



The World Bank

Second Green, Resilient and Inclusive Development Policy Operation (P179849)

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PD000027

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 92.3 MILLION (EQUIVALENT TO US\$100 MILLION)

AND

THE GLOBAL CONCESSIONAL FINANCING FACILITY SUPPORT
IN THE AMOUNT OF US\$16 MILLION

TO

THE REPUBLIC OF ARMENIA

FOR THE

SECOND GREEN, RESILIENT AND INCLUSIVE DEVELOPMENT POLICY OPERATION

February 28, 2024

Macroeconomics, Trade and Investment Global Practice
Europe And Central Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.



Republic of Armenia
GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of January 31, 2024)

Currency Unit

US\$1.00 = AMD 405.5

US\$1.00 = EUR 1.08

ABBREVIATIONS AND ACRONYMS

AAP	Atmospheric Air Protection	MoLSA	Ministry of Labor and Social Affairs
ADB	Asian Development Bank	MoJ	Ministry of Justice
ADR	Alternative Dispute Resolution	MoF	Ministry of Finance
AM	Accountability Mechanism	MoH	Ministry of Health
AMD	Armenian Dram	MRV	Measuring, Reporting and Verification
APSAS	Armenian Public Sector Accounting Standards	MTEF	Medium-Term Expenditure Framework
Ar	Argon	NAP	National Adaptation Plan
ASA	Advisory Services and Analytics	NCD	Non-Communicable Diseases
CAB	Current Account Balance	NDC	Nationally Determined Contribution
CBA	Central Bank of Armenia	NH3	Ammonia
CO	Carbon Monoxide	NK	Nagorno-Karabakh
CSOA	Corporate Scorecard Outcome Area	NOX	Nitrous Oxide
CoUD	Committee of Urban Development	OECD	Organisation for Economic Co-operation and Development
CPC	Corruption Prevention Commission	OPEC	Organization of the Petroleum Exporting Countries
CPF	Country Partnership Framework	PA	Prior Action
Cu	Copper	PDO	Program Development Objective
DSA	Debt Sustainability Analysis	PEFA	Public Expenditure and Financial Accountability
DPO	Development Policy Operation	PFM	Public Financial Management
ECA	Europe and Central Asia	PHC	Primary Healthcare
EDGE	Excellence in Design for Greater Efficiencies	PIM	Public Investment Management
EE	Energy Efficiency	PLR	Performance and Learning Review
EFI	Equitable Growth, Finance and Institutions	PM2.5	Particulate Matter 2.5
EIA	Environmental Impact Assessment	PM10	Particulate Matter 10
ES	Enterprise Survey	PPCM	Procurement Plan and Contracts Management
EU	European Union	PPP	Public-Private Partnership
EU4I	EU for Innovation	RI	Results Indicator
FDI	Foreign Direct Investment	RIA	Regulatory Impact Assessment
GCCF	Global Concessional Financing Facility	SEA	Strategic Environmental Assessment
GDP	Gross Domestic Product	SBA	Stand-By Arrangement
GNP	Gross National Product	SDR	Special Drawing Rights
GHG	Greenhouse Gas	SO2	Sulfur Dioxide
GoA	Government of Armenia	STEM	Science, Technology, Engineering and Mathematics
GRS	Grievance Redress Service	TA	Technical Assistance
Hg	Mercury	UHC	Universal Health Coverage
IBRD	International Bank for Reconstruction and Development	UMI	Upper-Middle Income
IC	Investment Committee	US\$	United States Dollar



The World Bank

Second Green, Resilient and Inclusive Development Policy Operation (P179849)

IDA	International Development Association	VAT	Value-Added Tax
IFC	International Finance Corporation	UMIC	Upper Middle-Income Country
IFRS	International Financial Reporting Standards	UNDP	United Nations Development Programme
IT	Information Technology	UNFCCC	United Nations Framework Convention on Climate Change
IMF	International Monetary Fund	UNICEF	United Nations Children's Fund
LCU	Local Currency Unit	USAID	United States Agency for International Development
LT-LEDS	Long Term Low Emissions Development Strategy	WB	World Bank
MFD	Maximizing Finance for Development	WBG	World Bank Group
Mo	Molybdenum	yoy	year-over-year
MoESCS	Ministry of Education, Science, Culture and Sports		

Regional Vice President: Antonella Bassani

Regional Director: Asad Alam

Country Director: Rolande Simone Pryce

Practice Manager: Antonio Nucifora

Task Team Leaders: Lea Hakim, Armineh Manookian Salmasi, Irina Ghaplanyan



REPUBLIC OF ARMENIA

Second Green, Resilient and Inclusive Development Policy Operation

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM	i
1. INTRODUCTION AND COUNTRY CONTEXT	1
2. MACROECONOMIC POLICY FRAMEWORK.....	3
2.1. RECENT ECONOMIC DEVELOPMENTS.....	3
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY.....	7
2.3. IMF RELATIONS	9
3. GOVERNMENT PROGRAM	9
4. PROPOSED OPERATION	9
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION	9
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS	11
4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY	20
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS	21
5. OTHER DESIGN AND APPRAISAL ISSUES	21
5.1. POVERTY AND SOCIAL IMPACT	21
5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS	22
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	22
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY	24
6. SUMMARY OF RISKS AND MITIGATION	24
ANNEX 1: POLICY AND RESULTS MATRIX	26
ANNEX 2: FUND RELATIONS ANNEX	32
ANNEX 3: DEBT SUSTAINABILITY ANALYSIS FIGURES	35
ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE	37
ANNEX 5: PARIS ALIGNMENT.....	42
ANNEX 6: CHANGES IN DPO2 PRIOR ACTIONS AND RESULT INDICATORS	47
ANNEX 7: ANALYTICAL UNDERPINNINGS TABLE	52



The proposed Development Policy Operation was prepared by an IBRD team led by Léa Hakim, Armineh Manookian Salmasi, and Irina Ghaplanyan, and consisting of Miguel Eduardo Sanchez Martin, Vicky Chemutai, Lucian Bucur Pop, Lucía Solbes Castro, Kai Kaiser, Joern Huenteler, Gor Khachatryan, Renata Freitas Lemos, Christine Lao Pena, Artemis Ter Sargsyan, Nane Harutyunyan, Daniela V. Felcman, Eva Maria Melis, Graciela Miralles Murciego, Tafadzwa Irvine Dube, Sasa Eichberger, Leyla Sattler, Nora Mirzoyan, Oxana Druta, Arman Vatyan, Armine Grigoryan, Natsuko Kiso Nozaki, Alkadevi Morarji Patel, Paola Agostini, Sona Koshetsian, Narine Tadevosyan, Mei Wang and Ria Nuri Dharmawan. Program assistance was provided by Gayane Davtyan and Mismake Galatis.

The team is grateful for overall guidance provided by Rolande Pryce (Country Director), Carolin Geginat (Country Manager), Asad Alam (EFI Regional Director), Antonio Nucifora (Practice Manager), Sanjay Srivastava (Practice Manager), and Yutaka Yoshino (Economic Adviser). Hans Anand Beck (Lead Country Economist, EECDR), Aghassi Mkrtychyan (Lead Economist, EAEDR), and Wei-Jen Leow (Senior Environmental Finance Specialist, SCAEN) served as peer reviewers.



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P179849	Yes	2nd in a series of 2

Proposed Development Objective(s)

The development objective of this DPO series is to promote green, resilient and inclusive development in Armenia, by fostering climate change mitigation and adaptation, improving the regulatory framework for environmental management, enhancing equity and promoting human capital development, and strengthening the anti-corruption framework and justice sector efficiency.

Organizations

Borrower: REPUBLIC OF ARMENIA
 Implementing Agency: Ministry of Finance of the Republic of Armenia

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	116.00
------------------------	---------------

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
--	--------

Non-World Bank Group Financing

Trust Funds	16.00
-------------	-------



Global Financing Facility

16.00

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Education; Governance; Social Protection & Jobs;
Environment, Natural Resources & the Blue Economy

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk

● Substantial

RESULTS

Indicator Name	Baseline	Latest update	Target
Results Indicator #1. Share of Investment Committee new projects that have undergone climate screening	0% [2021]	0% [2022]	100% [end-2025]
Results Indicator #2. Share of renovation loans (by value) provided through commercial banks to households targeting energy efficient renovations	0% [2021]	7.7% [2022]	20% [end-2025]
Results Indicator #3. Levels of main pollutants and short-lived climate pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3) from at least 5 data collection points are publicly disclosed on a real-time basis	Not disclosed [2021]	Not disclosed [2022]	Disclosed [end-2025]
Results Indicator #4. Number of EIA applications that are processed (registered, reviewed and decisions made on) yearly	239 [2021]	262 [2023]	At least 287 (corresponding to at least a 20% increase) [end-2025]
Results Indicator #5: Share of the total Family Living Standards Enhancement benefits that is allocated to the poorest income quintile (pre-transfer)	50% [2019]	56% [2021]	65% [end-2025]



Results Indicator #6. Number of refugees who have received temporary protection status, of which female	0 [September 2023]		117,000, of which 52% female [end-2025]
Results Indicator #7. Number of refugee teachers who have found employment in the Armenian education system, of which female	0 [September 2023]		450, of which 85% female [end-2025]
Results Indicator #8. Share of all schools implementing the revised curriculum in targeted grades (2 nd , 5 th , 7 th and 10 th grades)	6% [2022]		100% [end-2025]
Results Indicator #9: Share of persons aged 18 and older registered with the PHC doctor, who made 2 or more visits to the PHC doctor during the month preceding planned hospitalization	16% [2022]	31% [2023]	37% [end-2025]
Results Indicator #10. Number of adopted and published State Aid decisions (according to the new adopted rules) by Competition Protection Commission per year	0 [2021]	3 [2023]	4 [end-2025]
Results Indicator #11. Number of draft legislations having undergone a Regulatory Impact Assessment	0 [2021]	3 [2022]	8 [end-2025]
Results Indicator #12. Share of gift declarations registered in the gift register that are reviewed by the Corruption Prevention Commission	0% [2021]	0% [2022]	30% [end-2025]
Results Indicator #13. Newly registered cases of family matters in courts	2,203 [2021]	2,028 [2022]	At least 1983 (corresponding to an at least 10% reduction) [end-2025]



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF ARMENIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed development policy operation (DPO) in the amount of US\$116 million equivalent is the second in a programmatic series of two operations that supports Armenia on its path to green, resilient, and inclusive development.** In August 2021, the authorities adopted the *Program of the Government of the Republic of Armenia (2021-26)* to address key structural challenges and enable the country to achieve inclusive and sustainable development. In support of the government program, this programmatic series aims at fostering climate change mitigation and adaptation, improving the regulatory framework for environmental management, enhancing equity and promoting human capital development, and strengthening the anti-corruption framework and justice sector efficiency. The programmatic series will help Armenia better navigate an increasingly uncertain environment, marked by the recent COVID-19 pandemic, military conflict with Azerbaijan, Russia's invasion of Ukraine, and the impacts of climate change. The series is aligned with the government's medium-term program and the focus areas of the World Bank Group's Country Partnership Framework (CPF) for the Republic of Armenia.¹ The proposed operation benefits from US\$16 million in concessional financing from the Global Concessional Financing Facility (GCOFF)² to support the authorities' efforts to deal with the refugees from Nagorno-Karabakh (NK).³ This operation is also aligned with the key elements of the World Bank Group (WBG) Evolution Roadmap and aims to mitigate country challenges that contribute to regional and global challenges.

2. **Armenia has weathered multiple crises since the 2018 Velvet Revolution, thanks to sound macro-economic management.** Over the past two decades, Armenia has experienced high yet volatile growth. Average annual growth during 2000-22 stood at 6.2 percent, which supported a decline in the poverty rate from 32.1 percent in 2000 to 24.5 percent in 2022 (national poverty line). However, the overall positive trend on growth and poverty reduction masks significant volatility. Following the Velvet Revolution and the subsequent reform momentum, growth picked up to 7.6 percent in 2019. However, because of the twin shocks of the COVID-19 pandemic and the military conflict, the Armenian economy contracted by 7.2 percent in 2020, one of the largest declines in Europe and Central Asia (ECA). Government mitigation measures helped contain the 2020 twin shocks, with measures to shield both households and firms, and the increase in poverty was confined to 0.6 percentage points. The economy has recovered since, and notably in 2022, when GDP growth surprised on the upside with growth of 12.6 percent, fueled by an important inflow of people and money transfers, and a re-routing of trade flows. In 2023, while the inflow of money transfers started to gradually taper off, economic growth exceeded expectations and is projected to remain robust above 7 percent.

