

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

Report No.: PIDA15400

Project Name	Armenia Social Investment and Local Development Project (P148836)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Other social services (87%), Public administration- Other social services (13%)
Theme(s)	Rural services and infrastructure (30%), Other human development (30%), Municipal governance and institution building (20%), Decentr alization (10%), Participation and civic engagement (10%)
Lending Instrument	Investment Project Financing
Project ID	P148836
Borrower(s)	Republic of Armenia
Implementing Agency	Armenia Social Investment Fund
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	19-Nov-2014
Date PID Approved/Disclosed	19-Nov-2014
Estimated Date of Appraisal Completion	28-Nov-2014
Estimated Date of Board Approval	09-Feb-2015
Decision	

I. Project Context

Country Context

Armenia experienced strong economic growth prior to the global economic crisis; since then recovery has been slow. Prior to 2009, Armenia's per capita GDP grew at an average of about 8 percent. 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. With a per-capita Gross National Income (GNI) of US\$3,790, Armenia is a lower middle-income country. Poverty rates on the national level increased from 27.6 percent in 2008 to 35.8 percent in 2010. Between 2010 and 2012, the poverty rate only decreased by only 3.4 percentage points to 32.4 percent, which was 17.4 percent higher than the pre-crisis 2008 level. A profiling of households shows that the poor are more likely to: (i) be out of the labor force or unemployed; (ii) have less education; (iii) live in urban areas outside the capital; (iv) have larger households with more children; and/or (v) live in households headed by women.

Armenia is characterized by significant territorial disparities. Economic activity is largely concentrated in Yerevan, and 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 economically driven out-migration from 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% of poor and 1.8% of population) to 46 percent in Shirak (with 12.2% of poor and 8.5% of population). Descriptive statistics from the national household survey ILCS show that 36.9 percent of the poor population lived in three regions which account for only 28.2 percent of 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 the lagging territories lagging behind, hamper economic development and job creation, and reduce the efficiency of public policy.

The availability, accessibility and quality of economic and social infrastructure, as well as of social services provided at the community level are still very low, especially outside of Yerevan. Small cities account for the majority of the poverty in Armenia, but rural areas also see disparities. Deficits in basic education attainment and quality of regional infrastructure show sharp variations across regions. Figure 1B focuses on deprivations of education and presents the population share with low education or with children out of school (29 percent in Tavush and 18 percent in Sjunik). This share is higher for rural areas (24 percent) than for urban areas (20 percent); even in Yerevan 18 percent of the population show deprivations in education. Similarly, according to the Integrated Living Conditions Survey (ILCS), the national preschool enrollment rate in 2012 was only 27 percent. 11.4 percent of preschool-aged children are not enrolled due to the absence of nearby functioning kindergartens or low service quality in the existing one. For 18.6 percent of pre-school aged rural children the nearest preschool facility is more than 5 km away 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.

Sectoral and institutional Context

Sectoral Context. The Government of Armenia recognizes that a highly centralized governance system with high concentration of wealth in Yerevan prevents the development of other economically competitive regions and exacerbates high and persistent territorial disparities. The Armenia Development Strategy for 2012-2025 (ADS) aims to overcome territorial development disparities, ensure even territorial development 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.

The Ministry of Territorial Administration 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 (educational, health, cultural, environmental, etc.) at the territorial/community level.

Institutional Context. For almost 20 years, the Government of Armenia has addressed regional imbalances by implementing micro-projects at the local level through the Armenia Social Investment Fund (ASIF). The Government of Armenia, however, is currently preparing a territorial development strategy which would identify approaches to address territorial disparities in addition to ASIF's traditional micro projects. The Government 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 than ASIF's current micro projects. These projects are expected to promote job creation and livelihood opportunities, to strengthen the environment for further economic investment and to provide additional incentives for communities to explore potential development synergies.

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 in the rehabilitation of local infrastructure and to enhance the living conditions of the poorest using a demand driven approach and direct community involvement. The main strengths of ASIF include its capacity to reach remote, isolated, 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.

ASIF's micro-projects have generated visible social and economic benefits for poor communities across Armenia by supporting small-scale, labor-intensive, community infrastructure projects and creating employment. A survey carried out by an independent firm concluded that on average eight temporary and two permanent jobs were generated for each micro-project implemented by ASIF. Moreover, an independent beneficiary assessment survey commissioned by ASIF in 2010 showed that nearly 80% of the inhabitants in beneficiary communities felt that their ASIF micro-project was very important for raising living standards in the community.

The micro-project 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 Government's decentralization program. In particular, training of mayors, community accountants, and village council members conducted by the ASIF has contributed to the quality of local administration and has laid a stronger 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 3800 local government staff.

