaries. Discharge from a number of waste water collection systems enters surface water bodies that flow into international waterways. Since the final design of some activities under Component 2 (subprojects) will be only completed at a later stage, and the features of those activities are currently unknown; the criteria for the selection of subprojects will exclude activities that may involve the use or potential pollution of international waterways. On the other hand, as part of the activities under Component 1 (microprojects), the SILD project may support renovation/rehabilitation of existing community level water supply, sanitation, and irrigation schemes which are not known upfront and will be identified on a rolling basis during the project's life. Hence, there is a likelihood of financing works on the infrastructure that intakes or discharges water into international waterways. However these activities will not exceed the scope of the existing schemes owing to the small size of individual investments. As such, they: (a) will not adversely change the quality or quantity of water flows to the other riparians; and (b) will not be adversely affected by the other riparians' possible water use. The

vast majority of physical works under Component 1 of the SILD project will be confined to the repair of the existing infrastructure. For water, wastewater and irrigation systems this would exclude increase in their design capacity of water intake and/or discharge. Rehabilitation works on water-related infrastructure will be predominantly aimed at cutting water loss due to leakages and overflows from damaged/clogged passages and malfunctioning of dilapidated hydraulic structures. Therefore, while OP/BP 7.50 “Projects on International Waterways” is triggered, communication between the riparian states on the project interventions is deemed unnecessary. An exception from the requirement for the notifying the other riparian states was obtained from World Bank Management on January 15, 2015.

OP/BP 4.12 - Involuntary Resettlement is being triggered on a precautionary basis as the type and location of new project activities under Component 2 (subprojects) are not yet known, and the type and scale of civil works and land acquisition are still to be determined. An RPF has therefore been prepared and will be followed by all project activities. The RPF was in consultation with stakeholders and disclosed publicly. Site-specific Resettlement Action Plans (RAPs) will be prepared and implemented before commencement of works at any site where resettlement, land use, or acquisition is required. However, as was the case under the ASIF III project, under Component 1 of SILD, no microprojects that involve land acquisition (permanent or temporary) or resettlement will be approved, and no civil works are planned under Component 3. As ASIF does not have experience with oversight of implementation of OP/BP 4.12 - Involuntary Resettlement, additional capacity will be retained for SILD and safeguards will be closely supervised and supported by the Bank team.

### *Monitoring & Evaluation*

The process of M&E project outcomes and results will be carried out continuously and systematically by ASIF’s M&E Unit during project implementation. The ASIF III project supported the creation and strengthening of the M&E Unit under the newly created Management Information, Monitoring and Evaluation Department. The project also supported enhancement of ASIF’s MIS, operated by the Data Generating and Office Technology Unit, located in the same department. The proposed project will continue to support further development of the M&E function as part of ASIF’s evolution to ATDF and will strengthen the MIS to meet evolving needs of the organization. M&E of microprojects will also be carried out in collaboration with entities such as the PICs, beneficiaries, civil society stakeholders, local universities, consultants, and the World Bank project team. The Bank project team will also be providing significant support to ASIF on improving data collection and evaluation methodologies.

As part of project monitoring, key results indicators (see Annex 1) will be used to monitor outcomes under the project. Targets of these indicators were derived from the ASIF evolution strategy targets; historical results from ASIF’s MIS, beneficiary surveys, and quality assessments; and ASIF’s self-defined targets where no strategy targets or historical data exists. ASIF’s M&E Unit will be responsible for reporting on these indicators through the preparation of semiannual, midterm, and annual progress reports, which are subject to review and approval by the ASIF Board. ASIF’s MIS will also track safeguards activities. ASIF will continue using the existing FM systems, as well as the same procurement and reporting mechanisms that are currently used under the ASIF III project.

SILD will also incorporate lessons and recommendations from assessments of M&E under previous ASIF projects. For example, according to IEG’s review of the last two ICRs for ASIF I and ASIF II, evidence on outcomes was weak and largely based on the results of limited surveys carried out in a small number of communities. This limited the extent to which local impacts could be seen as broadly

representative of all ASIF subprojects. Learning from these lessons, several studies will be undertaken during the course of this project to analyze and evaluate performance and outcomes.

Planned and budgeted M&E analyses under SILD include:

- (i) A process evaluation of Component 2 implementation, including ASIF transformation and capacity building based on the recommendations proposed by the institutional assessment currently underway. The evaluation will cover aspects of Component 2 implementation such as experience to date on identification, development, selection, and appraisal of subprojects, including facilitation of intercommunity collaboration. The process evaluation will be expected to use qualitative research methodologies and rely primarily on consultations with beneficiaries and ASIF staff. The process evaluation is expected to be conducted before, and as an input to, the Project mid-term review.
- (ii) Pre- and post- completion data collection for micro and subprojects, including a strong role for communities in data collection and the use of regular beneficiary surveys, to evaluate change in indicators of access to and use of infrastructure.
- (iii) Formal beneficiary assessments at year 3 and year 5.
- (iv) An assessment of the quality, maintenance, and cost of civil works in years 3 and 5.

Gender-informed M&E and measurement of project impact will be conducted throughout SILD M&E activities. Direct beneficiary feedback on quality, satisfaction, and impact will also help improve the indicators and methodology for monitoring the implementation of subprojects on the ground—in terms of impact on the general population, as well as on the most vulnerable target groups and including gender-sensitivity throughout—and promote ongoing citizen engagement in project implementation.

### *Role of Partners*

A number of international development partners support the territorial development reform agenda. Information exchange and coordination among different initiatives have improved recently in response to the GOA appeal for coordinated assistance. Below is a brief description of the role of the key partners in supporting the GOA's territorial reform and local self-governance agenda.

SDC has launched a new four-year program on 'Improvement of the Local Self-Governance System of Armenia' worth US\$5.7 million. The program will contribute to strengthening accountability, effectiveness, and efficiency of the local self-governance system in Armenia. Designed around governmental plans to enlarge municipalities, this program will provide TA in the form of capacity building and expertise for strengthening local governance and decentralization. Furthermore, it will help to improve public service delivery and facilitate access for municipalities to capital investments for local and territorial development.

Within the initial timeframe of four years (2014–2018) the program aims at creating stronger municipalities in terms of governance and management, increasing the efficiency and quality of public service delivery to citizens through the creation of additional citizen offices and strengthening municipalities' capacities in priority setting, and attracting public funds for municipal and intermunicipal development projects. Strengthening the Communities' Association of Armenia and empowering more women to take an active role in local politics are other important components of this program.

During preparation of this project, SDC has financed several foundational studies that support ASIF's transition to a Territorial Development Fund and which are critical to the design of Component 2 of the project. These studies include an institutional assessment, communications and outreach.

Within the framework of its regional 'Local Governance Program South Caucasus 2012–15', GIZ invested in the improvement of local and regional planning practices. This program also includes the introduction of performance budgeting, modernization of training curricula and training standards for municipal servants, the establishment of Citizen Offices (also referred to as 'one-stop shops') for provision of administrative services, the introduction of municipal information management systems (MMIS) and the application of a gender sensitive M&E system for service delivery.

The United States Agency for International Development (USAID) launched a new program that aims at promoting more participatory, effective, and accountable governance in Armenia in 2014. The funds will be split between civil society organizations (CSOs) to strengthen their oversight of the local self-governance (LSG) reform process and the GOA (the so-called 'Government-to Government-Fund' meant for both TA and capital investments in the support of the enlargement of communities). The USAID disbursements are linked to a series of conditions related to the implementation of LSG reform. Its TA component will be implemented largely through GIZ.