3. **However, Armenia's economy faces several structural challenges, which could impede future growth.** Despite the high growth, the economy has not generated enough quality jobs. Unemployment has recently come down to 12 percent but has otherwise hovered around 18 percent since 2008. Skills mismatches are partly to blame as the quality of

¹ The operation is aligned with both the *Country Partnership Framework for the Republic of Armenia for the Period FY19-FY23* (World Bank, 2019. Report # 123902-AM, Washington DC, discussed at the Board on March 28, 2019) and the upcoming CPF 2024-28, which is currently under preparation.

² The GCOFF is a partnership that brings together bilateral donors, multilateral development banks and the United Nations system to address the financing needs of middle-income countries hosting large numbers of refugees. By providing concessional resources to multilateral bank loans, the GCOFF enables eligible middle-income countries facing refugee crises to borrow at below regular multilateral development bank rates for projects that provide a global public good. Armenia became an eligible benefitting country to the GCOFF in December 2023, enabling potential contributions to the proposed operation and others.

³ By supporting the DPO or by using any specific terminology, the Bank does not intend to make any judgement on the legal or other status of concerned territories or to prejudice the final determination of the parties' claims.



education is a challenge and a high burden of non-communicable diseases (NCDs) undermines the productivity of the workforce and even leads to outward migration. The economic structure is undiversified, with a narrow export base in terms of products and partners and a low complexity of exports. Further, the private sector is not as competitive or productive as it could be and has struggled to attract investment. This has partly been due to Armenia's geo-political challenges, but also to a lack of predictability in investment related legislation. Additionally, a cross-cutting challenge for Armenia stems from governance bottlenecks and institutional capacity constraints.

4. Armenia is also highly vulnerable to climate related hazards and has a well-developed national climate action policy framework. Armenia is vulnerable to mudflow and landslides, droughts and floods. Climate related hazards are expected to affect low-income communities and sectors including energy and agriculture,⁴ as reflected in the National Adaptation Plan (NAP).⁵ In terms of mitigation, Armenia aims to reduce greenhouse gas (GHG) emissions by 40 percent, mainly from the sectors of energy, industry, agriculture, waste and forestry, as specified in the updated Nationally Determined Contribution (NDC) (2021) to the Paris Agreement, as well as in the Long-Term Low-Emissions Development Strategy (LT-LEDS) (2023).⁶ This operation supports climate reforms related to energy efficiency (EE) in construction norms and public administration. The EE reforms will improve overall energy consumption and support energy security, while reforms in the public administration sector contribute to green growth by assessing regulatory impacts in several sectors, including environment, thereby contributing to both mitigation and adaptation.

5. This DPO programmatic series is expected to accelerate green, resilient, and inclusive development in Armenia, in line with the critical elements of the WBG Evolution Roadmap. The series aims to address some of the country's key structural and climate related challenges in a coordinated manner, and is structured around three pillars: Pillar 1 supporting reforms that foster green and resilient development by improving climate resilience, supporting EE, and reducing the environmental footprint of economic activity; Pillar 2 promoting reforms in the areas of education, health and social protection that boost equity and promote human capital development; and Pillar 3 strengthening the anti-corruption framework and justice sector efficiency to address some of the governance challenges highlighted above. The operation builds on World Bank engagements, is Paris Aligned, has benefitted from collaboration with development partners, and complements the International Monetary Fund (IMF) Stand-by Arrangement (SBA) approved in December 2022.

6. This operation has been prepared during a period of political uncertainty for Armenia. Despite ongoing negotiations for a peace deal that commenced following the ceasefire statement on November 9, 2020, uncertainty about the peace process adversely affects Armenia's long-term growth prospects. The conflict recently led to the displacement of over 100,000 individuals to Armenia in September 2023, representing about 3.4 percent of Armenia's population. The burden of tending to this population has fallen on the Government of Armenia (GoA), who has been addressing the humanitarian crisis swiftly and aptly. In addition, political and economic uncertainty looms from unresolved issues on the Armenian border. The authorities remain committed to the achievement of the reforms supported by this DPO series and have asked for an increased financing amount to mitigate additional spending pressures originating from the influx of people.

7. The government was swift to support the refugees through several measures. On October 3, 2023, within a week after the displacement took place, the GoA put in place the first of several cash transfer measures to support this group meet their immediate basic needs, including lodging. It resulted in more than 100,000 individuals each receiving an AMD

⁴ Climate Change Knowledge Portal, [Armenia](#)

⁵ https://unfccc.int/sites/default/files/resource/NAP_Armenia.pdf

⁶ <https://e-gov.am/gov-decrees/item/41925>



100,000 (approximately US\$250) one-time cash transfer.⁷ The government also approved a measure to provide them with temporary protection status, thus access to Armenian social benefits and services and offering a pathway to Armenian citizenship. Further, the government is currently designing active labor market measures for job promotion. The authorities are aware of the importance of considering the impact on host communities when designing support for this group. For example, the authorities are (i) considering how to design housing solutions for them while avoiding unequal treatment for the host community; and (ii) working on harmonizing pension payments and social benefits for this group in line with those of the host community as part of the national system.

8. The overall risk to the operation is assessed as substantial, based on political and governance risks, and institutional capacity for implementation and sustainability risks. Political and governance risks are considered substantial due to geopolitical challenges and fragility but are mitigated by a strong government commitment to the reform agenda and broad public buy-in for most reforms. Armenia has a solid track record of reform implementation even during crisis periods. Institutional capacity for implementation risk is also substantial due to capacity constraints in public administration and potential delays created by shifts and mergers of public offices and institutions. This risk is mitigated by the strong presence of the World Bank's team and development partners providing technical support in all areas of the DPO program.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. Growth in 2023 remained robust, led by services. Growth exceeded expectations, reaching 9.2 percent over January-September 2023 (9M-2023), on top of 12.6 percent growth in 2022. The services sector—in particular, trade and IT services—was a key driver of growth with 13 percent year-over-year (yoy) growth in 9M-2023. Industrial output grew by 3.9 percent (yoy) over this period, buoyed by 18 percent growth in the construction sector as the mining sector contracted by 3.6 percent, affected mainly by the temporary closure or reduced operation of two mines.⁸ Agriculture remained almost flat with 0.8 percent growth (yoy) over 9M-2023. On the demand side, growth in the first nine months of 2023 was mostly spurred by private consumption and investment. Consumption was fueled by a 14 percent increase in real wages and improved employment rate and benefited from inflows of citizens and money transfers from Russia, in particular, in the first quarter. Growth is estimated to be above 7 percent in 2023.

10. Supported by the economic recovery in 2021 and double-digit growth in 2022, the poverty and unemployment rates declined in the last two years. Under the national poverty line, the poverty rate declined from 27 percent in 2020 to 24.8 percent in 2022, and relative to the upper middle-income (UMIC) poverty line of US\$6.85/day (2017 PPP), from 53.5 percent in 2020 to 51.3 percent in 2022. Reflecting the strong economic recovery and growth since 2021, the unemployment rate fell from 18.2 percent in 2020 to 13 percent in 2022 and continued to decline in 2023, to a low level of 12 percent in the third quarter.

11. Inflation dropped significantly in 2023. Average inflation dropped sharply from 8.6 percent in 2022 to 2.2 percent during January-November 2023, largely driven by a drop in food and transport prices. Food and transport average inflation rates declined from 13 and 7.3 percent in 2022 to 0.1 percent deflation and 0.7 percent inflation through January-November 2023, respectively. In response to this trend, the Central Bank of Armenia (CBA) started to ease monetary policy

⁷ This measure amounted to AMD 11 billion, 0.1 percent of 2023 GDP.

⁸ The Teghut mine was temporarily closed. The Sotk mine, which is located at the border of Armenia- Azerbaijan, reduced operations following the 2020 military conflict, and operations were fully suspended as of June 2023.



by reducing the policy rate five times over the course of 2023, cumulatively by 150 bps, to 9.25 percent in December. The CBA committed to maintain a prudent stance to control aggregate demand and stabilize inflation expectations.

12. After a surplus in 2022, the current account balance (CAB) deteriorated in 9M-2023 due to a wider trade deficit and increased outflow of money transfers. In 2022, the CAB registered an exceptional 0.8 percent of GDP surplus, due to a large influx of migrants, capital and transfers, with the latter increasing three-fold in 2022, yoy. While the export and import of goods continued to be strong in 9M-2023, growing by 36 and 43 percent, in US\$ terms, respectively, the trade balance deteriorated by 72 percent (yoy, in US\$ terms), owing to a 1.5 times larger import base. Deterioration in the net income balance also contributed to a worsening in the external balance, resulting from a 26 percent decrease in remittances (yoy). This deterioration was only partly compensated by a 57 percent increase in services exports and tourism receipts in 9M-2023. As a result, the current account deficit widened to 2.9 percent of projected annual GDP in 9M-2023.⁹

13. Following significant appreciation in 2022, the Armenian dram started to depreciate in late 2023. The Armenian dram (AMD) started to appreciate in March 2022, due to strong inflows of investment, money transfers from Russia and tourism inflows, as well as lower demand for the US dollar following the switch to the Russian ruble for gas import payments from Russia in Q2 2022. The dram continued to appreciate through the summer of 2023, but started to depreciate following the September 2023 conflict. At end-December 2023, the dram was 2.9 percent weaker against the US dollar compared to end-2022. Despite the appreciation, gross international reserves decreased by US\$300 million through October 2023, largely due to the early buy-back of a Eurobond. Reserves remain adequate at US\$3.8 billion and equivalent to 3.2 months of import cover as of end-October.

14. The financial system appears robust but faces increased risks. Banking sector indicators remain healthy, with non-performing loans at 3 percent, and the Capital Adequacy Ratio above 20 percent as of end-September 2023, thanks to the efforts by financial institutions to strengthen the portfolio in the aftermath of the COVID-19 shock. Credit to the economy increased by 19 percent (yoy) in nominal terms as of end-September 2023, mostly driven by an increase in dram-denominated loans. To mitigate the risks stemming from rising house prices and mortgage lending, the CBA introduced some new measures, such as a loan-to-value limit for mortgages, a new law prohibiting foreign currency mortgages for residents with income in national currency, and an increase in the countercyclical capital buffer to 1.5 percent, with effect from August 2023.¹⁰

15. The fiscal budget overperformed through November 2023; however, the settlement of NK financial liabilities to Armenian financial institutions in late December (equivalent to 2.2 percent of projected 2023 GDP), increased the total budget deficit to 4.2 percent of GDP. The good fiscal performance over most of the year (excluding the payment of NK liabilities) was primarily due to overperformance in revenues and under-execution in capital expenditures. Tax revenues grew by 17 percent (yoy) in nominal terms. Strong tax revenue performance was mostly driven by increased profit tax (up by 44 percent, yoy) and Value-Added Tax (VAT) collection (up by 13 percent, yoy), explained by strong economic performance and higher consumption, as well as greater income tax collection (up by 17 percent, yoy) due to increased employment and salary levels. Current spending (including the payment of NK liabilities) rose by 22 percent (yoy, in nominal terms), and capital spending increased by 28 percent (yoy, in nominal terms). However, capital expenditures were under-executed by 35 percent compared to the ambitious public investment plan approved in the budget. At the end of 2023, the Ministry of Finance (MoF) issued AMD 206 billion (US\$515 million or 2.2 percent of projected 2023 GDP) in 10-

⁹ The current account balance in 9M-2023 also shows a 3.1 percent of GDP net errors and emissions, which is expected to be incorporated in the external balance by the end of the year.

¹⁰ IMF Country Report No. 23/205 (June 2023)



year Treasury Bonds towards the repayment of its share of assumed liabilities.¹¹ Government debt, including this issuance of government bonds, reached 48.3 percent of GDP from 46.7 percent at end-2022.