The Government intends to evolve ASIF into the Armenian Territorial Development Fund (ATDF) to address the growing regional disparities. ASIF's Evolution Strategy was approved on March 21, 2014. The strategy envisions a gradual evolution of the ASIF's program, implementation mechanisms and institutional structures to support the ADS's objectives of reducing regional socio-economic disparities and promoting harmonic territorial development. It involves ASIF transitioning from providing only social infrastructure micro-projects to adding projects to support territorial development, as well as diversifying the funding of ASIF's operations with the objective of making it sustainable. This will be a significant transition and require an enhancement of ASIF's existing structure, functions, operational procedures, and capacity (staffing, training, facilities, etc.).

II. Proposed Development Objectives

Improve quality and use of and access to community and inter-community infrastructure.

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III. Project Description

Component Name

Support to Socio-Economic Development and Capacity Building at the Local Level

Comments (optional)

Under this component, SILD will follow the model of previous ASIF projects to implement small-sized investment projects targeting vulnerable communities (known as micro-projects) to address priority basic needs. The project will fund approximately 120 micro-projects to rehabilitate and develop community infrastructure and services (public, social, economic, environmental). It will also build institutional and financial capacity at the community level to develop and implement these micro-projects. The selection methodology for micro-projects under this component will continue to be based on updated vulnerability ranking of the communities and the technical quality of submitted applications/projects. The component will support building and rehabilitation of publicly owned assets only.

Component Name

Support to Inter-Community Social and Economic Development Initiatives

Comments (optional)

This component will directly support the Armenia Development Strategy 2012-2015 objectives of reducing regional socio-economic disparities and promoting harmonic territorial development by financing innovative inter-community socioeconomic development initiatives. These initiatives, known as sub-projects, will finance 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 inter-community dialogue, priority-setting and development planning and management. The component will include a particular focus on vulnerable and lagging regions. The component will support building and rehabilitation of publicly owned assets only.

Component Name

ASIF Institutional Strengthening and Project Management

Comments (optional)

This component will finance project management and operating costs, including salaries, utilities, office equipment, field supervision, training, financial audits, fiduciary and safeguards oversight, monitoring and evaluation and management information systems. This component will also support ASIF's transition to Armenian Territorial Development Fund (ATDF), through institutional development including: (a) development of new tools and approaches, including methodologies and guidelines for appraisal, promotion and selection of projects, (b) procedural improvements, including in monitoring and evaluation and financial management, (c) staff capacity building, (d) organizational/structural changes; and (e) outreach and fundraising strategy.

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IV. Financing (in USD Million)

Total Project Cost:	42.85	Total Bank Financing:	30.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			11.02

International Bank for Reconstruction and Development	30.00
Local Communities	1.84
Total	42.85

V. Implementation

The proposed SILD would 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, including three additional financings. ASIF generated a sound implementation record through 18 years of project implementation. Since its inception, ASIF has implemented over US\$90 million of investments into local social and economic infrastructure through over 900 local infrastructure micro-projects. 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.

The 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 Project's Operational Manual. The ASIF Board guides and supervises the administration and operations of the ASIF.

According to the ASIF evolution strategy and the Prime Minister's Decision No. 194-A dated March 18, 2014 the ASIF should be transformed into the Armenian Territorial Development Fund (ATDF) as of January 2015. In addition to its current support for shorter-term community investment micro-projects, the TDF would also implement more long-term socioeconomic development projects involving multiple communities. In order to be able to execute its broader mission as envisioned under the future TDF the ASIF would need to strengthen its capacity by adding new departments or units and hiring new staff.

The ASIF, headed by the Executive Director, comprises four departments and a number of specialized units. As part of the project preparation, an institutional assessment of the ASIF will be carried out under the Swiss Agency for Development and Cooperation's (SDC) grant to the ASIF that is supervised by the Bank. It is expected that, as a result of the institutional assessment, the ASIF/ATDF should at 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 monitoring and evaluation units should be strengthened. During the transition process the ASIF/ATDF would continue using the existing organizational structure, including fiduciary systems and reporting mechanisms, which are expected to be strengthened, including around economic analysis, safeguards management and project communications, in order to support the increased volume and new types of operations.

The proposed Project would be carried out in accordance with the Project Operational Manual (POM) describing the rules, methods, procedures, guidelines and standard documents. The current POM for the ASIF III would be modified and updated under the SDC's project preparation grant to reflect the new project orientation and evolution of project activities.

ASIF will be responsible for the implementation of the financial management (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 financial management functions (including the funds flow) under the Project will be implemented by ASIF with no involvement of the communities' financial management systems, as no funds will flow via communities.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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