The European Union (EU) provides assistance to Armenia within the framework of the European Neighbourhood and Partnership Policy. Priority areas include democratic structures and good governance with the focus on regional development. It is expected that the EU capital investments supporting regional development will be implemented through the reformed ASIF.

The Council of Europe (CoE) played a specific role in the light of the recent Armenian chairmanship of the committee of ministers of the CoE in 2013. Support to strengthen democratic institutions at all levels is one of the pillars of the CoE Action Plan 2012–14 for Armenia. Additionally, the CoE—namely its congress of local and regional authorities—undertakes regular monitoring of the situation of local and regional democracy in all CoE member states, to ensure that the principles of the European Charter of Local Self-Government are implemented. The congress discusses periodical reports on local democracy in member states, including Armenia, and adopts its recommendations. Monitoring of addressing the report recommendations (so called 'post-monitoring') and related assistance represent another pillar of the activity of the congress. One of its strategic priorities is to develop open and ongoing dialogue with local stakeholders at all levels, as well as coherent and effective cooperation projects.

At the beginning of 2014, the CoE launched a new project, 'Support to Consolidating Local Democracy in Armenia' (€1.66 million contribution by the government of Denmark and €0.37 million of CoE funds). The project aims to: (a) provide support for local government reform through the provision of expertise and advice in drafting policy and legislation; (b) build capacities of local authorities, including human resource management, public ethics, service delivery efficiency, and experience exchange; and (c) strengthen local elected representatives' leadership, including the development of mayors' capacities to engage in constructive dialogue among themselves, with national authorities, and with citizens.

The United Nations Development Programme (UNDP) has been active on different fronts related to democratic governance, including strengthening local councils and promoting the role of women in local democracy, and regulatory reform of government services. It has also previously supported work on performance budgeting for municipalities and the elaboration of instruments for mainstreaming

disaster resilience in local development. The agency currently experiments with the application of information and communication technology for bringing citizens' voices into play. As a multilateral organization, UNDP is hosting and/or co-leading donor coordination groups on different topics, including local governance. UNDP in Armenia has been well-known for supporting advancing gender equality in a number of sectors, including institutional reforms, education, decision making, combating gender-based violence, and the role of youth and women in community life.

The 'Armenia's Sustainable Development Program' of the Asian Development Bank (ADB) has three key goals for 2009–2021: (a) to reduce poverty, including eliminating extreme poverty and ensuring human development; (b) to deepen economic growth; and (c) to accelerate the development of lagging regions. Its Country Operations Business Plan 2014–2016 supports, in particular, inclusive and environmentally sustainable growth and regional integration, and the government's objective of increasing employment. ADB provides loans for urban development, large infrastructure, and investment promotion. The bank has a new loan in the pipeline for the improvement of solid waste management and infrastructure across Armenia.

Counterpart International NGO (financed by USAID) has an active presence in civil society development and strengthening its role in local governance, as well as in advocating for LSG legislative changes. It has also been involved in training of municipal staff through its three regional local government training centers in Vanadzor, Armavir, and Sisian. Counterpart provides grants for the development of municipal infrastructure (on a cost-sharing basis) and is involved in e-Governance - in total, counterpart cooperates with 43 communities. This program of Counterpart ceased in autumn 2014.

World Vision NGO works at the community level (covering 240 communities in six *marzes*) and focuses on enhancing participatory local governance and proactive citizenry within the framework of existing legislation and regulations. It has funding of approximately US\$1 million per year.



## Annex 4. Operational Risk Assessment Framework (ORAF)

### Armenia Social Investment and Local Development Project

Project Stakeholder Risks						
Stakeholder Risk	Rating	Moderate				
<p>Risk Description:</p> <p>Delays in the overall process of territorial development reforms and the transition of ASIF to ATDF are possible due to political uncertainties. Due to these risks, stakeholder risk is Moderate.</p>	<p><b>Risk Management:</b></p> <p>ASIF has received an SDC grant to support the transformation, which the Bank is supervising. The Bank will provide support during preparation and supervision to ATDF’s transition. The project has also been designed in such a way as not to be dependent on ASIF becoming ATDF since the project will proceed in phases. It is not dependent on the territorial reform since the activities will be implemented alongside and are not tied to the reform.</p>					
	<b>Resp:</b> Client	<b>Status:</b> Not Yet Due	<b>Stage:</b> Both	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Mar-2015	<b>Frequency:</b>
Implementing Agency (IA) Risks (including Fiduciary Risks)						
Capacity	Rating	Substantial				
<p>Risk Description:</p> <p>ASIF has 18 years of experience in implementing the projects under Component 1. However, Components 2 and 3 are new for ASIF and they do not yet have the full capacity required to develop the new projects and their capacity building has been slow. The other components are low risk.</p> <p>The overall FM risk for the project before and after mitigation measures is assessed as Moderate. Overall, ASIF has an adequate internal control system in place for implementation of the project. Meanwhile, the contract management and monitoring processes in place at ASIF need to be properly followed.</p> <p>The GOA recently revised the salary scale for the governmental agencies’ staff (including the staff of the agencies implementing the Bank-financed projects) by introducing a cap on the staff salary. As a result, in the longer term, this may have adverse</p>	<p><b>Risk Management:</b></p> <p>To mitigate the risks under Components 2 and 3, preparation and implementation will require strong intra-governmental coordination, which has been lacking in the past, and building the capacity of ASIF, including through recruitment of additional specialized staffing (including support on safeguards). Also, there is significant ongoing support for ASIF’s transition, including several consultants under the SDC grant to help them develop new policies and procedures, hire the right staff and/or train existing staff. A focus will be put on training existing staff and replacing staff only where necessary given hiring difficulties. In the case where staffs need to be replaced, ASIF will look to local universities and similar sources to hire well-trained and potentially less costly staff. Background work under the SDC grant will provide a blueprint and training to ASIF on how to manage new projects and capacity building under both Component 2 and Component 3 of the SILD project. Component 3 will be supported through an institutional assessment that will propose recommendations and an action plan for filling any gaps identified, building capacity, and enhancing the structure and operations of ASIF to meet its new mandate. Background work for Component 2 includes guidelines for preparation and evaluation of projects in addition to methodological and economic analysis on municipality growth potential and inter-municipal cooperation to assist with selection of projects. This support will be buttressed with targeted study tours and learning exchange visits by ASIF, allowing its staff to learn from good international</p>					

impact on ASIF staffing (particularly the fiduciary staff) . This change will result in a less competitive salary level for ASIF compared to the private sector and the government.	experiences including that of the Georgia Municipal Social Investment Fund. ASIF will also be supported by experts on the Bank project team which has been expanded to include technical expertise from the Social Protection and Urban, and Rural and Social Development Global Practices. The team also includes two local Bank consultants providing support to ASIF’s transition process on a day-to-day basis.					
	The Bank will closely monitor the contract management and monitoring processes in place at ASIF to ensure that they are properly followed during project implementation.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Continuous
Governance	Rating	Moderate				
Risk Description:  Apart from the staffing, project financing, and clarity of roles and responsibilities risks as highlighted in 2.2, 3.1, and 4.3, the new project implies new positions, staff accountabilities, procedures, and decision-making processes for ASIF.	Risk Management:					
	ASIF is in the process of hiring new staff with the necessary skills for its new responsibilities and is also hiring expert consultants to help them develop and communicate new policies and procedures for implementing the new SILD project. This risk is provisional and subject to ASIF adopting the operational manual with precise identification of responsibilities and contract management activities.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input type="checkbox"/>	Due Date: 31-Dec-2015	Frequency:
	Risk Management:					
	Adequate mitigation measures have been established and will be closely monitored to ensure that the project risk remains acceptable. Measures include: (a) formal internal control framework is described in the POM/FMM; (b) flow of funds mechanism via state treasury agreed with the borrower will be enforced; (c) project financial statements will be audited by independent auditors and on a TOR acceptable to the Bank; and (d) regular FM implementation support and supervision, procurement prior and post reviews, and regular monitoring and implementation support through country office based staff.					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
	Both	Not Yet Due	Both	<input checked="" type="checkbox"/>		Continuous