Table 1: Armenia: Key Macroeconomic Indicators

	2020	2021	2022	2023e	2024p	2025p	2026p
Real GDP Growth, percent	-7.2	5.8	12.6	7.1	4.7	4.5	4.5
Private Consumption	-13.9	2.8	5.5	7.8	6.1	5.4	5.1
Government Consumption	9.2	-6.2	6.3	8.4	7.2	4.6	5.3
Gross Fixed Investment	-1.5	23.6	9.0	14.9	6.6	5.7	6.7
Exports	-33.5	18.6	59.3	20.5	3.7	4.1	6.6
Imports	-31.5	12.9	34.5	23.4	6.5	5.7	7.9
Sectoral contribution to growth							
Agriculture (ppts)	-0.4	-0.1	-0.1	0.1	0.1	0.1	0.1
Industry (ppts)	-0.7	0.7	2.5	1.6	1.4	1.2	1.3
Services (ppts)	-5.0	4.4	9.4	4.8	2.8	2.8	2.7
GDP Deflator	1.8	6.9	8.0	3.9	4.1	4.0	4.0
CPI (year-average)	1.2	7.2	8.6	2.7	3.6	4.0	4.0
Unemployment Rate (ILO Definition)	18.2	15.5	13				
Fiscal Account, percent of GDP							
Expenditures 1/	31.1	29.5	27.3	29.9	30.5	29.3	29.0
Revenues	26	24.9	25.1	25.8	25.8	25.8	25.9
General Government Balance	-5.1	-4.5	-2.2	-4.2	-4.7	-3.5	-3.0
General Government Debt 2/	63.5	60.2	46.7	48.3	49.6	49.5	49.5
Selected Monetary Accounts							
Base Money (annual percent change)	18.3	17.1	5.0				
Policy Interest Rate (percent)	5.3	7.8	10.8				
Balance of Payments, percent of GDP, unless indicated otherwise							
Current Account Balance	-4	-3.5	0.8	-3.5	-4.0	-3.4	-3.4
Imports, Goods and Services	40.2	44.1	52.2	59.5	59.4	59.2	60.3
Exports, Goods and Services	30.2	36.1	51.4	57.5	56.6	56.0	56.6
Net Income	6	4.5	1.5	-1.5	-1.2	-0.2	0.3
Net Foreign Direct Investment	-0.7	-2.5	-4.9	-1.9	-2.0	-2.1	-2.2
External Government Debt	47.3	42.5	27.3	24.6	24.7	23.9	23.3
Terms of Trade (growth)	2.2	4.2	0.9	0.5	1.1	0.9	0.5
Exchange Rate (per US\$, average)	489	504	436				
Gross Reserves (months of imports)	6.2	6.3	4.8	3.3	3.3	3.2	3.1

Source: Armenian authorities and WB staff estimates and projections.

1/ Expenditures in 2023 include those incurred by the government to assume a portion of NK financial liabilities.

2/ Debt in 2023 includes AMD 206 billion in 10-year Treasury Bonds issued by the government to finance the portion of NK financial liabilities assumed by the government.

¹¹ On December 22, 2023, the National Assembly approved an amendment to the 2023 State Budget Law to settle 70 percent of an estimated AMD 315 billion in NK's financial liabilities to Armenian financial institutions with the remaining 30 percent assumed by financial institutions. Of the estimated amount, banks provided documentation for AMD 294 billion.



16. Addressing the humanitarian needs and social challenges of the over 100,000 refugees is putting significant pressure on Armenia’s fiscal balance. Within a month of their arrival, the GoA approved several measures and programs to address the humanitarian crisis. This included three packages of cash transfers,¹² instructing schools to register all students, providing a teacher vacancy platform to help those who are teachers find teaching jobs, providing scholarships to higher education students, and instructing primary health care services to register this group. It is estimated that the Government spent more than US\$100 million, or 0.4 percent of GDP) in 2023 on these measures. The pressure on the budget deficit in 2023 was moderate thanks to strong fiscal performance and availability of the stabilization fund. However, the MoF’s preliminary estimates suggest the need for additional financing of at least US\$500 million in 2024. The DPO will help the government meet its financing needs, including through the support provided by the GCF.

Table 2: Armenia: General Government Fiscal Operations (percent of GDP)

	2020	2021	2022	2023e	2024p	2025p	2026p
<i>Key Fiscal Indicators, percent of GDP, unless indicated otherwise</i>							
Overall Balance	-5.1	-4.5	-2.2	-4.2	-4.7	-3.5	-3.0
Primary Balance	-2.4	-2.0	0.1	-1.3	-1.4	-0.2	0.1
Total Revenues and Grants	26.0	24.9	25.1	25.8	25.8	25.8	25.9
Tax Revenues	22.9	23.2	23.2	24.3	24.3	24.4	24.6
Taxes on Goods and Services	9.6	9.6	9.5	9.6	9.6	9.7	9.8
Direct Taxes	9.5	8.8	8.6	9.6	9.5	9.6	9.6
Social Security Contributions	0.4	0.6	0.8	0.9	0.9	0.9	0.9
Taxes on International Trade	1.1	1.2	0.7	0.7	0.8	0.8	0.8
Other Taxes	2.3	3.0	3.6	3.5	3.5	3.4	3.5
Non-Tax Revenues	2.3	1.5	1.7	1.3	1.2	1.2	1.2
Grants	0.9	0.2	0.2	0.2	0.4	0.3	0.2
Expenditures	31.1	29.5	27.3	29.9	30.5	29.3	29.0
Current Expenditures 1/	27.3	25.9	22.2	24.0	24.3	23.1	22.7
Wages and Compensation	3.3	3.0	2.6	2.7	2.7	2.7	2.7
Goods and Services	3.2	3.1	2.7	2.7	2.7	2.7	2.7
Interest Payments	2.7	2.6	2.3	2.9	3.3	3.3	3.1
Current Transfers	13.4	13.3	11.4	11.8	12.2	12.0	11.9
Pensions	5.8	5.4	4.8	4.5	4.5	4.6	4.6
Social Assistance	3.3	3.5	2.4	2.9	3.2	2.9	2.8
Other Current Transfers	4.4	4.4	4.2	4.4	4.5	4.6	4.5
Other Expenditures 1/	4.7	3.9	3.1	4.1	3.4	2.5	2.4
Capital Expenditures	3.9	3.6	5.1	5.9	6.2	6.3	6.4
Government Financing	5.1	4.5	2.2	4.2	4.7	3.5	3.0
External (Net)	-0.4	3.1	-1.3	-2.4	1.4	0.7	0.6
Domestic (Net)	5.5	1.4	3.5	6.5	3.3	2.8	2.5
GDP nominal in LCU (billions)	6182	6992	8501	9469	10324	11223	12192

Source: Armenian authorities’ and World Bank staff’s estimates and projections.

1/ Other expenditures in 2023 include those incurred by the government to assume a portion of NK financial liabilities.

¹² Cash transfers approved as of end-October 2023 include: (i) AMD 100,000 lump-sum transfers to each refugee, (ii) AMD 50,000 per capita support for rent and utility payment for six-months, (iii) AMD 50,000 per capita support for monthly expenses for November and December 2023.



Table 3: Armenia: Balance of Payments Financing Requirements and Sources of Financing (percent of GDP)

	2020	2021	2022	2023e	2024p	2025p	2026p
Financing Requirements	6.9	3.1	-0.9	3.5	4.0	3.4	3.4
Current Account Deficit	4.0	3.5	-0.8	3.5	4.0	3.4	3.4
Net Errors and Omissions	2.9	-0.4	-0.1	0.0	0.0	0.0	0.0
Financing Sources 1/	6.9	3.1	-0.9	3.5	4.0	3.4	3.4
Capital Account Balance	1.4	0.5	0.4	0.2	0.2	0.1	0.0
Net Foreign Direct Investment	0.7	2.5	4.9	1.9	2.0	2.1	2.2
Net Portfolio Investment	-0.3	4.8	-6.9	1.0	-0.3	-0.3	-0.3
Net Govt Foreign Borrowing	-0.4	3.1	-1.3	-2.4	1.4	0.7	0.6
Net All Other Flows	3.3	-2.8	6.9	2.2	0.8	1.2	1.6
Change in reserve assets	2.2	-5.0	-4.8	0.6	0.0	-0.4	-0.7

Source: Armenian authorities and World Bank staff estimates and projections.

1/ Positive sign for subcomponents of financial accounts means inflow.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. Growth is projected to gradually slow down toward its 4.5 percent potential rate in the medium term.¹³ In 2024, the economy is expected to grow by 4.7 percent, mostly driven by private consumption, and continued public and private investments. On the production side, services growth is expected to ease (from a high base in 2023), while remaining the main driver of growth in 2024 and in the medium term. Industrial activity is expected to slow due to a high growth base in 2022 (9 percent) and subdued activities in the mining sector. Average inflation is forecast to remain close to the target of 4 percent in the medium term. Assisted by economic growth, poverty is projected to continue to decline, however it is expected to also be affected by recent developments and will need to be consequently assessed.

18. The current account deficit is projected to widen further in 2024 but remain at a manageable level over the medium term. The current account deficit is estimated to increase from 3.5 percent of GDP in 2023 to 4 percent in 2024 due to moderation in the export of goods (adjusting from the high export performance in 2023, which was fueled by re-exports), and reflecting the expected gradual reversal of the large inflows of money transfers in 2022. Nevertheless, the external deficit is expected to remain at a manageable level below 4 percent in the medium term. Large FDI inflows in 2022, supported by Russian capital inflows, are expected to reach its historical level of 2 percent of GDP in 2024 and pick up slowly over the medium term. Net government borrowing and net FDI inflows are forecasted to finance most of the external deficit in the medium term, with international reserves broadly stable at around 3 months of import cover.¹⁴

19. The budget deficit is projected to deteriorate in 2024, followed by fiscal consolidation in the medium term. In the 2024 baseline scenario, it is estimated that the government will spend AMD 200 billion (equivalent to US\$500 million, or 2 percent of GDP) in emergency crisis support.¹⁵ This will result in a widening of the overall fiscal deficit to 4.7 percent of GDP in 2024.¹⁶ It is estimated that this crisis support will continue to moderate in 2025 and be phased out after that. This will enable the fiscal deficit to decrease toward 3 percent of GDP in 2026. Capital expenditures are expected to

¹³ Potential growth in the medium to long term might rise due to recent inflows of labor and capital, if sustained.

¹⁴ According to the IMF's Assessing Reserve Adequacy metric, Armenia's gross international reserves are estimated to remain adequate above 130 percent throughout 2028.

¹⁵ This is a preliminary estimate.

¹⁶ The National Assembly approved the 2024 state budget on December 7th, 2023, with a deficit of 4.6 percent of GDP, a structural benchmark by the IMF. The World Bank Staff's projected deficit as percent of GDP is close to the government budget plan with a difference in the breakdown of current and capital expenditures, estimating some under-execution in capital expenditures compared to an ambitious budget plan.



increase over the medium term as a percent of GDP, along with improvement in public investment management, however, they are estimated to remain below the ambitious Medium Term Expenditure Framework plans for public investment. The budget deficit will be mostly financed through domestic sources. Prior to the crisis response, the government was facing significant spending pressures to fulfill policy pledges under the 2021-26 government program to increase social spending related to pensions and healthcare and increase capital expenditures to address the infrastructure gap. To finance the higher spending needs and support fiscal consolidation, tax revenues as a percent of GDP are expected to increase over the medium term thanks to improvements in tax policy and administration.¹⁷

20. Armenia’s public debt remains sustainable, with considerable uncertainty in both the short and medium term.

Public debt as a share of GDP is projected to increase to 49.6 percent in 2024 as the overall fiscal deficit widens, and it will then stabilize and start to decline to 48.7 percent in 2028.¹⁸ The share of external debt in total government debt is projected to decrease over the medium term, consistent with the debt management strategy and to address exchange rate risk, which remains a key risk.¹⁹ A large share of external financing through multilateral loans will continue to be on concessional terms. Higher domestic market borrowing also supported the objective of reducing foreign currency debt. Domestic debt is mostly long-term, with two-thirds consisting of long-term bonds held largely by pension fund asset managers. In early October 2023, the government bought back US\$188 million out of a US\$500 million outstanding Eurobond due in 2025. Other outstanding Eurobonds are due in 2029 (US\$500 million) and in 2031 (US\$750 million). According to the IMF’s public debt sustainability analysis (DSA) published in December 2023,²⁰ debt is highly vulnerable to growth and exchange rate shocks. The uncertainty around the baseline is considerable in both the short and medium term. However, with government debt below 50 percent of GDP, fiscal consolidation to build buffers and the development of the domestic capital market to diversify funding sources will help to mitigate risks. The short- and medium-term risk is therefore classified as “moderate” (Annex 3). In the long term, large amortization payments and climate adaptation needs may add to the risks to debt profile; however, it is expected that risks in the long term will remain manageable.

