

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC6202

Project Name	Armenia Social Investment and Local Development Project (P148836)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Public administration- Other social services (13%), Other social services (87%)
Theme(s)	Municipal governance and institution building (20%), Rural services and infrastructure (30%), Decentralization (10%), Other human development (30%), Participation and civic engagement (10%)
Lending Instrument	Investment Project Financing
Project ID	P148836
Borrower(s)	MINISTRY OF FINANCE AND ECONOMY
Implementing Agency	Armenia Social Investment Fund
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	27-May-2014
Date PID Approved/ Disclosed	29-May-2014
Estimated Date of Appraisal Completion	21-Nov-2014
Estimated Date of Board Approval	09-Feb-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The economic crisis in 2008 had a negative impact on Armenia's social and economic situation. The poverty incidence increased from 27.6 percent in 2008 to 32.4 percent in 2012. The situation worsened especially in the urban areas outside the capital, where poverty incidence comprised 40.2 percent in 2012. There has been a very slow recovery with the poverty incidence only decreasing by 3.6 percentage points since 2010. Those in the bottom 40 percent are more likely: (i) to be out of the labor force or unemployed; (ii) to have less education; (iii) to live in urban areas outside the capital; (iv) to have larger households with more children; and/or (v) to live in households headed by women.

Armenia is characterized by significant regional disparities. Since the early 2000's regional

development disparities have been gradually growing and have recently become a serious concern for the government. This is reflected in the rapid economic growth of the capital Yerevan with slower and unequal economic growth in the regions. Living standards, income and human development in the regions lag significantly behind the capital. The accessibility and quality of economic and social infrastructure as well as social services provided at the community level are still very low in the poor/vulnerable territories and rural and small and medium size urban communities.

Sectoral and Institutional Context

Sectoral Context. In 1996, the Government of Armenia established the Armenia Social Investment Fund (ASIF) with World Bank technical and financial assistance. The ASIF was created 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 strength of ASIF has been its capacity to reach remote, isolated, poor communities; promote effective discussion on their development priorities; and develop project proposals to serve their needs. ASIF has developed the technical and professional expertise to carry out these activities through implementing over 900 micro-projects over the past eighteen years under the ASIF I, II and III Projects, supported by US\$84 million in World Bank financing. ASIF is highly respected by the communities throughout Armenia.

The Armenia Development Strategy for 2012-2025 (ADS) among others aims to overcome regional development disparities, ensure even regional development and implement targeted territorial development policies as medium- and long-term priorities. Targeted regional development programs should ensure accelerated economic development for the most depressed territories and enable to them to approach the average economic development level of the Republic.

The Ministry of Territorial Administration has also prioritized the formation of competitive and attractive regions. Its strategy 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. The ASIF is an autonomous public organization that is accountable to ASIF Council, chaired by the Prime Minister of the Republic of Armenia. Over the past 18 years, the ASIF has completed over 900 micro-projects. Micro-projects completed under ASIF III mainly include schools (42 percent), followed by community/cultural centers (29 percent), kindergartens (11 percent), health care facilities (7 percent) and other types such as potable water supply, social care institutions and irrigation. These micro-projects have generated a visible development impact in terms of social and economic benefits to the poor communities in all regions of Armenia. The ASIF micro-projects have also proven to be an effective tool for mitigating the crisis impact and promoting economic growth by supporting small-scale, labor intensive, community infrastructure projects and creating employment in the poorer regions. Based on the project's poverty mapping and ranking methodology, 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 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.

The Government would like to evolve ASIF over time into a territorial development fund to support its territorial development plan. 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 the regional socio-economic disparities and promoting harmonic regional development. It involves transitioning from social infrastructure micro-projects to more long-term, larger and sustainable development projects as well as diversifying the funding of ASIF's operations with the objective of making it sustainable. Given its past successes, ASIF is well placed to expand into this new function.

Relationship to CAS

period 2014-2017 (CPS) envisages selective support of the ADS and aims to consolidate development progress achieved to date in areas where there have been outcomes and results in reducing poverty and improving the impact of social services. In particular, it identifies the importance of continuing to promote the local service delivery 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 the ASIF's evolution/transformation strategy is listed as a key project under this cluster.

The project will support selected elements of the Government's program that focuses on eliminating extreme poverty, mitigating poverty of the poorest 40 percent of the population, and boosting their prosperity. ASIF will support these objectives by using a local development approach to basic infrastructure services delivery and focusing on the bottom 40 percent through specifically targeted interventions as it is specialized to do. This includes the rehabilitation and creation of social infrastructure aimed at improving social welfare in poor communities and mitigating regional disparities; contributing to job creation; and strengthening efficiency in community governance. ASIF will establish a minimum percentage of resources under component 1 that must go to the most vulnerable communities.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective (PDO) is to: (i) enhance the accessibility and quality of local social infrastructure and comprehensive public services in vulnerable areas; (ii) contribute to the growth of living standards in the communities/territories through local social infrastructure projects and employment generation; and (iii) strengthen ASIF's capacity in order to transition it to a fully functioning and sustainable territorial development fund.