Project Risks						
Design	Rating	Moderate				
Risk Description:  Component 2 and 3 of this project involve a major transformation in the way ASIF does business and the types of projects it implements.	Risk Management:  The Bank will support ASIF to focus on building its capacity to implement these new types of projects and transform its processes and procedures to meet the new Evolution Strategy. A phased approach will be adopted for the implementation of Component 2 to enable ongoing learning and refinement of the component. The design of the component will be finalized during the first year of SILD implementation and the incorporation of its related procedures and processes into the POM will be a disbursement condition for Component 2.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Continuous
Social and Environmental	Rating	Low				
Risk Description:  Environmental. The majority of the subproject proposals are likely to fall under environmental Category B or C. Category A subprojects will be filtered out through environmental screening and will not be supported under the SILD project. Armenia is also earthquake prone, which is a risk to the projects ASIF invests in.  Social. As the specific nature of the territorial development projects which will be supported under Component 2 are not yet known, OP 4.12 - Involuntary Resettlement is triggered.	Risk Management:  Environmental. Because the subproject proposals will arrive and be reviewed on a rolling basis, most of them will not be known at the time of project appraisal. Therefore, an ESMF will be developed to establish the guiding principles of: (a) environmental and social screening of subproject proposals, (b) identification of the expected impacts of subprojects at their construction and operation phases, (c) establishing measures for mitigating environmental and social risks, and (d) monitoring of environmental performance under the supported subprojects. Site-specific EMPs will be developed, disclosed, and consulted with local communities before commencement of works at any individual subproject site. Environmental due diligence will be built into the general procedures of subprojects' selection, approval, and monitoring and the POM will provide step-by-step guidance on this. Adherence to these procedures and implementation of EMPs will be closely supervised by ASIF.  ASIF has developed guidelines for rehabilitation of buildings to ensure they are earthquake-proof.					
	Resp: Client	Status: Not Yet Due	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Continuous
	Risk Management:					
	Social. OP/BP 4.12 - Involuntary Resettlement is being triggered on a precautionary basis as Component 2 could potentially allow subprojects with resettlement impacts. An RPF has therefore been prepared, publicly consulted, and disclosed and will be followed by all project activities. The RPF provides detailed guidance and criteria for the development of investment-specific RAPs,					

	<p>which will be prepared and implemented before commencement of any subprojects under Component 2 where resettlement, land use, or land acquisition was required. The RPF will be included as an annex to the POM. However, no activities with potential resettlement impacts are expected under Components 1 and 3. Following effectiveness and as detailed in a project legal covenant, ASIF will retain and maintain additional capacity to support oversight and monitoring of social safeguards compliance throughout project implementation.</p> <p>A beneficiary feedback/grievance redress mechanism has been established, including local grievance focal points and a telephone hotline and widespread communication and public awareness-raising will be conducted to encourage the use of citizen engagement mechanisms under the project.</p>					
	<b>Resp:</b> Client	<b>Status:</b> Not Yet Due	<b>Stage:</b> Implementation	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Apr-2015	<b>Frequency:</b>
<b>Program and Donor</b>	<b>Rating</b>	<b>Moderate</b>				
<p>Risk Description:</p> <p>While this project is completely consistent with other donor's activities, there are multiple donors implementing similar (and sometimes overlapping) projects. None of these donors, however, are financing ASIF outside of the Bank Group project, while one has already requested the Bank to handle their contribution to ASIF’s capacity building.</p>	<p><b>Risk Management:</b></p> <p>ASIF and the Bank Group must remain continuously engaged with the relevant ministries and donors to ensure smooth implementation of Components 2 and 3, efficiency of monitoring and reporting, minimal duplication and close synergistic collaboration. This process already started during the last ASIF project and was continued during the preparation mission.</p>					
	<b>Resp:</b> Both	<b>Status:</b> In Progress	<b>Stage:</b> Both	<b>Recurrent:</b> <input checked="" type="checkbox"/>	<b>Due Date:</b>	<b>Frequency:</b> Continuous
	<p><b>Risk Management:</b></p> <p>Regarding the financing risk, the Bank and the client have been very proactive in communicating with multilateral and bilateral partners to secure additional funding. Several donors have expressed strong interest in supporting ASIF’s evolution and additional donor financing could be integrated into the project as additional or parallel financing. ASIF is in the process of recruiting a specialist to help develop a comprehensive sustainability plan and fundraising strategy that will guide ASIF in its fundraising efforts and donor outreach/communications during the next five years.</p>					
	<b>Resp:</b> Client	<b>Status:</b> In Progress	<b>Stage:</b> Both	<b>Recurrent:</b> <input checked="" type="checkbox"/>	<b>Due Date:</b>	<b>Frequency:</b> Continuous

Delivery Monitoring and Sustainability	Rating	Moderate				
<p>Risk Description:</p> <p>Although a number of shortfalls have been recorded related to contract administration in the past, procurement risk is Moderate given that ASIF has satisfactory experience in implementing Bank-financed projects, ASIF’s current procurement staff has improved their knowledge of the Bank’s Procurement and Consultant Guidelines, and ASIF plans to hire new procurement staff.</p> <p>M&amp;E risk is Moderate as ASIF plans to develop a new M&amp;E framework, new monitoring tools, and a new M&amp;E unit.</p>	<b>Risk Management:</b>					
	Procurement. Adequate mitigation measures have been put in place and will be closely monitored. This includes: (a) packaging goods and works contracts to generate the maximum competition; (b) advertising procurement opportunities under the project with the UNDB, on the website of the MOF and at least one newspaper of national circulation in Armenia; (c) providing the SPNs for procurement of works to the Union of Builders of Armenia; and (d) providing TA to improve ASIF's capacity.					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Both	In Progress	Implementation	<input checked="" type="checkbox"/>		Continuous
	<b>Risk Management:</b>					
	Implementation. ASIF has hired one new staff to help prepare Components 2 and 3 and support their M&E. They will need to hire additional experts, however, to support the design and implementation of Components 2 and 3. The SILD M&E system will be strongly beneficiary-driven and include significant opportunities for beneficiary feedback and citizen engagement. Local communities will also receive training on various aspects of project design and implementation to strengthen local capacity for development project planning and management.					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Both	In Progress	Implementation	<input checked="" type="checkbox"/>		Continuous
	<b>Risk Management:</b>					
	Sustainability. ASIF is hiring a consultant to support the development and implementation of a donor outreach strategy. ASIF and the Bank will remain engaged with the government and donors to help ASIF secure additional funding.					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Client	In Progress	Both	<input checked="" type="checkbox"/>		Continuous
	<b>Risk Management:</b>					
	M&E: The project envisages establishment of a comprehensive M&E system, an impact and process evaluation, a new operational manual, and a dedicated M&E specialist. M&E will be gender-informed to ensure attention to the impacts of the project on both women and men.					