21. Total (public and private) external debt, measured as a percentage of GDP declined sharply in 2022 and is expected to decline further with significant vulnerabilities mostly in the case of an exchange rate shock.

Gross external debt fell from around 100 percent of GDP in 2021 to 78 percent in 2022, mostly due to significant appreciation of the dram. The decline continued in 2023 to 64 percent of GDP at end-June 2023, driven by a reduction in government and banking sector external debt as a percentage of GDP. This declining trend is projected to continue over the medium term. According to the IMF external DSA published in December 2023, external debt will reduce to 50.8 percent of GDP at the end of 2028. However, the result from standardized shocks highlights significant vulnerabilities, in particular in the case of an exchange rate shock; 30 percent real depreciation would increase the external debt-to-GDP ratio to above 80 percent of GDP (Annex 3). Shocks to growth and the current account would also lead to higher external debt in the medium term relative to the baseline, however to a lesser extent than an exchange rate shock. On the other hand, given the relatively high share of concessional financing in external public debt, the total external debt remains broadly resilient to interest rate shocks.

¹⁷ The World Bank is preparing a Public Expenditure Review which includes a chapter on “Improving the Efficiency, Effectiveness and Equity of the Tax System in Armenia” to support the government in mobilizing additional domestic resources. The IMF SBA program has a Structural Benchmark on submission of a package of tax reform to National Assembly by December 2024 to yield at least 0.75 percent of GDP additional revenue cumulatively by 2026.

¹⁸ This is consistent with the Fiscal Rule with public debt below 50 percent and with capital expenditures (as percent of GDP) higher than the deficit (as a percent of GDP).

¹⁹ Government Debt Management Strategy of Republic of Armenia (2024-2026).

²⁰ IMF. Republic of Armenia: 2023 Article IV Consultation and Second Review Under the Stand-By Arrangement and Request for Modifications of Performance Criteria and Monetary Policy Consultation Clause. December 14, 2023. The baseline 2023 debt excludes AMD 206 billion in 10-year Treasury Bonds issued by the government to finance NK financial liabilities. However, this is not expected to alter debt dynamics or the assessment.



22. The medium-term outlook is subject to significant uncertainty with two-sided risks. Significant uncertainties for medium-term projections stem from geopolitical factors and potential developments related to security. Downside risks include regional tensions, unresolved border issues, deterioration in trade with Russia, sharp reversal of Russian inflows, and a possible slowdown in trading partner economies. On the upside, a sustained growth momentum with rebound in inflows of money and people could push growth above the baseline.

23. The macroeconomic policy framework is adequate for this operation. Armenia has developed a track record of sound macroeconomic management, built on an active inflation targeting monetary policy regime, an effective fiscal rule, strong commitment to debt sustainability, flexible exchange rate regime and a healthy financial sector that is well regulated. The authorities have also been introducing measures supporting de-dollarization in recent years. Economic growth is also set to be healthy in the medium term. Following the September 2023 events, the fiscal performance and public debt level are further expected to deteriorate in 2024 but are expected to stay manageable with a return to a sustainable path in the medium term. Considering this, uncertainties and risks remain manageable, but will require careful monitoring.

2.3. IMF RELATIONS

24. The IMF Executive Board approved a three-year Stand-By-Arrangement (SBA) in December 2022, and the second review was completed by the Board in December 2023. The SBA, which the authorities are treating as precautionary, aims to ensure policy continuity, advance structural reforms, and maintain macroeconomic, financial, and fiscal stability amid the ongoing shocks, tightening global financial conditions, and growing economic fragmentation. To date, Armenia has access to SDR 55.2 million (about US\$73.3 million). The World Bank team collaborates closely with the IMF on macroeconomic monitoring and in supporting key structural reforms.

3. GOVERNMENT PROGRAM

25. In August 2021, the government adopted the Program of the Government of the Republic of Armenia (2021-2026), to address the key structural challenges and enable the country to achieve sustained, inclusive, and sustainable development. It was followed by a detailed Action Plan approved in November 2021. This plan includes actions to invest more and in a prioritized manner in building physical capital, enhancing human capital, and addressing skills constraints, while ensuring greater equity, better managing environmental and natural resources, and addressing long-standing governance gaps, including those that hinder markets from operating efficiently.

26. The government program is aligned with Armenia's plans for climate mitigation and adaptation, reflected in the updated NDC adopted in 2021,²¹ aiming to reduce emissions by 40 percent by 2030 compared to 1990 levels, and with the National Adaptation Plan. Armenia's GHG emissions are driven by the energy sector, which accounted for close to two-thirds of total emissions in 2018, marking the sector as having the most potential for mitigation. At the time of adopting the updated NDC, Armenia also adopted a 10-year NDC implementation plan, with energy efficiency, energy conservation and renewable energy generation as the critical target areas.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

²¹ <https://unfccc.int/sites/default/files/NDC/2022-06/NDC%20of%20Republic%20of%20Armenia%20%202021-2030.pdf>



27. Consistent with the government’s 2021-2026 program and NDC commitments, and in line with the key elements of the WBG Evolution Roadmap, the Program Development Objective (PDO) of this programmatic series is to promote green, resilient, and inclusive development in Armenia, by fostering climate change mitigation and adaptation, improving the regulatory framework for environmental management, enhancing equity and promoting human capital development, and strengthening the anti-corruption framework and justice sector efficiency. The operation is expected to mitigate country challenges that contribute to regional and global challenges. The expected results are also broadly aligned with the revised WBG Corporate Scorecard.²²

28. The programmatic series also builds upon the reforms initiated in a previous DPO approved in FY20,²³ which focused on strengthening governance. That DPO supported key governance reforms such as the adoption of an anti-corruption and justice sector reform strategy, the approval of a new PIM framework, and the setup of legal and regulatory structures to enable control over the provision of State Aid and the conduct of Regulatory Impact Assessments (RIAs).

29. DPO2 is aligned with the goals of the Paris Agreement. The DPO is consistent with Armenia’s climate action policies, with the updated NDC (2021) to the Paris Agreement, as well as with the LT-LEDS and NAP.

- In terms of *mitigation*, none of the prior actions supported by the DPO will cause a significant increase of GHG emission, and several reforms will reduce GHG emissions and support Armenia’s transition to a low GHG emissions development path. The prior actions under Pillar 1 will contribute to reductions of GHG emissions by adopting a legally binding government strategy on EE, as well as supporting bylaws that enhance the amended Atmospheric Air Protection (AAP) legislation, which measure air pollutants and GHGs. The reforms in the energy and urban sectors will support amendments to construction norms, focusing on urban development, and introduce new norms for EE in buildings, improving overall energy consumption. The prior actions under Pillar 2 champion human development and crisis-related social protection that do not finance physical construction and lead to an increase in GHG emissions. The reforms in the public administration sector in Pillar 3 contribute to green growth by assessing regulatory impacts in several sectors, including environment, thereby contributing to both mitigation and adaptation. Therefore, all prior actions of the DPO program are aligned with the mitigation goals of the Paris Agreement.
- Regarding *adaptation*, climate hazards are not likely to have an adverse effect on the prior actions’ contribution to the PDO. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Armenia to reforms adopted under this DPO were found to be of low risk. The climate-related hazards such as extreme precipitation, heatwaves, droughts, and geophysical hazards (e.g., earthquake) are not expected to significantly impact the effectiveness of the prior actions in Pillar 1. Reforms under Pillars 2 and 3 are not expected to be affected by impacts of climate change. Therefore, all prior actions of the proposed DPO program are aligned with the adaptation and resilience goals of the Paris Agreement.²⁴

30. The DPO programmatic series is compliant with the Maximizing Finance for Development (MFD) approach. In the first DPO in the series (DPO1),²⁵ the Government approved a program to support energy-efficient renovation of homes through commercial bank lending at subsidized interest rates for EE investments in PA#2. This was necessary not only to kick-start commercial lending to energy-efficient renovations, but also to build/increase the capacity of commercial banks to appraise EE projects and of firms in the energy-efficient renovations and equipment segment to provide the related equipment/services. In this DPO2, further measures under PA#1 to approve new construction norms with enhanced EE

²² DPO2 result indicators (RI) are broadly linked to the following corporate scorecard outcome area (CSOA): RI1, 2, 3, 4 to CSOA5; RI5 is to CSOA1; RI6 and 7 to CSOA12 and 14; RI8 to CSOA2; RI9 to CSOA3; RI2, 10, 11, 12, and 13 to CSOA15.

²³ Armenia Economic, Fiscal and Public Sector Governance, Development Policy Loan (P169624)

²⁴ Detailed Paris Alignment assessment and contributions of PAs to mitigation and adaptation are available in Annex 5.

²⁵ Green, Resilient and Inclusive DPO (P176278).



provisions, and introduce requirements for modern energy-saving technologies, construction and reconstruction of buildings and structures using EE measures, are addressing the demand-side factors to support the commercial lending and services of specialized firms. Cumulatively, these actions are expected to improve the sustainability of the commercial lending mechanism available for energy-efficient renovations beyond the DPO program duration. As such, the project is both MFD-Enabling and Private Capital Enabling (PCE) under Prior Action (PA)#2 of DPO1 and PA#1 of DPO2. The common result indicator #2 (RI#2) that measures the share of renovation loans (by value) provided through commercial banks to households targeting energy-efficiency renovations is PCE-related non-monetary result indicator. These measures cumulatively are expected to enable at least US\$50 million in commercial lending for building renovations by 2028.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Fostering climate change mitigation and adaptation, and improving the regulatory framework for environmental management

31. The reforms under this pillar will help Armenia achieve its updated NDC commitments by enhancing resilience to climate risks and improving EE in the built environment. The reforms will help Armenia implement amendments to the Atmospheric Air Protection (AAP) and Environment Impact Assessment (EIA) laws and introduce Strategic Environmental Assessments (SEA). Compared to the indicative triggers envisaged at the time of DPO1, two triggers have been dropped from the program under this pillar. The government has experienced procurement delays in implementing the digital Public Investment Management (PIM) system (Indicative Trigger #1). The Bank will continue to support the government to strengthen and digitize the PIM workflows. In addition, Indicative Trigger #2.i on revised construction norms for urban development, rural and urban settlement planning was completed but excluded from the program to focus on EE.

Prior Action 1: Promoting Energy Efficiency in the Built Environment

32. Rationale: The residential sector is responsible for a third of the final energy consumption in Armenia and has historically been one of the most difficult sectors to reach with EE interventions. In addition to energy consumption inefficiencies in the sector for both heating and cooling—in part due to lack of appropriate insulation—the housing stock was constructed according to old building codes which do not have provision for risks such as natural disasters and seismic activities. This translates to an estimated 40-60 percent estimated energy-saving potential across residential, public and commercial buildings.²⁶ In addition, the housing stock has been increasing in recent years as Armenia’s construction sector has been recovering since 2017. The total area of Armenia’s housing stock increased by 11.4 percent over 2017-2022 compared to a 1.6 percent increase over 2012-2017. The influx of refugees will likely continue to fuel new construction and renovations in the coming years. Public support mechanisms to promote household borrowing for EE improvement in the residential sector have been implemented, but low awareness, as well as unaffordable and cumbersome lending procedures have resulted in low utilization rates.

Prior Action #1: To strengthen climate-resilience and energy efficiency in buildings and infrastructure, the Borrower, through its Committee of Urban Development, has approved new construction norms through Order 31-N dated December 22, 2022, for ensuring energy efficiency of buildings and establishing energy efficiency assessment indicators.

