

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

June 9, 2014

Report No.: AB7589

<b>Operation Name</b>	Second Development Policy Operation
<b>Region</b>	Europe and Central Asia
<b>Country</b>	Armenia
<b>Sector</b>	Central government administration (40%); other social services (25%); other domestic and international trade (10%)
<b>Operation ID</b>	P143040
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Republic of Armenia
<b>Implementing Agency</b>	Ministry of Finance
<b>Date PID Prepared</b>	June 9, 2014
<b>Estimated Date of Appraisal</b>	September 15, 2014
<b>Estimated Date of Board Approval</b>	December 1, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

**The proposed Development Policy Operation (DPO-2) is the second in a series of three operations envisaged during 2013-15.** It builds on the World Bank's engagement with the government under the umbrella of the Country Partnership Strategy (CPS) for FY2014-17, and the government's Armenia Development Strategy. It is an extension of support under the previous three-year DPO series (2009-12), which aimed at supporting the government's efforts to mitigate the impact of the global financial crisis. The DPO-2 is envisaged to contribute US\$50 million to the government's budget.

**II. Proposed Objective(s)**

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

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

access points, financial sustainability of the drinking water and irrigation sectors, and environmental impact analyses of mining and other industrial projects.

### **III. Preliminary Description**

**The main objectives are to support more resilient growth and job creation through a reorientation of the economy toward industry and exports.** The new DPO series shifts focus to a medium-term growth agenda as the recovery from the global financial crisis is clearly underway. The policy stance is directed towards rebuilding macroeconomic policy buffers, in particular through fiscal consolidation and debt reduction. Measures to shift economic activity to manufacturing and exports and foster more resilient growth include improving competition, the business environment, and the financial sector. Social sector policies are aimed at broadening coverage within a sustainable fiscal envelope. The new operation also supports reforms which will facilitate the implementation of other elements of the World Bank's lending portfolio with policy measures that are aimed at improving their chances of success and sustainability.

### **IV. Poverty and Social Impacts and Environment Aspects**

#### *Poverty and Social Impacts*

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

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

#### *Environmental Aspects*

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

## V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Bank for Reconstruction and Development	21
International Development Association (IDA)	30
Borrower/Recipient	
IBRD	
Others (specify)	
	Total
	51

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