	<b>Resp:</b> Client	<b>Status:</b> In Progress	<b>Stage:</b> Both	<b>Recurrent:</b> <input checked="" type="checkbox"/>	<b>Due Date:</b>	<b>Frequency:</b> Yearly
<b>Other (Optional)</b>	<b>Rating</b>					
Risk Description:	<b>Risk Management:</b>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b>	<b>Frequency:</b>
<b>Other (Optional)</b>	<b>Rating</b>					
Risk Description:	<b>Risk Management:</b>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b>	<b>Frequency:</b>
Overall Risk						
<b>Overall Implementation Risk:</b>	<b>Rating</b>	<b>Moderate</b>				
Risk Description: A moderate risk for implementation was selected given that the ASIF Evolution Strategy envisions significantly more complex activities, which will be more demanding and require more coordinated efforts and capacity building to implement successfully. Preparation and implementation will require strong intra-governmental coordination, which has been lacking in the past, as well as significant capacity building and institutional development of ASIF.						

## **Annex 5. Implementation Support Plan**

### **Armenia Social Investment and Local Development Project**

#### **Strategy and Approach for Implementation Support**

Implementation support is a core element of the proposed project and partnership between the GOA and the World Bank. Implementation support will involve engagement across several dimensions:

- *Technical.* The World Bank team will provide expert staff and consultants to support the counterpart teams at ASIF and MTAES across all project areas. The Bank team has also been providing quality assurance and implementation support for the SDC's US\$303,000 grant to ASIF aimed at supporting the preparation of the proposed project and ASIF's transition into the ATDF.
- *Financial management.* As part of its project implementation support and supervision missions, the Bank will conduct risk-based FM implementation support and supervision within a year from the project effectiveness, and then at appropriate intervals. During project implementation, the Bank will supervise the project's FM arrangements in the following ways:

Review the project's semiannual IFRs as well as the entity's and the project's annual audited financial statements and auditor's management letters and remedial actions recommended in the auditor's management letters. The Bank's onsite 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 (FMS) will participate in the implementation support process.

- *Procurement supervision.* Procurement supervision missions will be carried out by the Bank. This will include: (a) review of the procurement plan; (b) physical inspection of goods; (c) consultants' reports (outputs); and (d) site visits of works contracts. There will be one supervision mission every year to carry out post review of procurement actions.
- *Environmental safeguards supervision.* A Bank environmental specialist will be a member of the project team throughout the project cycle. The specialist will supervise compliance with Bank environmental safeguards policies and the project ESMF, and will ensure that site-specific EMPs are developed for individual investments, as required, and adhered to by contractors. The environmental specialist will also provide guidance and advice to the ASIF safeguards staff and other relevant personnel to improve their capacity for applying environmental safeguards and for reporting on environmental monitoring outcomes.
- *Social safeguards supervision.* A Bank social specialist will be a member of the project team throughout the project cycle. The specialist will supervise compliance with Bank safeguards policies and the project RPF (and any investment-specific RAPs, if required), and will provide capacity-building support on social safeguards to the PIU safeguards staff and other relevant personnel. The specialist will also provide technical advice on other social sustainability issues

within the project, including gender sensitivity, stakeholder engagement, beneficiary targeting, grievance redress mechanisms and social research on the impacts of the project.

Implementation support will be undertaken regularly. Implementation support and supervision missions, covering technical and fiduciary aspects of the project, are planned twice a year. The team members will monitor and report on progress of the key project activities and their contribution towards achievement of the project development indicators and the PDO. During these implementation support and supervision missions, an assessment will also be made of the risks and updates made, as needed, to the ORAF (Annex 4). Overall project implementation arrangements will also be assessed with the identification of any adjustments that may be needed.

Several team members are based in the region. Much of the implementation support team (including some technical, fiduciary, and safeguard staff) are based in the region, which facilitates timely, efficient, and effective implementation support.

#### Implementation Support Plan - Basic Timetable

**Table A5.1: Implementation Plan - Basic Timetable**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>	<b>Partner Role</b>
First twelve months	<p>Ensure fiduciary staff are equipped to make a strong start on the procurement of key project inputs and activities</p> <p>Ensure full understanding of and compliance with the Bank's safeguard requirements</p> <p>Provide technical support to initiate project activities</p>	<p>Procurement</p> <p>Safeguards</p> <p>Full team</p>	US\$100,000	<p>Client staffing of ASIF, especially procurement staff</p> <p>Regular reporting to the Bank and active engagement in supervision missions.</p>
12–48 months	<p>Ensure technical quality</p> <p>Ensure fiduciary and safeguards compliance</p> <p>Provide ongoing technical support and supervision</p>	<p>Technical specialists</p> <p>Fiduciary and safeguards specialists</p> <p>Full team</p>	US\$400,000 (US\$100,000 per year.)	
Other				



**Table A5.2: Skills needed and time requirements (per annum)**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Task Team Leader	8	3	TTL field-based
Senior Operations Officer (SPL)	4	2	DC-based
Senior Operations Officer (SPL)	4	2	Field-based
Senior Social Development Specialist	4	2	DC-based; performs dual role in the team (team member and social safeguards); trips to be combined with other project support
Senior Social Development Specialist	4	2	DC-based (the two social specialists will alternate support/trips)
Financial Management Specialist	2	0	Based in-country
Procurement	4	0	Based in-country
Environment	3	2	Regionally based; trips to be combined with other project support
Seismic Engineer	4	0	Based in-country

## Annex 6. Economic Analysis

### Armenia Social Investment and Local Development Project

#### Development Impact<sup>23</sup>

The Project will support implementation of the Territorial Development Policy (prioritized in the ADS) aimed at decreasing territorial development disparities in the country and promoting access to basic social infrastructure. The Project will contribute directly to this objective through: (a) contribution to the growth of living standards and access to services in select vulnerable communities and territories through the implementation of investment microprojects; and (b) facilitation of intercommunity economic and investment activities through development projects. The Project will have an indirect effect on the decrease of territorial development disparities through: (a) contribution to improvement of the targeting and efficiency of state, donor, and private investments aimed at territorial development; (b) support to upcoming territorial administration reforms; and (c) contribution to the strengthening of institutional and financial capacities at the community and territory levels. It was estimated in the ADS that implementing the Territorial Development Policy will reduce socioeconomic territorial disparities by 10–15 percent in the next three to four years.

**A large share of the proposed investment (US\$18 million) is for microprojects in social infrastructure for vulnerable communities.** Two elements can be considered to determine the development impact of the microprojects that will be delivered under the first component: (a) the impact of the selected microprojects on economic and social development; and (b) the cost effectiveness of the planned delivery method, compared to alternative approaches. Microprojects will concentrate on social infrastructure, most of which can be deemed to be essential for human development and which the GOA is committed to guarantee to all citizens. This includes access to potable water, renovation of kindergartens and education facilities, basic health care facilities. In addition, microprojects also finance the renovation of common space for community and cultural events, which in most cases serves as the sole center for social aggregation in the community. More than one and half million people live in the catchment areas of the services that have been updated or built through ASIF so far.