33. Program: To support Armenia’s Energy Strategy 2040’s focus on EE, the first DPO in this series (DPO1) assisted with the adoption of a Program on Energy Saving and Renewable Energy, and another to support energy-efficient renovation of apartments and dwelling houses as of mid-2022. The government has since extended the latter program to

²⁶ International Energy Agency, 2020. Energy-Efficient Buildings in Armenia: A Roadmap



apartments and private homes until July 1, 2024, and amended subsidized loan rates. The objective of the reform supported under this second DPO (DPO2) is to further support EE improvements through the approval of new construction norms with enhanced EE provisions. In addition to applying them to the new stock under construction, the renovation of apartments and dwelling houses, supported under DPO1, would be also subject to the new norms. These norms introduce requirements for modern energy-saving technologies, construction and reconstruction of buildings and structures using EE measures, provision of EE assessments (energy audits), establishment and awarding of EE classes, provisions for EE renovation of apartments and individual residential houses in multi-residential (multifunctional) buildings, and similar requirements for new and existing territorial development (urban and rural planning). In addition to the measure under PA#1, the Committee of Urban Development (CoUD) has revised other construction norms for urban development, rural and urban settlement planning (approved through the CoUD on May 29, 2023) which, together with the new EE requirements supported by PA#1, provides the basis for the future introduction of a “building passport” program for registering and inventorying buildings’ structure and energy saving details per building. The new EE norms have been supported by technical assistance (TA) provided by the World Bank and the Global Facility for Disaster Reduction and Recovery, in coordination with the United Nations Development Programme. Complementary to this effort, the IFC under its advisory programs is engaging with private sector market participants to widen awareness and application of its Excellence in Design for Greater Efficiencies (EDGE) standard for energy and water efficiency in buildings.

34. Expected results: Implementation of the reforms in this programmatic series will enable improvements in EE, particularly for residential households. As of end-June 2023, program beneficiaries exceeded 3,600 from 1,265 in 2022. The reforms also address Armenia’s climate change vulnerabilities and increase climate resilience by prioritizing climate resilience in new construction norms. This will be measured through an increase in the share of renovation loans (by value) provided through commercial banks to households targeting energy efficient renovations from 0 percent in 2021 to 20 percent by end-2025.

Prior Action 2: Atmospheric Air Protection

35. Rationale: Air pollution is a key problem in Armenia, associated with large welfare and health costs. The mean population exposure to ambient PM2.5 concentrations was three times higher than the World Health Organization guideline in 2019. The morbidity and mortality related welfare costs associated with air pollution by fine particles (PM2.5), including both ambient and household air pollution, represent about 10.6 percent of GDP equivalent in Armenia annually,²⁷ compared to 3.8 percent on average in the European Union (EU).²⁸ The 1994 AAP Law did not have provisions for the government to ensure a robust air quality assessment, monitoring of pollutants and management system. Amendments to the AAP in December 2022, supported under DPO1, provided the basis for the setup of a rigorous assessment system for ambient air quality management for monitoring of priority pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3), as well as GHGs.²⁹ Prior to these amendments, there was no procedural basis for measurement of key pollutants such as PM2.5 and PM10, and there was no data on actual emissions. In addition, there was a lack of clarity regarding the institutions in charge of functions such as granting and revoking licenses, as well as emissions reporting and inventory.

Prior Action #2: To implement the new framework for monitoring air pollution, the Borrower, through its Cabinet: (i) has issued Government Decree 23-N on January 4, 2024, governing the procedures related to registering, summarizing, analyzing and archiving

²⁷ World Bank, 2022. “The Global Health Cost of PM 2.5 Air Pollution”.

²⁸ OECD, 2019. “The Economic Cost of Air Pollution: Evidence from Europe”.

²⁹ PM 2.5 and PM 10 (particulate matter), SO2 (sulfur dioxide), CO (carbon monoxide), NOX (nitrous oxide), Hg (mercury), Ar (Argon), Cu (copper), Mo (Molybdenum), NH3 (ammonia).



information concerning state inventory and recording emissions of pollutant substances into the ambient air; and (ii) has issued Government Decree 32-N on January 4, 2024 approving the procedures for developing draft emission value limits of pollutant substances into the ambient air and authorizing, rejecting and revoking emissions permits for legal entities and individuals engaged in business activities that have submitted draft emission value limits.

36. Program: Through the support of this DPO, the government has approved two required by-laws that are needed to enforce the amended AAP legislation. The adoption of the amendments and additions to the Law on Atmospheric Air Protection by the Parliament of Armenia on December 7, 2022, was accompanied by amendments to 11 different government decrees. As part of this package, there are two decrees related to the implementation of the new framework for monitoring air pollution which replaced old decrees.³⁰ Government Decree 23-N dated January 4, 2024, clarifies, consolidates and streamlines the functions, previously spread out between several state agencies, for registration and oversight of the emissions of harmful components into the atmospheric air. The amendments also improve and streamline the procedure for state registration of harmful effects on the atmospheric air. PA#2 (ii) addresses the previously lacking requirements for polluters to provide information on how the pollution is calculated when submitting the applications for licenses. The amendments also address issues related to accuracy of calculation of pollution background and review the norms and calculation of the pollution buffer zones. The adoption of these two Government Decrees aligns them to the updated Law on AAP and ensures the approximation of these decrees to the EU acquis. The World Bank has provided technical assistance to the Ministry of Environment in the development of these government decrees.

37. Expected results: These reforms are expected to improve the monitoring of air quality and pave the way for binding measures to improve air quality by measuring and publicly disclosing levels of main pollutants and short-lived climate pollutants (PM2.5, PM10, SO₂, CO, NOX, Hg, Ar, Cu, Mo, NH₃) on a real-time basis from at least five data collection points by 2025. The government has allocated budget for two air quality monitoring stations to be fully equipped in 2024.

Prior Action 3: Environmental Impact Assessment (EIA) and Strategic Impact Assessment (SEA)

38. Rationale: The 2014 Law on EIA required updating in line with the improvements in international best practices, and Armenia's commitment to approximate sectoral legislation (under the Comprehensive and Enhanced Partnership Agreement) to the respective EU directives, to ensure an improved and more effective mechanism for identifying, avoiding, and mitigating the negative impact of economic activity on the environment. Moreover, the 2014 Law on EIA did not provide an effective mechanism for identifying, avoiding, and mitigating the negative impact of economic activity on the environment. An example is the mining sector, which accounts for almost 3 percent of Armenia's GDP and close to 30 percent of exports (2015-20 average) but has a track record of lack of environmental sustainability of operations. The main problems relate to lack of rehabilitation efforts, pollution, and management of mining sites. The 2014 EIA law did not offer substantial tools that would support the mitigation of such adverse effects and does not provide an effective mechanism for public awareness, community notification and public participation in decision-making processes on the existing and forthcoming economic activities with potential environmental impacts. For example, the current legislation does not include the requirement for and collection of official statistics on the number of ongoing projects that do not have an approved EIA. Moreover, even when the relevant state agencies are aware of multiple ongoing projects operating without an EIA, the 2014 legislation was inadequate to prevent this from occurring, as non-compliance leads only to a very small administrative fine. There is no legal regulation on fostering interagency coordination and the role and status of the

³⁰ The new decrees replace the following two decrees which were annulled: Government Decree 259 "On approving the procedure for state registration of harmful effects on the atmospheric air," adopted on April 22nd, 1999. URL: <https://www.arlis.am/documentview.aspx?docid=54399> and Government Decree 1673 "On procedure of drafting and approval of the regulations on permissible limits of the air pollutant emissions into the atmospheric air," adopted on December 27th, 2012. URL: <https://www.arlis.am/documentview.aspx?docid=80624>



Centre for Environmental Impact Expert Examination (a state non-commercial organization, which is part of the Ministry of Environment) is not clearly defined.

Prior Action #3: To implement the new EIA framework, the Borrower through its Cabinet: (i) has adopted Government Decree 2343-N dated December 28, 2023, to improve clarity and transparency on the procedure of public notification and hearings; and (ii) has adopted Government Decree 2294-N dated December 21, 2023, on Strategic Environmental Assessment (SEA) that regulates the procedure of SEA and identifies the scope and reporting requirements of the SEA.

39. Program: Amendments to the EIA Law in December of 2022, which were supported under DPO1, expanded the list of economic activities subject to EIA, introduced effective regulation ensuring that activities subject to EIA do not operate without one, introduced mechanisms for effective interagency coordination on EIA processes, defining the roles of the entities involved, and provided clarity on the submission requirements to the respective state agencies. To operationalize the amended EIA Law, the authorities have adopted a new government decree on SEA that requires integration of environmental considerations into government policies, strategies, and plans, and assesses the interlinkages of those considerations with economic and social dimensions.³¹ Whereas some SEA provisions existed in the previous EIA Law, the new decree provides full guidance on which documents are subject to SEA screening, and what is the procedure to be followed. The SEA Decree is in alignment with Espoo Convention language and requirements, whereby the Convention states that SEA assesses impacts, meaning any effect caused by the proposed activity on the environment, including climate adaptation and mitigation.³² In addition, the revision of the Government Decree 1325 of 2014 “On the Procedure of Public Notification and Hearings” aims to bring this by-law in line with the Aarhus Convention, providing more clarity on the procedure of notification and hearings and ensuring more transparency.³³

40. Expected results: These reforms are expected to establish clear guidance on SEA in the country and ensure better clarity, transparency and reporting on public hearings for EIA. It will be measured by at least a 20 percent increase in the number of EIA applications that are processed yearly by end-2025, from 239 in 2021. Further, adoption of SEA is expected to ensure improved resilience and adaptation in strategic planning and policy reforms of the government.

Pillar 2: Enhancing equity and promoting human capital development

41. Strengthening inclusion is a government priority in the current context of heightened vulnerability to economic shocks, and shortfalls in human development outcomes, as reflected in the 2021-26 government plan on human capital development. The programmatic series of operations supports important reforms in this area, including: improved targeting of the social assistance program, modernization of the education curriculum (with a focus on improving the Science, Technology, Engineering and Mathematics [STEM] curriculum) and rollout of a new assessment framework as a part of the new education law, and improvement in the quality of health care. This pillar has been expanded to also support the emergency response to the recent influx of refugees and the government focus on supporting their inclusion,

³¹ Prior to this reform, SEA did not exist in Armenia. This reform ensures strategic alignment with the government’s commitments such as NDC, LT-LEDS, NAP, Energy Strategy and so forth.

³² Armenia is a signatory to the “Convention on Environmental Impact Assessment in a Transboundary Context” adopted in Espoo Finland in 1991 (“Espoo Convention”). “Impact” in the Espoo Convention is defined in the following way: “Impact” means any effect caused by a proposed activity on the environment including human health and safety, flora, fauna, soil, air, water, climate, landscape and historical monuments or other physical structures or the interaction among these factors; it also includes effects on cultural heritage or socioeconomic conditions resulting from alterations to those factors.” Espoo Convention Link: <https://unece.org/sites/default/files/2021-03/Espoo%20Convention.pdf>

³³ “Aarhus Convention” refers to the [United Nations Economic Commission for Europe Convention](#) on access to information, public participation in decision-making and access to justice in environmental matters. It is the leading international agreement on environmental democracy. The Aarhus Convention protects every person’s right to live in a healthy environment.



as well as women's, in mainstream social services. Two of the indicative triggers envisaged at the time of DPO1 under Pillar 2 have been dropped. The rollout of the new family vulnerability system (Indicative Trigger #5) is still being pursued but has been delayed mostly because of the need for Ministry of Labor and Social Affairs (MoLSA) to focus on the emergency response to the September 2023 events. The Bank continues to support the ministry on the revision of the vulnerability assessment formula and will provide on-demand advice during the forthcoming rollout. The indicative trigger regarding the adoption of the concept note for the introduction of the universal health coverage (Indicative Trigger #7) was also dropped. While the concept note was approved, several key technical aspects were not clarified, and remain to be addressed. The World Bank remains fully engaged in supporting the government in this important reform, including through the preparation of a Program for Results operation.