Key Results (From PCN)

1. Increased number of inhabitants benefitting from improved infrastructure and services in vulnerable communities/territories (disaggregated by gender)
2. Increased number of inhabitants in vulnerable areas who are satisfied with the quality and access of infrastructure and services (disaggregated by gender)
3. Income generated from projects under components 1 and 2 (disaggregated by gender)
4. Jobs created from projects under components 1 and 2 (disaggregated by gender)

5. Increased share of new long-term development projects in the total number of projects implemented by ASIF

III. Preliminary Description

Concept Description

The proposed project will build on ASIF's current high capacity in implementing social infrastructure projects, while working to evolve their delivery model to meet the current needs and strategies of Armenia. It involves four components: (1) Support to Vulnerable Communities and Areas; (2) ASIF's Institutional Strengthening and Transition to a Territorial Development Fund; (3) Support to Growth Centers and Community Groups/Areas; and (4) Project Management.

Component 1: Support to Vulnerable Communities (US\$16.0 million)

Since its creation, ASIF has been implementing small-sized, one-time investment projects in the most vulnerable communities to satisfy their urgent basic needs. The selected community investments micro-projects are chosen using a well-developed two-stage poverty targeting strategy, with the first level defining broad allocations for the regions 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 the ASIF's community-driven development approach, communities are responsible for (a) identifying their priorities using participatory methods; (b) contributing to the financing of the selected micro-projects (at a 5-10% community contribution rate), and maintaining these projects after completion. This successfully implemented operational model will continue being the primary mode of ASIF's operations under the proposed project, especially in the early years.

This component will fund approximately 120 micro-projects and continue the main original work of ASIF to: a) rehabilitate and develop community infrastructures 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 technical assistance to the local partners. The first years of this project will focus primarily on the continuing delivery of these core ASIF projects and services, while gradually increasing the proportion of new projects under component 2 over the life of the project. The micro-project selection methodology for projects under this component will continue to be based (a) on the vulnerability ranking of the community and (b) on the technical quality of submitted application/project.

Component 2: ASIF's Institutional Strengthening and Transition to a Territorial Development Fund (US\$1.0 million)

ASIF will transition to a sustainable territorial development fund with the objective of reducing territorial disparities and supporting national plans to enlarge communities and improve their cooperation. ASIF not only wants to evolve its delivery model but also its funding model, moving in the beginning towards a greater diversity of funding sources, while gradually working towards financial sustainability at the end of the project period.

The project will support ASIF's institutional developing through the following: (a) development of new tools and approaches, including methodologies for appraisal, promotion and selection of

projects (some of which will be carried out through Swiss Development Cooperation funding during project preparation), (b) improvements in the system of all procedures, including monitoring and evaluation and financial systems, (c) staff capacity building, and (d) organizational/structural changes.

Component 3: Support to Growth Centers and Community Groups/Areas (US\$10.0 million)

As part of ASIF's transition, the Government of Armenia would like to diversify and evolve the types of projects they deliver in order to meet the state social and economic policies in territorial development. ASIF's evolution strategy envisages a gradual shift away from basic social infrastructure micro-projects towards complex projects aimed at socio-economic development of not only vulnerable communities, but also those having a potential to grow and positively influence the socio-economic development of groups of communities in the long-term. The ASIF evolution will gradually happen over about 4-5 years.

This component will fund the design, selection and implementation of approximately 30 of these new types of projects. These projects will be based on long-term, sustainable, socioeconomic development, involve multiple communities or groups and cover wider geographic areas. They will be selected based on: (i) the community/area potential for growing and positively influencing the nearby socio-economic development situation, (ii) the level of local co-financing, including co-financing of communities, population and private business, (iii) expected medium-term social and economic impacts of the project implementation, (iv) the level of coordination with other actors' projects in the area, (v) their links to the mid-term development program of the region, and (vi) the potential for sustainability. The specific selection criteria will be developed under Component 3.

Component 4: Project Management (US\$3.0 million)

This component would provide institutional support to ASIF (and the future Territorial Development Fund) to effectively implement its program through co-financing its operating costs including salaries, utilities, office equipment, training, financial audits and MIS upgrade/maintenance for the duration of the project. ASIF will be in charge of technical aspects of the project and ensure overall monitoring and supervision of project activities. This component will also include fiduciary and safeguard compliance.

IV. Safeguard Policies that might apply

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

Projects in Disputed Areas OP/BP 7.60		x	
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V. Financing (in USD Million)

Total Project Cost:	55.00	Total Bank Financing:	30.00
Financing Gap:	25.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			30.00
Total			30.00

VI. Contact point

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