**The experience in ASIF III suggests that microprojects have led to higher quality of social service provision and greater service utilization.** Qualitative studies<sup>24</sup> provide rich narratives on the impacts of projects on the population. In the area of health care, focus groups reported greater attractiveness and equipment of facilities, leading to higher motivation of staff, and in turn, higher willingness of the population to use local facilities. In education facilities, parents of school/preschool students were reported to have sent their children more willingly and with a greater sense of security to a facility that is compliant with safety regulations, and the level of attendance in winter months had increased. For water pipes, beneficiaries reported a net increase in the quantity of potable water, either from lower levels or from having no access at all. They also reported that many long-standing sanitary issues were almost solved, household pets and livestock were kept in better conditions, and water disputes had

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<sup>23</sup> Definition: A project is expected to contribute to development if expected benefits justify the expected cost, including benefits that can be realistically stated in monetary terms or other benefits that are more difficult to monetize or sometimes even to quantify but can be demonstrated to be important as project outcomes. Expected benefits and costs attributable to a project are measured by comparing the situation with the project to the situation without the project. Where plausible alternatives exist, the selected project should be shown to be the preferred design (OPCS 2014).

<sup>24</sup> Conducted on a sample of 25 ASIF microprojects in 2011. *Source:* ASIF III (2008); ASIF III (2011).

decreased. In the case of community/cultural centers, a number of tangible changes were mentioned, including increased attendance at community meetings compared to when these were held outdoors; the opening of libraries or computer labs and increase in cultural events; and the establishment of places for young people to meet off the streets. Communities also reported positive impact of microprojects on community morale, pride, and frequency of interactions and a reversal of out-migration flows. On average, impacts were reported to be stronger in regions than in Yerevan, particularly for facilities that required social input from the community such as cultural centers. Unfortunately, a more quantitative description of changes brought by microprojects in terms of increased access to services is difficult due to the lack of baseline data. However, the proposed project plans to include a stronger M&E framework that can capture key results in terms of service utilization.

**ASIF proved to be a cost-effective mechanism to deliver social infrastructure and to target vulnerable communities.** The literature suggests that CDD approaches can be more cost-effective than centrally managed delivery for small-scale projects.<sup>25</sup> Provided that implementation of microprojects is done in line with a number of good practices, including capacity building of communities at proposal stage, monitoring project works from the center, requiring provisions for infrastructure maintenance and local inputs in project execution.<sup>26</sup> To a large extent, ASIF included all such aspects in its operations. In fact, the recent assessment of project quality conducted in past ASIF rounds all point to the overall good quality of infrastructure generated (SSSR 2014). In fact, according to the study on cost effectiveness (Gyozalyan 2010) the administrative and implementation costs associated with the generation and monitoring of a sample microproject was found to be lower than in comparator procurement contracts by other donors or central government. Hence, ASIF appears to be a fiscally advantageous tool to deliver some of this critical infrastructure in a well-targeted and cost-efficient way in a country where many gaps still need to be filled.

**The potential of social infrastructure built through microprojects to foster economic development is mainly through the accumulation of human capital.** The project impact on economic development should be interpreted mainly through a human capital accumulation channel, in terms of increased impact on life-long learning and earnings for children who began attending preprimary education, higher learning for primary students with lower absenteeism, and higher wages for students who increase their chances for secondary education completion rates. The returns from completion of upper secondary education and of kindergarten have been computed recently for the World Bank Education Improvement Project and they are substantial (World Bank 2014). One additional medium-term impact is the increased intermediation of employment opportunities for

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<sup>25</sup> Social funds are well placed in the delivery of microproject in light of the division of labor between institutions that have different comparative advantages: A large set of functions in the design and the development of the project are attributed to local communities, which are supposed to have higher knowledge of priorities and interest in quality of delivery, leaving to central administrator a few key roles that benefit from economies of scale, such as management, oversight and capacity building. This process should ensure: (i) a better prioritization of investment and their design according to development needs, – as intended by the ultimate beneficiaries; (ii) channeling of a larger amount of resources to communities themselves through the use of local labor, and (iii) ultimately, greater cost-effectiveness of interventions. Obviously, the realization of participation in practice remains a challenging process, and many World Bank-financed CDD/ SIF type of projects have failed to engage successfully the intended agents in local communities, or to change the nature of social relations after project completion (Mansuri and Rao, 2012).

<sup>26</sup> The few studies which have compared community-managed infrastructure projects with similar types of projects created by governmental line departments using a more ‘top-down’ approach serve as a good example. These studies find that community engagement does seem to improve both the construction quality and maintenance of local infrastructure. However, these are cases where the implementing agency provides significant oversight during construction. Maintenance and recurrent costs are also explicitly budgeted for, or the implementing agency is available to provide training and support for maintenance. (Mansuri and Rao, 2012).

workers hired during the life of the project; about a third of individuals who worked in the microproject implementation reported to have found further work with the same or another employer after project completion (BA 2011).

The impact of the project on generating economic opportunities is more difficult to assess. These impacts are more likely to derive from the implementation of Support to Intercommunity Social and Economic Development Initiatives component. A secondary objective of a CDD type of project is to impact medium-term socioeconomic development by increasing economic opportunities. While for Component 1 (microprojects) this can be considered only a second-order objective, fostering economic development is a key goal of Component 2 (intercommunity projects). Since little is known at this stage about the type of investments that will be developed under Component 2, it is difficult to quantify its expected benefits. However, recent analytical work on geographic disparities in Armenia (World Bank 2014c) has noted that regions with lower poverty and better labor market outcomes are those that developed the most tourism and wine production. More regions have been identified with comparative advantages in these areas. Given the constrained credit markets in the country, it is possible that with careful planning and the necessary TA these resources may be used in lagging areas with untapped economic potential.

**In the short term, both components will also generate temporary employment opportunities, whose impact on poverty alleviation can be maximized by targeting explicitly disadvantaged households.** Project beneficiaries noted that one of the benefits of the program was the generation of temporary employment (ASIF III 2011) but also the downside that the limited employment creation from the rehabilitated infrastructure, which serves sectors that are dependent on public employment. According to the most recent estimates, about 22 percent of microprojects expenditures on average consist of the wage bill. Past ASIF microprojects suggest that local labor ranged from 60 to 12 percent of the wage bill for projects, with higher local shares for new construction (requiring more unskilled labor), and lower for renovations (more skill intensive). Nearly all project beneficiaries (87 percent) who reported being hired as employees performed manual labor (ASIF III 2011). Between 2006 and 2013, ASIF III realized 510,000 job days, with an expenditure on labor estimated at US\$8.4 million and an average daily wage of US\$16.5. Assuming a 40 percent rate of sourcing to local communities, and that at least 70 percent of the targeted communities are poor,<sup>27</sup> ASIF III cumulatively allocated about US\$2.35 million in wages to vulnerable communities. Under these targeting assumptions, the wages provided by microprojects until 2013 represent 3 percent of public allocations for the last resort social assistance in 2013 alone (which was around US\$82 million) or about 10 percent of expenditures on labor markets programs for 2012 (See World Bank 2014b). As such, the direct impact of projects on reducing poverty at the national level is expected to be negligible, given that the family benefit program, which is of much greater size, contributes to reducing poverty by less than 2 percentage points per year. It is not straightforward to assume that local hires will belong to the disadvantaged households in the community: The average gross daily salary of AMD7,142 or AMD157,000 per month is just below the monthly average wage observed in 2014 for Armenia (166,233); this wage, though not high, is likely to raise interest also from non-vulnerable individuals and to reduce the self-targeting nature of this type of public works. As such, the impact is likely to be localized and very modest, though a few changes based on international good practices could increase the impact. In

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<sup>27</sup> The ASIF III Additional Financing introduced the additional goal that at least 40 percent of the loan proceeds for microprojects in the communities from the poorest cluster, and a maximum 20 percent in the communities from the least poor cluster. A direct correspondence between vulnerable communities and communities whose average consumption is below the poverty line ("poor communities") could not be established, but in the analysis it is assumed that vulnerable and very vulnerable communities are prevalently poor.

particular, it is important that future project implementation incorporates methodologies to target vulnerable and out-of-work individuals, for instance through the involvement of social welfare or labor offices, in order to maximize the poverty alleviation effects.