Prior Action 4: Crisis-related social protection and employment

42. Rationale: Due to the recent events of September 2023, Armenia is now hosting over 100,000 refugees. The immediate needs of this population relate to food, clothing and medication, counselling, and lodging. In the initial stages of the response, the GoA supported this population with cash to cater to these needs. To support their medium-term integration into the Armenian society, this group will require stable housing conditions, income generating opportunities as well as access to public services available for different age groups (e.g., education for children). Two key pillars to support populations affected by fragility, violence and conflict are to move crisis-affected populations from humanitarian beneficiaries to development participants, and to consider host communities when supporting displaced persons.³⁴ From this perspective, and based on learnings from experiences in other countries, it is imperative to provide an enabling legal status for these individuals to access benefits and services, and to ensure uninterrupted education for children, housing options and income generating opportunities for able-to-work adults (for example, integrating refugee teachers who can also serve as a resource in host communities). New arrivals include about 21,000 school-aged children (1-12 grade) and about 1,500 teachers, of which about 85 percent female. The majority of these teachers are female, and they have all lost employment due to displacement. They may face challenges in securing teaching positions due to requirements of validating their credentials and qualifications, as well as differences in subject standards, curricula, and classroom practices. These teachers will benefit from the government's effort to recruit them, which will also contribute to improving the consistently low level of women's labor force participation in Armenia.³⁵

Prior Action #4: To support the needs of the new vulnerable group of refugees from Nagorno-Karabakh, the Borrower: (i) through its Cabinet has approved Government Decree 1864-N dated October 26, 2023, providing temporary protection status to such group for a year; and (ii) through its Cabinet has approved Government Decree 1756-L dated October 12, 2023, extending support for refugee teachers, including female teachers, to work in Armenia to support human capital development and employment.

43. Program: The reform under DPO1 supported vulnerable populations in Armenia by enhancing the vulnerability assessment methodology to improve coverage and targeting of the poor through the largest social assistance program, the Family Benefits Program. DPO2 extends the support to vulnerable populations by focusing on the newly vulnerable group of refugees, supporting their socio-economic integration and short-term needs, and their livelihoods in the medium-term. The GoA acted rapidly to respond to the crisis, such that within a week after the major displacement took place, the government put in place a cash transfer to help meet their basic needs.³⁶ In order to support the full integration of this

³⁴ O'Brien, C., Z. Scott, G. Smith, V. Barca, A. Kardan, R. Holmes, C. Watson, and J. Congrave. 2018. "Shock-Responsive Social Protection Systems Research: Synthesis Report."

³⁵ In Armenia, labor force participation among women of 15 years and older is 45 percent vis-à-vis 67 percent among men. Source: World Development Indicators, 2023.

³⁶ This first measure provided each refugee with a one-time per capita cash payment of AMD 100,000 (US\$250) to meet their immediate basic needs.



vulnerable population in Armenia, on October 26, 2023, the government approved a measure to provide them with temporary protection status for one year. This legal status would allow this population to access services and offers a pathway to Armenian citizenship. In addition to other cash support measures, the government is currently designing active labor market measures for job promotion and has already adopted a measure providing organized and on-the-job training and internships and has been working on integrating different professional profiles in the Armenian labor force including healthcare professionals. As part of this effort to support their livelihood, the government has taken steps to integrate in a timely manner refugee teachers who are predominantly women, into schools in a way that also considers the host community and supports human capital development. Recognizing the importance of education for integrating the newly arrived children, adolescents, and teachers into Armenian society, the government has prioritized their immediate admission into the public school system. The measures provide a teacher vacancy platform to encourage these teachers, the majority of whom are female, to find teaching jobs by informing them of vacancies and providing additional financial support. The National Center for Education Development and Innovation has adapted a training program to support the adoption of the new curriculum to these teachers and started administration of training in December 2023, with support from the Bank. The measures also support the integration of school-aged children into the public education system of Armenia. The measures under preparation and those approved to date are part of the Armenia Refugee Response Plan.³⁷

44. Expected results: The crisis-response measures are expected to provide a legal status in Armenia for all refugees and to employment opportunities to incoming teachers, including females, and ultimately contribute to Armenia's education system and human capital. Results will be measured through: (i) the number of refugees who received the temporary protection status, from a baseline of 0 in September 2023 to at least 117,000 at any point between September 2023 to end-2025, of which 52 percent female; and (ii) the number of refugee teachers that are employed in the Armenian education system (from a baseline of 0 in September 2023 to 450 by end-2025, of which 85 percent female). As of end-October 2023, approximately 15,500 students have been registered out of 21,000 children of school-age, approximately 1,400 vacancies were announced on the platform, with about 203 vacancies filled by these teachers.

Prior Action #5: Introducing a new competency-based curriculum guided by learning outcomes

45. Rationale: A key challenge for the labor market is the mismatch between workers and firms, with the education system unable to meet the skill needs of the labor market, owing to the content of the curriculum and measuring outcomes. The Armenian education sector has been largely relying on international assessments that allow for comparability across time and countries but are infrequent or large-scale yearly exit exams in grades 4, 9 and 12 that do not offer adequate methodology to measure learning outcomes at the aggregate level. Measuring learning outcomes and using learning data is particularly important in the context of the curriculum reform as the effect of its implementation could be weakened if an unreformed examination system creates misaligned incentives.³⁸

Prior Action #5: To support the implementation of the new competency-based curriculum, the Borrower, through the MoESCS has issued Ministerial Order 50-A/2 dated January 16, 2024, revising the national student assessment framework for tracking and using learning outcomes to monitor and improve the education system.

46. Program: DPO1 supported the curriculum reform and the introduction of STEM, green education that includes education on climate change, and foreign languages. DPO2 supports the revision and piloting of a new national student assessment framework to track learning outcomes. This is the first step towards building a comprehensive monitoring system to inform the MoESCS on the implementation of the curriculum and other education reforms. The assessment

³⁷ Armenia Refugee Response Plan, Emergency and Resilience Appeal, October 2023 – March 2024

³⁸ World Bank. 2018. *World Development Report 2018: Learning to Realize Education's Promise*. Washington, DC: World Bank



framework should include the use of assessment methodologies, according to current professional standards, that provide accurate and comparable information to the Ministry for better tracking of student performance over time and well-informed decision-making policies. To assess the results of greening the education, the operational documents prepared by the Assessment and Testing Center as part of the tracking assessment procedure include climate learning outcomes. The Ministerial Order containing the revised student assessment framework specifies the scale, scope, and modality of assessments to be carried out and an action plan, timeline, and costs for its implementation. The revision of the student assessment framework has been supported by World Bank TA.

47. Expected Results: Since DPO1, the curriculum reform has been implemented in all Grades in the Tavush Province and implementation has started nationwide in Grades 2, 5, and 7. The reform is expected to align the student assessments framework with the competency-based curriculum. This is the first step towards the implementation of a system that measures learning outcomes. By mid-2025, 100 percent of schools would have implemented the revised curriculum for targeted grades (2nd, 5th, 7th and 10th grades). By mid-2027, 100 percent of schools would have implemented the revised curriculum across all Grades 1-12.

Prior Action #6: Improving the quality of medical services

48. Rationale: Armenia has taken steps to improve health system performance and outcomes resulting in improvements in life expectancy. For example, life expectancy at birth increased from 70.4 to 75.2 years from 1971 to 2019 but decreased to 73.5 in 2020 and 72.4 in 2021. This is lower than the averages for ECA (76) and UMICs (75).³⁹ This gap reflects partly the effects of the COVID-19 pandemic and the military conflict, in addition to the high and growing incidence of NCDs which continue to be one of Armenia's top public health issues.⁴⁰ Equitable access to high quality essential primary health services remains a challenge. Although Armenians enjoy excellent physical access to Primary Health Care (PHC) facilities, the utilization of these services remains low due to concerns about quality and additional costs. Low public expenditures on health and health system inefficiencies (e.g., hospital-centric service delivery system) contribute to Armenia having one of the highest out-of-pocket shares of total health expenditures in the world (about 85 percent in 2019). Approximately 67 percent of users bypass the services of their general practitioners, who are supposed to assess their condition and determine if they need to be referred to other providers. Forty percent cite concerns about quality as the main reason for not seeking care in PHC facilities.⁴¹ Until recently, Armenia has had termless licensing for its healthcare facilities, which does not allow to provide adequate supervision and ensure the enforcement of up-to-date standards of care. Bypassing PHC facilities even for conditions that could be managed by PHC providers leads to unnecessary hospital and emergency care utilization. To address this issue, reforms are needed in service delivery to improve the quality of PHC and the financing procedures.

Prior Action #6: To improve and sustain the quality of medical services, the Borrower: (i) has approved on May 24th, 2023, an amendment to Law HO-193 dated May 30, 2001, on licensing to move from termless licensing to five-year term licensing, and (ii) through the Ministry of Health (MoH) has issued a Ministerial Order 2068-L dated April 25, 2023, updating the existing contracting

³⁹ World Bank. Forthcoming. Building Effective Primary Healthcare in Armenia.

⁴⁰ Armenians have a 19.9 percent chance of dying before the age of 70 from cardiovascular diseases, diabetes, chronic respiratory diseases, and cancer – the four most common NCDs. This is above the global average of 17.8 percent and the European average of 16.3 percent. (Ibid)

⁴¹ Chekijian, S., Nune Truzyan, Taguhi Stepanyan, and Alexander Bazarchyan. 2021. "Healthcare in transition in the Republic of Armenia: the evolution of emergency medical systems and directions forward." *International Journal of Emergency Medicine* 14(1):5. doi:10.1186/s12245-020-00328-3.



mechanism, including performance-based additional payments that incentivize improved primary health care (PHC) access (use of preventive and pre-hospitalization visits) and increase PHC doctors' reimbursement rates.

49. Program: The first objective of the reform is to maintain control and supervision over the quality of healthcare services provided by licensed entities. To this end, the government has introduced term-licensing to prevent the use of outdated and non-modern equipment and ensure that health care providers receive appropriate training to maintain their skills. Licenses issued in the healthcare sector since 2002 will be reviewed based on updated requirements in terms of technical equipment, property, and personnel. The second objective of the reform is to incentivize PHC doctors to provide care at the PHC level, emphasizing preventive care and pre-hospitalization visits and discouraging hospital visits without a referral from a PHC doctor. To address this problem, in April 2023, the Ministry of Health adopted a Ministerial Order that introduces additional performance-based payments to incentivize proper implementation of the referral system. This would motivate PHC providers to promote preventive care and pre-hospitalization check-ups rather than allowing patients to bypass PHC facilities in favor of hospitals. To encourage citizens to access PHC services, these measures are being coupled with awareness campaigns and nudges from Short Messaging Services (SMS), for example, for blood pressure screening. These reforms on introducing term licensing based on updated standards for PHC facilities and implementation of performance-based incentives contribute toward enhancing the quality of and efficiency of PHC services. These are critical elements of the broader health care reform that Armenia has embarked and links to pillars 1 and 2 of the health care reform related to "improving the quality of care" and "improving efficiency of government spending".

50. Expected Results: This reform will contribute to the overall improvement of the quality of the healthcare system and higher uptake of PHC. This will be measured by an increase in the share of persons aged 18 and older who are registered with PHC doctors and who made 2 or more visits to the PHC doctors during the month preceding hospitalization, from 16 percent in 2022 to 37 percent by end-2025.

Pillar 3: Strengthening the anti-corruption framework and justice sector efficiency

51. The reforms under Pillar 3 build on Armenia's successful engagement with the World Bank under the *Economic, Fiscal and Public Sector Governance Development Policy Loan (P169624)*, following the 2018 Velvet Revolution. The reforms under this pillar support improvements in the anti-corruption and justice sectors and a better public regulatory framework to foster a level playing field and streamlined regulations. Part of the DPO1 indicative trigger 9 under this pillar, regarding the establishment of an Arbitration Center (Indicative Trigger #9.c), was achieved but dropped to streamline the matrix. This reform is part of the enhancement of the Alternate Dispute Resolution system in Armenia, which continues to be supported by World Bank TA as part of the support to justice sector reforms.