**Lack of past data prevents an estimation of the impact of the projects on the social development of communities.** The literature cautions us from assuming that social capital can be engendered locally, even when participatory methods are applied well, as many of the factors that can allow this process are very context specific (Mansuri and Rao 2012). In the case of Armenia, there may be too little data to reach conclusions on the formation of lasting social capital. Beneficiary assessments present an overall positive picture—though with nuances—on the level of utilization of participatory approaches in the realization of microprojects in ASIF III. Only about half of direct beneficiaries of the 24 projects analyzed in the recent impact assessment (ASIF III 2011) thought that the project was identified through collective initiative, the remainder claiming that the manager of the community council, or its head, took the initiative. However ‘the vast majority of respondents’ thought that the project identified was ‘fully relevant to the needs of the community/institutions’. One could argue that the time ASIF-funded renovations were part of the electoral promises is the appropriate locus to institutionalize indirect participation. According to the same assessment, the ‘vast majority of beneficiaries’ claimed that their community was somehow involved in different stages of project implementation, either through contributing to manual work or through monitoring the works or choice of materials. What is less clear, due to lack of data, is the extent to which the interactions favored by the projects led to improvement in the level of social capital in communities, intended as the capacity for collective action to solve challenges related to the provision or management of public goods outside the project scope.

**Due to the demand-driven nature of the project and the typology of some of the interventions, it is not feasible to calculate expected IRR for the full portfolio.** Since the list and typology of the microprojects to be financed cannot be known up front, the majority of projects similar to the SILD that have been reviewed did not estimate the ex-ante IRR but committed to perform a cost-effectiveness analysis during the mid-term review of the project, based on the progress in implementing microprojects. In addition, several of the interventions that microprojects have financed in the past are not suitable to the same type of economic analysis that is normally carried out for infrastructure projects (computation of IRRs). In these cases the analysis should rely on the quantification of benefits, including in quantitative ways, and by making reference to relevant literature on the benefits of this type of interventions more in general (which already been covered in previous paragraphs). This is particularly the case of interventions such as cultural centers and the re-equipment/update of some parts of existing public infrastructure such as health centers. In terms of costs, it is reasonable to assume that at least a share of the future microproject will resemble in nature and average cost, both in absolute terms and per beneficiary, those in the ASIF III portfolio (see Table 5).

**Table 1: Portfolio Composition of ASIF III**

Type	Number of Projects	% Portfolio	Total Cost	Average Cost	Average Number of Beneficiaries <sup>28</sup>	Average Cost/Beneficiary
Schools	110	36.91	15,970,130	145,183	31,526	1,470.84
Community centers	81	27.18	14,405,245	177,843	5,150	142.72
Kindergarten	36	12.08	5,803,708	161,214	292	4,443.82
Health centers	19	6.38	3,165,818	166,622	43,142	17.52
Water	18	6.04	2,374,440	131,913	2,379	109.03
Special school	16	5.37	2,329,714	155,314		
Environmental	8	2.68	1,242,155	155,269	28,717	78.15
Elderly house	7	2.35	829,154	118,451	107	6,479.85
Museums	3	1.01	256,585	85,528	52,972	18.85

For those project typologies that have been subject to economic analysis, IRRs have shown to be substantial and higher than the discount rate of this project. Past economic analyses can inform the expected IRR of some of the future sectors of investment, such as kindergartens or potable water (see Table 6). As an example, we have developed further the estimation of the IRR of one microproject (kindergartens), for which sufficient data was available. In this analysis, microprojects related to kindergarten developed by SILD are assumed to have the same cost and number of beneficiaries as the average microproject on kindergartens in ASIF III. Using the expected returns from the ECD modelled in the economic analysis of the Armenia Education Quality Project, the microprojects in SILD meant to improve the supply of kindergartens are expected to have an IRR of 18 percent. For other sectors, existing analysis suggests a substantial rate of return to the development of infrastructure in areas where this was missing. The rehabilitation of secondary schools in Armenia was estimated to have a cost-benefit ratio of 3.3 per student; building potable water connection is estimated to have an IRR between 10 and 26 percent in different projects, and 26 percent in Armenia.

<sup>28</sup> Average beneficiaries have been computed as the share of the population of the targeted community that is supposed to use a specific service during one year according to their age. For instance, for schools, the number of beneficiaries is computed as the share of population of school age in one year. For elderly homes, the targeted is the population over age 70. Shares are derived from national census data 2011.

**Table 2: IRR reported in other PAD Economic Analysis**

Project Type	Country/Specific Project	Main Costs	Main Benefits	IRR
<b>Water</b>	Guinea-Bissau <sup>29</sup> /Water wells	Investment cost	Time saved by having the well close to home	22.81%
	Moldova <sup>30</sup> /Water supply	- Investment cost - Cost of household connections - Maintenance cost	- Lower private costs of water - Increase in water consumption - Health conditions improvement - Higher attractiveness of the village for investment	10%
	Armenia <sup>31</sup> /Water supply	Investment cost	- Increase in the average consumption per customer per month - Increase in the hours per day supplied - incremental revenues assuming constant tariffs	26.1%
<b>Kindergarten</b>	Armenia <sup>32</sup> /Preschools	- Investment cost - Maintenance cost - Students continuing education	- Higher enrollment rate of children aged 5–6 years - More years of schooling - Lower repetition rates	Cost-benefit: 3.3
<b>Schools</b>	Guinea-Bissau/Primary education	Increment in per student cost of 45 percent	Increment in student output of 46 percent	
	Moldova/School heating	Investment cost	- Reduction in heating costs - Increase of teachers' presence - Increase in net enrollment by 15 percent - Increase in the average class time by 20 percent and student attendance by two days per child-year - Increase in student's educational attainment - Increase in the communities' capacity for solving problems	12–60%
	Armenia/High school	- Investment cost - Increase in the unit cost per student by 20 percent - Maintenance cost and depreciation	- Increase in graduations rates from 80 percent to 85 percent - Decrease in repetition rates from 10 percent to 5 percent - Increase in the proportion of students that transition to tertiary education from 40 percent to 45 percent - Better labor market outcomes: higher productivity, lower unemployment	Cost-benefit: 3.2

<sup>29</sup> World Bank. 2009, Guinea-Bissau: Rural Community-Driven Development Project Appraisal Document.

<sup>30</sup> World Bank. 2004, Moldova: Social Investment Fund II Project Appraisal Document.

<sup>31</sup> World Bank. 2012, Armenia: Municipal Water Project Appraisal Document.

<sup>32</sup> World Bank. 2013, Armenia: Education Quality Project Appraisal Document.

## **Rationale for Public Intervention**

Armenia suffers from undersupply of social infrastructure in many communities and microprojects that ASIF allows to finance tend to be public goods in nature. This is especially the case when taking into consideration: (a) the areas where microprojects are being developed (mostly rural and remote); and (b) the expected level of local private resources (low, given that targeted communities rank highest in vulnerability mapping), the current pricing policy in Armenia for the services delivered, such as preprimary education, water, primary health, cultural activities (which are all provided either for free or well below cost recovery). Therefore, these investments are unlikely to crowd out private sector initiative; in addition, the projects are designed to harness, to some extent, private initiative (particularly collective private initiative in communities).

## **Rationale for Bank Support**

The Bank has been providing 18 years of successful support to the ASIF program in Armenia, and overall the Bank Group developed a large portfolio of investments in the CDD/SIF area around the world, including in the Europe and Central Asia Region. As such, compared to other agencies, the Bank is well-positioned to enable the client in meeting the primary objective of the project, which is to strengthen the realization of the GOA's Territorial Development Policy aimed at decreasing territorial development disparities in the country. It is also important to highlight that the Bank involvement remains relevant to institutionalize the well-tested microproject cycle, and to provide the knowledge and TA to test and institutionalize the new component related to the development of cross-community medium-size projects. After 18 years of supporting ASIF's program, it was also recognized that the Bank should evolve its support strategy. In addition to supporting the transition to ATDF and new type of intercommunity projects, the Bank is also reducing its financing of operating costs gradually, encouraging the GOA or other donors/financiers to come in to create a more sustainable ASIF.

## **Financial Sustainability**

The sustainability of SILD investments relies on three main factors:

- (a) *The sustainability of microprojects.* At the micro-level, guaranteeing financial sustainability of projects is a key criterion for the award of micro-grants; communities to this effect submit a maintenance and sustainability plan. The recent evaluation report on project sustainability based on a sample of microprojects, found that facilities continued to be overall well-maintained, and community contribution to maintenance was substantial, especially in terms of labor and toward those infrastructure that were most community oriented in nature, such as cultural houses. On average, it was computed that microprojects increased permanent employment by two units per community, which implies that investments were made in sectors with sufficient budget to increase personnel once infrastructure was expanded. However, a number of maintenance good practices need to be strengthened at the local level (Avag Solutions 2012).<sup>33</sup>

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<sup>33</sup> In particular, the evaluation found a strong level of variation in terms of commitment of funds from local budgets to maintain capital investments, or provide funding for their operating costs in winters. Also, also ASIF had limited leverage to ensure proper maintenance following project completion, and asset recording remained sporadic. The new project aims at addressing these shortcomings through a number of new operational measures meant to increase commitment of capital for maintenance and, greater training of project beneficiaries.



- (b) *Sustained government commitment to maintain the institutional infrastructure developed during the project.* Regarding institutional sustainability, the issue is to some extent a matter of speculation, but there are clear indications of the commitment of the client to continue fostering ASIF as an institution even after the life of the project. First, the client made a strong request for SILD in the recent CPS, specifically with the objective of favoring its institutionalization as part of the government functions. Secondly, the government requested the introduction of Component 3 that could finance larger-scale projects with the objective of favoring territorial administration reform. In this sense, the success of ASIF is a strategic priority of the government as part of a greater goal; it is, however, important that the ASIF success be not dependent on the success of the territorial administration reform, as its pace may not be in sync with the timeline of the project.
- (c) *Availability of fiscal resources to finance future investments through the institutionalized SILD.* Although the rationale for further infrastructural investment is clear, an element of sustainability of ASIF as an institution is the assurance of fiscal space to continue its mission beyond the life of the Bank project. In this respect, the GOA has shown several credible signs of commitment to the incorporation of ASIF in its regular budget. In the project, the GOA already in the present project will co-finance 20 percent of the project management costs and 20 percent of the project investments funds. Public financing is set to increase after termination of Bank financing. In addition, ASIF will constitute an established channel that facilitates co-financing of initiatives from institutional donors and the diaspora.

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## **Annex 7. ASIF III Evaluative Studies**

### **Armenia Social Investment and Local Development Project**

ASIF carried out four evaluative studies in 2010/2011 as part of the midterm review of the ASIF III project. Each assessment looked at specific aspects of ASIF's operations and provided concrete recommendations that have been incorporated in ASIF's operations and also embedded in the design of this project. Findings of the last beneficiary assessment under ASIF III that is currently being implemented were not available at the time of the completion of this document and are therefore not included in this annex.

**Beneficiaries Assessment (February 2011).** The assessment surveyed the beneficiaries of 25 ASIF III microprojects and provided qualitative information from the beneficiaries' perspective on: (a) awareness of ASIF projects; (b) assessment of cooperation with ASIF; (c) satisfaction with microproject results, choice of contractor, quality of works, and cooperation with ASIF; (d) relevance of microprojects; (e) community participation; (f) impact of microprojects on cooperation and solidarity in communities; (g) impact on accessibility of services; (h) impact on attendance or usage; (i) impact on service improvement; (j) operation and maintenance; (k) employment and social impact of the microprojects; and (l) results of the municipal financial training provided by ASIF. The study also assessed the implementation of recommendations from the 2008 Beneficiaries Assessment.

The assessment found that there is a high level of awareness in the beneficiary communities of ASIF and the microprojects and the communities also highly rate the satisfaction of cooperation with ASIF. The satisfaction with implemented microprojects is also rated high (4.5 on a scale of 1 to 5, with the highest satisfaction rating for health care institutions), as is the satisfaction with the choice of contracts (4.5 on a scale of 1 to 5). The average satisfaction with the quality of implemented microprojects is 4.3 (the highest score of 4.7 was given to community area improvement microprojects). The beneficiaries reported that microprojects had major positive impacts on improved accessibility of services and their attendance/usage. Half of the beneficiaries of education microprojects, including kindergartens, believed that the preschool and school attendance increased by at least one-third; almost half of the beneficiaries of community/cultural centers microprojects believed that the number of programs and visitors in community/cultural centers at least doubled. Service improvement was particularly expressed by beneficiaries of potable water supply and community/cultural center microprojects (all beneficiaries of potable water projects believed that the water supply period has increased or that the quality of water has improved). A majority of the beneficiaries reported that in their view the operation and maintenance was properly performed.

**Assessment of Infrastructure Maintenance and Labor Impact of Microprojects (February 2011).** The report reviewed 39 microprojects (of which 12 were implemented under ASIF II and 27 under ASIF III) and assessed the operation and maintenance practices in the renovated or constructed infrastructure. It delivered feedback on each of the 39 facilities and provided a conclusion and recommendations for improving operation and maintenance practices, many of which have been implemented by ASIF, while some thinking inspired by the report is already included in this PAD (for example, the requirement that maintenance practices in a community that already implemented an ASIF microproject will be assessed before approving another microproject in the same community under SILD). The report also looked at labor impacts of ASIF microprojects, from mostly qualitative analyses of focus group discussions and interviews.

**Civil Works Cost-effectiveness Assessment (December 2010).** This study assessed 40 microprojects implemented under ASIF III with the objective to analyze: (a) the impact of quality of project designs,

civil works performance, and quality of the used materials on cost effectiveness; (b) reasons for delays in the completion of some civil works and related contract extensions on cost effectiveness; (c) maintenance of the renovated/constructed infrastructure in terms of cost effectiveness; (d) civil works price-setting mechanism (materials, norms) and their impact on cost effectiveness; and (e) cost effectiveness of the infrastructure renovated/constructed by ASIF in comparison with other organizations. It provided a number of specific findings related to various aspects of the civil works and the construction process, as well as recommendations to improve cost effectiveness, such as the need to: (a) always include installation of an internal health system, both in new constructions and renovations; (b) receive a well-elaborated plan for operation and maintenance, and evidence of budgeted funding before starting a microproject; (c) not allow the use of wood for room floors, and use vinyl or laminate floors instead; (d) construct roofs with organized rainwater removal systems; (e) pay strong attention to waterproofing of buildings in damp areas; (f) decrease community contribution for the second microproject to be implemented in a community where maintenance of the facility renovated or built under the previous microproject was done satisfactorily.