Prior Action #7: Regulatory Impact Assessment

52. Rationale: The current policymaking governance in Armenia has several shortcomings compared to international best practice. From a regulatory perspective, one main set of challenges is linked to reduced legal certainty and predictability of legal acts, generated by regulatory failures, excessively frequent amendments, and a disproportionate flow of new regulation. The government acknowledges that lack of legal certainty and predictability may have a negative effect on investments, economic growth, and prosperity and is eager to reform the regulatory process to address those challenges through a stronger regulatory impact assessment system. Regulatory Impact Assessments (RIAs) are an important component of policy making and can help improve regulatory quality and predictability through better practices for evidence-based, transparent, and consultative rulemaking, and strategic planning. The private sector and citizens faced complexity to do business in Armenia. Rulemaking is lacking an inclusive, predictable and consultative approach which translates into unreliable regulations and low trust in the government. The Government has already implemented several actions towards the establishment of a comprehensive RIA system. The *Economic, Fiscal and Public Sector Governance*



Development Policy Loan (P169624) supported the introduction of the RIA framework through the establishment of a new RIA department under the Prime Minister's Office (introduced in 2019 but not fully operationalized) and several decrees were adopted to establish the overall RIA framework.⁴² Strengthening the RIA is reflected in the government Development Program for 2021-2026. Nevertheless, detailed RIA methodologies were still missing, which was a bottleneck for proper operationalization of the RIA framework.

Prior Action #7: To improve the quality of policy making, the Borrower through its Cabinet has approved the regulatory impact assessment (RIA) methodology through Government Decree 2053-L dated November 23, 2023, to assess the regulatory impact applicable to the five sectors covered by the RIA (economic, including business and competition, social, health, environment and public finance).

53. Program: To improve the quality of public policy to foster a more competitive environment for firms, DPO1 supported institutionalizing the state aid framework by establishing clear rules and guidelines for each respective sector proposing to provide State Aid. DPO2 will continue to improve the quality of public policy making through assessment of the regulatory impact. To help operationalize the RIA framework, DPO2 supports the adoption of a new RIA methodology that introduces mandatory RIAs in five sectors: social, health, economy, finance, and environment. The RIA will help to incorporate diverse perspectives and potential impacts, allowing for a more balanced and comprehensive decision-making process. This will ensure legal certainty and predictability of legislation helping create a more friendly environment for investment and economic growth. The RIA Methodological Guideline states that the criteria for environmental impact includes impact on climate, mitigation of climate change negative impacts, and adaptation processes. The guideline provides mechanisms for impact assessment on environment and includes guidelines on calculations, among others, of GHG emissions. The drafting of the RIA methodology and amendments to the RIA decision has been supported by WB-provided TA, supported by the EU-funded Trust Fund on *Economic Governance, Business Environment and Firm Productivity (P172969)*. The Bank is also providing TA on how to improve public consultations in the RIA framework.

54. Expected Results:⁴³ The reform is expected to ensure that a range of perspectives are considered in the regulatory process, allowing for more balanced and comprehensive decision-making, thus improving the quality of policy and strategic planning. Application of RIA methodologies to draft legislation at a sufficiently early stage will also allow to comprehensively inform the policy development process ensuring a stronger link between market needs and policy documents. The adoption of methodological guidance for sector impact assessments will empower five line ministries (Ministry of Health, MoLSA, Ministry of Environment, MoF, and Ministry of Economy) to conduct sectoral impact assessments, thus operationalizing the RIA framework in Armenia. This will be measured by the number of draft legislations having undergone RIAs to at least 8 by end-2025 from 0 in 2021.⁴⁴ This reform will also contribute to green growth by assessing regulatory impacts in several sectors, including environment, and thereby contributing to both mitigation and adaptation.

Prior Action #8: Anti-Corruption

⁴² The government approved the RIA methodology concept note outlining the broad principles of the new RIA framework (GoA Decree N1323L of 09/26/2019), a mandatory regulation defining the RIA procedures and templates and selected deadlines (GoA Decree N2075N of 12/17/2020) and a guiding but non-mandatory recommendation on RIA implementation methodologies (GoA Decree N46L of 01/14/2021).

⁴³ Result indicator 11 related to the DPO1 state aid prior action-t reflects the number of aid that will need an investigation and decision. This is different to the number of state aid notified. Because only a few cases are problematic and deserve additional review/decision, a target of 4 was identified.

⁴⁴ The target for result indicator 12 was based on the number of laws that were subject to an RIA in 2022, combined with a recognition that civil servants will also need to absorb the new methodologies.



55. Rationale: Prior to the 2018 Velvet Revolution, corruption was a key concern for citizens. Perception of corruption in government as measured by Gallup World Poll's Corruption Index stood at 73 percent in 2017 and decreased sharply to 33 percent in 2019 on account of the government's priority in addressing corruption in the public sector.⁴⁵ Armenia's ranking in Transparency International's Corruption Perception Index also sharply improved in 2019, moving Armenia to 77th position from previous 105th. However, a slow pace of reforms resulted in a decrease in the country's ranking in 2022.⁴⁶ The government's commitment to reform in this area has been recently reaffirmed in the Strategy for Judicial and Legal Reforms for 2022-2026 and the Anticorruption Strategy and its Action Plan for 2023-2026.

Prior Action #8: To implement its Anti-Corruption Strategy, the Borrower: (a) through its Cabinet, has adopted Government Decrees 1135-N and 1148-N dated June 7, 2023, to operationalize the Law on Whistleblowing System; and (b) through the Corruption Prevention Commission (CPC) has issued Decree N01-N dated December 22, 2023, approving the creation of a gift register for public officials, which will be made public, and approving procedures for managing the gift register.

56. Program: The previous operation (DPO1) supported legal amendments to strengthen the framework to prevent and fight corruption, and to promote greater efficiency in the justice sector in Armenia particularly given the sharp increase in case load since the twin shocks. The legislation expanded the whistleblower framework, allowing for a wider scope of reporting corruption cases through the whistleblowers e-platform and improved the gift regulations for public servants. An improved regulatory framework for alternative dispute resolution was introduced to overcome the challenge of increased caseload and variances in performance of the judiciary. Building on the previous reforms at the legislative level, this operation (DPO2) supports the actual implementation of legal amendments through adoption of decrees to define operation processes. Specifically, the reforms aim to implement the legislative policy and institutional change supported under DPO1 as they strengthen the framework to prevent and fight corruption through the whistleblowing system and reporting and monitoring of gifts received by public servants. Government Decisions N1135-N and N1148-N of July 6, 2023, were adopted to operationalize the Law on Whistleblowing System by providing procedures for: (i) improving channels for the reporting of non-criminal corruption behavior through the anonymous whistleblowing website; (ii) enhancing processes for managing and addressing reports on non-criminal corruption offences; and (iii) ensuring confidentiality and preventing retaliation of whistleblowers. The CPC adopted a decree to create a public gift register. The platform for registration and reporting gifts received by public servants would enhance the mechanisms to monitor their assets and prevent possible corrupt behavior. The full system would enable automatic verification and analysis of declarations and leverage data-analytics for improved prevention and addressing of corruption.

57. Expected Results: The implementation of this reform will improve the effectiveness of anti-corruption efforts. Specifically, the share of gift declarations registered in the gift register that are reviewed by the CPC increases from 0 to 30 percent.

Changes to the program compared to the original DPO1 matrix are presented in Annex 6. The analytical underpinnings of the program are presented in Annex 7.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

58. The proposed operation is fully aligned with the key elements of the WBG Evolution Roadmap, the CPF for FY19-FY23 and the upcoming CPF for 2024-28, and the adjustments made to the program following the Performance and

⁴⁵ <https://caucasusbarometer.org>; Gallup World Poll's Corruption Index measures perceptions in a community about the level of corruption in government. Higher scores on the Corruption Index indicate more residents perceive corruption as widespread.

⁴⁶ See Transparency International's Corruption Perception Index here: <https://www.transparency.org/en/cpi/2022>.



Learning Review of the CPF, approved in FY22.⁴⁷ The operation is aligned with the new mission of the WBG “to end extreme poverty and boost shared prosperity on a livable planet” and is expected to contribute to mitigate global challenges that mostly affect Armenia’s development and aspirations. The DPO is aligned to selected WBG Global Challenge Programs (e.g., Climate change adaptation and mitigation through PA#1, PA#2, PA#3); Pandemic preparedness and prevention through PA#6; and Fragility and conflict PA#4) and its results are consistent with the new Corporate Scorecard. The program supports the three focus areas under the current CPF: (a) Focus Area 1: Export Enablers and Firm Competitiveness: PA#1, PA#7 and PA#8 are in line with the CPF Objective 4 (improved public spending efficiency and increased private financing for development which includes expected results for improved institutional framework and capacity to combat corruption); (b) Focus Area 2: Human Capital Development and Equity: PA#4, PA#5, and #PA6 under the program Pillar 2 reinforce all the key objectives under this focus area, which are Objective 5 (enhanced access to good-quality educational services for skills development and employability), Objective 6 (improved quality to good-quality health care services) and Objective 7 (improved access to social protection services and economic opportunities for poor and vulnerable populations); and (c) Focus Area 3: Sustainable Management of Environmental and Natural Resources: PA#1, PA#2, PA#3, contribute to two of the objectives under this focus area, which are Objective 8 (improved management of natural resources) and Objective 10 (enhanced energy sustainability and renewable energy resources).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

59. Consultations within the government, with the beneficiaries of the reform and with development partners, helped shape the reform agenda. In line with the Evolution Roadmap, the World Bank has fostered partnerships under the proposed operation to provide Armenia with better coordinated support from diverse actors. The main counterpart for the operation is the MoF. MoF has been coordinating with different governmental agencies responsible for the prior actions, which include the Ministry of Territorial Administration and Infrastructure and the Committee of Urban Development (PA#1), the Ministry of Environment (PA#2 and PA#3), the MoLSA (PA#4), the MoESCS (PA#4, PA#5), the MoH (PA#6), the Prime Minister’s Office (PA#7), Competition Protection Commission (PA#8) and MoJ (PA#8). Various beneficiaries of the reform areas supported by the proposed loan have also been consulted. Draft legal acts are published on www.e-draft.am, a website which presents draft legal acts to the public, accompanied by online discussions with active participation of representatives of civil society. The World Bank team has also coordinated with key development partners including the United Nations High Commissioner for Refugees on crisis response measures. The PA#4.ii measure was discussed with development partners and as part of the Civil Initiative for the Right to Children’s Education Working Group. On PA#5, inputs for the working group are being financed through the EU for Innovation (EU4I) grant. The loan preparation has also benefited from collaboration with the OPEC Fund, which provided parallel financing for the first operation.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

60. Overall, the prior actions supported by this operation are expected to yield positive poverty and social impacts, both directly and indirectly. PA#1 is expected to have large impact on household welfare with progressive distributional effects, as the poor households spend higher share of their expenditure on utilities. Although this requires an initial investment by households, international evidence shows that the benefits often outweigh the costs of investments in the longer term.⁴⁸ PA#2 on AAP would benefit all in the longer term through improved health and productivity of labor, but

⁴⁷ Performance and Learning Review of the Country Partnership Framework for the Republic of Armenia for the Period FY19-FY23 (World Bank, 2022, Report #68425-AM, Washington DC.)