The assessment also compared ASIF's unit costs of construction with the unit costs of construction of other organizations (various donor-funded projects, ministries, and other public organizations). The results showed that ASIF is the most cost efficient of all the comparators.

**Quality of Civil Works Assessment (July 2010).** The assessment looked closely at 55 microprojects implemented under ASIF III with the objective to: (a) assess the quality of the civil works and their compliance with Armenian norms and regulations; (b) verify the compliance of civil works with project designs; (c) identify most frequent problems in civil works and their causes; (d) receive feedback from the communities that implemented microprojects on the quality of civil works and issues they encountered; (e) assess the quality of technical supervision of the civil works; and (f) prepare a list of recommendations for ASIF to improve the quality of civil works. The report comprised a lot of technical findings related to the civil works and had many specific recommendations that were later implemented by ASIF, such as the need to: (a) better examine the buildings that are to be reconstructed before the project design stage and have ASIF's appraisal and follow-up engineers discuss the preliminary designs with representatives of project design and local technical supervision organizations, and implementing agencies; (b) reflect the amendments that are not only in the budget but also in the drawings but taking place during the civil works; (c) insist on the contractor complying with the requirements of the current project design or not pay the contractor for accomplished works if the contractor does not fully comply with the project design requirements without having received ASIF's consent; (d) take into account the local climate characteristics when developing the architectural and technological parts of project designs (especially for projects implemented in high-altitude regions); (e) increase the use of precast ferroconcrete items; (f) forbid the replacement of the assembly well with monolith concrete or stone-made wells; and (g) have the codes for color casts of rooms and frontal parts of the buildings specified in the project designs.

## Annex 8. Procurement Plan

### Armenia Social Investment and Local Development Project

#### General

**Bank's approval date of the procurement plan:** January 29, 2015

**Date of General Procurement Notice:** December 2, 2014

**Period covered by this procurement plan:** From January 2015 to December 2019

The TORs for consulting assignments (individual and firm) and technical specifications of packages are subject to prior agreement with the TTL. All cancellation of the selection process and/or re-invitation shall be subject to Bank's prior review. All contracts with cost estimates below the Bank's prior review threshold are subject to prior review if the financial offer of the selected firm exceeds such threshold at the proposals evaluation stage. Irrespective of the thresholds the selection of all consultants (firm and individuals) hired for legal work or for procurement activities and the individual hired for long-term TA or advisory services for the duration of the project (or most of it) are subject to prior review. In case of a slice-and-package arrangement, the prior review threshold is determined based on the aggregate value of individual contracts to be awarded under such an arrangement.

#### Goods, Works, and Non-consulting Services

**Prior Review Threshold.** Procurement decisions subject to prior review by the Bank as stated in appendix 1 to the Procurement Guidelines.

	Procurement Method	Prior Review Threshold US\$	Comments
1.	NCB (Goods) packages (>US\$100,000 and <US\$500,000)	>US\$200,000 and first 2 contracts irrespective of estimation	All contracts are subject to retroactive financing
2.	NCB (Works) packages (>US\$ 200,000 and <US\$ 4,000,000)	>US\$500,000 and first 2 contracts irrespective of estimation	All contracts are subject to retroactive financing
3.	Shopping (Goods) packages (≤US\$100,000 )	First 2 contracts	All contracts are subject to retroactive financing
4.	Shopping (Minor Works) packages (≤US\$200,000 )	First 3 contracts	All contracts are subject to retroactive financing
5.	Direct contracting (Goods and Works)	All contracts irrespective of estimation	All contracts are subject to retroactive financing

**Prequalification.** No prequalification is envisaged.

**Proposed procedures for community participation in procurement (as per paragraph. 3.19 of the Procurement Guidelines).** Implementation procedures for procurement of goods, works, and non-consulting services and selection of consulting services to be followed by the communities are described in detail in the POM.

**Reference to (if any) POM/Procurement Manual.** The POM for the SILD project to be approved by the Bank.

**Any other special procurement arrangement.** Some furniture for schools and kindergartens, as well as the civil works envisaged under Component 1 may be procured in accordance with the provisions of paragraph 1.11 of the Procurement Guidelines.

**Procurement packages with methods and time schedules.** At a later stage the details (description of packages, schedule, and methods) should be provided.

Description	Estimated Cost (US\$ m) (Tax Inclusive Amount)	Number of Packages	Domestic Preference (Yes/No)	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
Summary of the NCB (Goods) packages	1.8	12	No	July 2015	Prior/ Post	All the negotiations with lowest bidder, cancellation of procurement process, and/or rebidding shall be subject to Bank's prior review. All contracts with cost estimates below the Bank's prior review threshold are subject to prior review if the price of the lowest evaluated responsive bid exceeds such threshold at the bid evaluation stage.
Summary of the NCB (Works) packages	27.46	115	No	May 2015	Prior/ Post	
Summary of the Shopping (Goods) packages	0.76	9	No	February 2015	Prior/ Post	
Summary of the Shopping (Minor Works) packages	5.4	30	No	May 2015	Prior/ Post	
<b>Total</b>	<b>35.42</b>					

### Selection of Consultants

**Prior review threshold.** Selection decisions subject to prior review by the Bank as stated in Appendix 1 of the Consultant Guidelines:

	Selection Method	Prior Review Threshold	Comment
1.	Competitive Methods (Firms)	>US\$100,000 and first 2 contracts under each method of selection irrespective of estimation	All the contracts subject to retroactive financing
2.	Single Source	All the contracts irrespective of estimation	
3.	Individual	>US\$50,000 and first 2 contracts	
4.	Sole Source Selection	All the contracts irrespective of estimation	

**Short list comprising entirely of national consultants.** Short list of consultants for services estimated to cost less than US\$200,000 equivalent per contract may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

**Any other special selection arrangements.** Consultants' Services for design and supervision (author and technical) may be procured in accordance with the provisions of paragraph 1.14 of the Consultant Guidelines.

**Consultancy assignments with selection methods and time schedule.** At a later stage the details (description of packages, schedule, and methods) should be provided.

Description of Assignment	Estimated Cost (US\$ millions)	Selection Method	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
Technical supervision of construction (9 contracts)	0.65	CQS	May 2015 (3 contracts)	Prior/ Post	All the cancellation of selection process and/or re-invitation shall be subject to Bank's prior review All contracts with cost estimates below the Bank's prior review threshold are subject to prior review if the financial offer of the selected firm exceeds such threshold at the proposals evaluation stage.
Architectural design and author supervision (21 contracts)	1.6	CQS	February 2015 (4 contracts)	Prior/ Post	
Expertise of architectural design (5 contracts)	0.08	CQS	April 2015 (1 contract)	Prior/ Post	
Expertise of buildings and constructions (6 contracts)	0.1	CQS	February 2015 (1 contract)	Prior/ Post	
Local government financial training (3 contracts)	0.27	CQS	July 2015 (1 contract)	Prior/ Post	
Beneficiary and impact assessment (2 contracts)	0.07	CQS	April 2016 (1 contract)	Prior/ Post	
Quality, maintenance, and cost of civil works assessment	0.04	CQS	December 2016	Prior/ Post	
Study tours, staff trainings, and seminars	0.12	SOE	July 2015		
Activities to support the transition from ASIF to ATDF	0.3				
<b>Total consultant and training services</b>	<b>3.23</b>				