⁴⁸ For example, Dean, Joshua, and Susanna Berkouwer, 2021, “Barriers to energy efficiency adoption in low-income communities.” *Kleinman Center for Energy Policy*, and Tavar, Miguel A., 2012, “The structure of energy efficiency investment in the UK households and its average monetary and



to assess its distributional impact, further data and quantitative analysis are needed. PA#3 on EIA will be neutral for addressing poverty and social dimensions of investments. PA#4 on crisis-related temporary protection status and employment opportunities is expected to have a positive impact on poverty reduction by increasing the coverage of government support to refugees, and by mitigating negative impacts from human capital losses due to temporary job losses, both in the shorter and longer term. PA#5 is expected to have a direct impact on the welfare of the poor by closing the gap in learning outcomes which leads to improving productivity in the labor market. PA#6 on improving the quality and accessibility of medical services is expected to benefit the poor, as they disproportionately face difficulties in accessing and affording health care services. PA#7 is expected to have a neutral impact in the short term. PA#8 is likely to promote executive accountability which leads to improved efficiency and quality of public service.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

61. Prior actions in this operation are expected to have neutral or positive impact on the environment, forests, and other natural resources. Actions under Pillar 1 are expected to have a positive impact, while actions under Pillar 2 and Pillar 3 are expected to have a neutral impact in the long run except for PA#7, which is expected to have a direct positive impact, and PA#8, which is expected to have an indirectly positive impact. PA#1 will help identify and implement measures to address climate change related risks and impacts, which is in line with Armenia's LT-LEDS, for promoting green economy and for achieving long-term sustainable development goals, all of which will have significant positive impact on the environment, forests, and other natural resources. PA#2 for air pollutant emissions limits and procedures are essential steps to effective implementation of the ambient air quality standards. PA#3 will contribute to improved design and implementation of development projects to prevent, minimize, mitigate, or compensate for adverse environmental impacts (for all projects) and climate impacts (for projects that are categorized as likely to have significant adverse environmental impacts). PA#7 has potential to avert potential future environmental damages and is therefore considered to have direct positive impact on forests and other natural resource and environment aspects. PA#8, a strengthened anti-corruption framework, could significantly improve decision-making and policy outcomes, including on environment and natural resource management, under the condition that other enabling factors are in place.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

62. The overall budget resource management and the foreign exchange internal control environment are adequate and acceptable for this operation, and do not pose material risks to the PDO of the programmatic series. The state budget is made publicly available on the MoF website⁴⁹ and its implementation is annually audited by the Audit Chamber of Armenia. The audit reports are made public.⁵⁰ A Public Expenditure and Financial Accountability (PEFA) assessment by the EU is ongoing. Preliminary results point to similar Public Financial Management (PFM) performance reported in the last published PEFA in 2014. According the published PEFA, the PFM system performance was strong overall, with scores of at least B for 16 out of the 28 performance indicators. This includes indicators related to budget credibility, policy-based budgeting, budget execution and cash management, accounts reconciliation, information on resources received by service delivery units, and timeliness of in-year budget reports. However, some critical PFM system elements, including oversight of aggregate fiscal risk, effectiveness of payroll controls, internal controls and internal audit, annual financial reporting, external audit and parliament scrutiny of its reports were assessed to be weak. Recent improvements to the budget system include amendments to the Law on Budgetary System with legally binding provisions regarding program appropriations.⁵¹

environmental savings," *Energy Policy*, Vol 50, Nov 2012, pp. 723-725.

⁴⁹ https://minfin.am/hy/page/petakan_byuj/

⁵⁰ <http://armsai.am/en/documents>

⁵¹ Baseline Measurement Report: The Principles of Public Administration (2019, Support for Improvement in Governance and Management (SIGMA))



63. Armenia's procurement system is regulated by the Public Procurement Law (PPL) and respective secondary normative regulations, which are regularly amended to reflect recommendations being provided by development partners and adjustments to reflect changes in the economy. PPL is primarily aimed at increasing the efficiency of the use of public funds and reducing corruption risks by ensuring transparency of procedures through the procurement cycle. An assessment of the public procurement framework in 2019⁵² revealed areas where further improvement is needed, including the upgrade (or launching of the new) electronic procurement system. Currently, the Procurement Planning and Contract management (PPCM) system, Armenia E-Procurement System (ARMEPS) and e-Auction are running separately and are not seamlessly integrated. Hence, the data analytics of planned contracts and executed contracts are serious challenges. The lack of interfaces with other government services relevant to public procurement also diminish the system benefits. The Bank, including under a Bank-Executed Trust Fund, is supporting the development of a financially self-sustaining e-Procurement system that is fully integrated with other relevant Government IT systems, and the preparation of Employer's Requirements. While progress in the highlighted areas is slow, some actions have been initiated, including drafting the terms of references for a new e-procurement system. The Concept Note on Public Procurement System Development and related Action Plan to drive reforms in public procurement were approved by the Prime Minister of Armenia in August 2022. The Action Plan includes initiatives to improve access to data, maximizing Value for Money, promoting innovative solutions, and capacity building. Undertaking a Methodology for Assessing Procurement Systems assessment is currently under consideration.

64. The government has updated the 2019–23 Strategy for reforming the PFM System and the accompanying action plan which is reflected in the government program for 2021-26. The Treasury has a robust system in place for managing Bank-financed project accounts. Ex-ante commitment controls have been introduced for payments processed through the Treasury system. The government has outsourced the public sector internal audit function to the private sector, resulting in a weakened internal audit capacity. The government is revisiting the role of internal audit to re-establish a functional and effective framework. The government has developed Armenian Public Sector Accounting Standards based on International Public Sector Accounting Standards and adopted a law on public sector accounting. The law on Audit Chamber was adopted in January 2018, elevating the mandate of the Chamber of Accounts as the country's supreme audit institution. Electronic government systems, including electronic procurement systems, are enabling transparency and service delivery improvements.

65. The CBA's foreign exchange management is transparent and subject to adequate operational controls. The IMF safeguards assessment mission completed in April 2023 confirmed that the CBA maintains a strong safeguard framework and has well established safeguards in its external and internal audit arrangements, and sound financial reporting practices. The CBA adopted the International Financial Reporting Standards (IFRS) in 1996 and has been audited by internationally recognized auditing firms. Independent auditors have issued unqualified opinions on recent CBA financial statements, including for FY22 (issued by KPMG). The CBA's audit report is published as part of its annual reports.⁵³

66. Disbursement: The Bank will disburse the loan in Euro and the concessional GCF contribution in US dollar in the MoF's respective Euro and US dollar accounts in the CBA which form a part of the country's foreign exchange reserves. The Borrower shall ensure that upon deposit of these proceeds of the loan and concessional GCF contribution into the said accounts, an equivalent amount in the Armenian dram will be credited in the MoF's budget account within 30 days

⁵² <https://opswork.worldbank.org/home/P169857>

⁵³ https://www.cba.am/EN/ppperiodicals/Annual_Report_2022.pdf



of disbursement to be used for financing budgeted expenditures. The MoF, with the assistance of the CBA, will maintain records of all transactions under this loan in accordance with sound accounting practices.

67. Reporting, auditing and closing date: Considering the existing PFM systems and their strengthening, previous unmodified audit opinions on deposit account under earlier development policy financing, and unmodified opinions issued by the CBA's auditor on the recent years' financial statements, no additional fiduciary arrangements, including audit, will be required for the deposit account. The fiduciary risk for the program is rated as moderate.

68. Confirmation and eligible expenditure: The Borrower will provide to IBRD a confirmation that the amount of the loan has been credited to the account that is available to finance budget expenditures within 30 days from the date of receipt of the amount (the format of the confirmation letter should be acceptable to IBRD). The administration of the loan will be the responsibility of the MoF. If the Bank at any time determines that any amount withdrawn under the Bank loan has been used for excluded expenditures, as stated in the legal agreement, the Bank will require the Borrower to refund the amount to the Bank. The amount so refunded shall be credited to the loan account and canceled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

69. Monitoring will be conducted using to the greatest extent country systems. The government has designated the MoF as the main counterpart for the operation. The MoF is responsible for donor coordination, policy coordination, and overall project implementation. In practice, the Deputy Prime Minister and the MoF together serve as focal points. They rely on assigned officials in the different government ministries and agencies to help implement the policy reforms in the operation. This is led by the Prime Minister's Office, with support of other ministries. Government is considered to have sufficient monitoring capacity for the reform program in this programmatic series. Armenia subscribed to the IMF's General Data Dissemination System in 2002 and is a compliant country. The overall data quality, availability, and timeliness of released statistics are in line with international standards (www.armstat.am).

70. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

6. SUMMARY OF RISKS AND MITIGATION

71. The overall risk rating for the proposed operation is substantial. The level of risk varies across different aspects of the operation, from low in one area, moderate and substantial in other areas (Table 5). The aspects that are assessed as having greatest risk are risks related to political and governance, sector strategies and policies, and institutional capacity for implementation (all substantial).



72. **Political and Governance risk is assessed as substantial.** Armenia’s political risks relate mainly to the unresolved peace process with its neighbor and the risk of a recurrence of security issues at the border. New risks have also arisen following the conflict of September 19, 2023, which led to the displacement of more than 100,000 persons to Armenia. Dissatisfaction among these people and nationals regarding the sources of conflict may create internal political challenges to the government that could deviate attention away from the implementation of the structural reform program. Currently, there are no signs of widespread protest, and the government has demonstrated the ability to respond swiftly to the emergency. Plans for the medium-term integration of the new vulnerable group are also already under way.

73. **Sector Strategies and Policies risks are assessed as substantial.** Armenia’s overall strategic framework lacks key and comprehensive sector plans and clarity and consistency across different planning documents. For example, related to Pillar 1 on environmental protection, Armenia lacks a comprehensive environment protection strategy. Moreover, sectoral plans often lack costing and clearly defined priorities and performance indicators (e.g., already adopted Health, Education, Anti-Corruption and Justice sector strategies). This makes it challenging to identify sectoral investment priorities and to estimate the budget needed for the reforms. This can potentially lead to unexpected budget needs to implement reforms. A mitigating factor for this operation is MoF’s close monitoring of the budgetary needs for reforms included in this operation. The government is also increasingly acknowledging the importance of planning and has requested the support of development partners, including in strategic planning, which is expected to serve as risk mitigating factors.

74. **Institutional Capacity for Implementation and Sustainability risks are rated as substantial** given the capacity constraints in public administration and potential delays created by shifts and mergers of public offices and institutions with a view to streamline public administration. Furthermore, in some areas, the staff of respective ministries may have an overburdened workload, potentially causing delays in the implementation phase. However, the TA and guidance by World Bank teams and other development partners in the areas supported by the DPO program mitigates these risks.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Low
8. Stakeholders	● Moderate
9. Other	
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

DETAILED RESULTS FRAMEWORK

Prior actions		Results		
Prior Actions under DPO 1	Prior Actions under DPO 2	Indicator Name	Baseline	Target
Pillar 1: Fostering climate change mitigation and adaptation, and improving the regulatory framework for environmental management				
Prior Action #1. To strengthen the public investment management system and enhance climate focus, the Borrower, through the Government, has issued climate change screening requirements consistent with international standards for public investment projects prior to Public Investment Committee approval.		Results Indicator 1: Share of Investment Committee new approved projects that have undergone climate screening	0% [2021]	100% [end-2025]
Prior Action #2. To promote energy efficiency, the Borrower, through the Government, has: (a) approved the Program on Energy Saving and Renewable Energy for 2022-2030 that regulates directions, goals and targets of energy saving and renewable energy policies for 2022-2030, as well as an action plan including measures to ensure achievement of the set targets; and (b) approved a program to support energy-efficient renovation of apartments and dwelling houses, which defines the rules on eligibility and support amount, loan terms, and the implementation procedure.	Prior Action #1. To strengthen climate-resilience and energy efficiency in buildings and infrastructure, the Borrower, through its Committee of Urban Development, has approved new construction norms through Order 31-N dated December 22, 2022, for ensuring energy efficiency of buildings and establishing energy efficiency assessment indicators.	Results Indicator 2: Share of renovation loans (by value) provided through commercial banks to households targeting energy efficient renovations	0% [2021]	20% [end-2025]
Prior Action #3. To improve the monitoring of atmospheric air pollution, the Borrower, through	Prior Action #2. To implement the new framework for monitoring air pollution, the	Results Indicator 3: Levels of main pollutants and short-lived climate	Not disclosed [2021]	Disclosed [end-2025]



Prior actions		Results		
the Government, has approved and submitted for approval by the National Assembly an amendment to the Law on Atmospheric Air Protection to provide the framework for monitoring atmospheric air pollution and greenhouse gases, and sharing information with the public, consistent with climate, health, social and welfare needs.	Borrower, through its Cabinet: (i) has issued Government Decree 23-N on January 4, 2024 governing the procedures related to registering, summarizing, analyzing and archiving information concerning state inventory and recording emissions of pollutant substances into the ambient air; and (ii) has issued Government Decree 32-N on January 4, 2024 approving the procedures for developing draft emission value limits of pollutant substances into the ambient air and authorizing, rejecting and revoking emissions permits for legal entities and individuals engaged in business activities that have submitted draft emission value limits.	pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3) from at least 5 data collection points are publicly disclosed on a real-time basis		
Prior Action #4. To effectively prevent and reduce the impact of planned economic activities on the environment and human health, the Borrower, through the Government, has approved and submitted for approval by the National Assembly an amendment to the Law on Environmental Impact Assessment and Expert Appraisal, which defines the activities subject to, and the scope of, environmental impact assessments, and the institutions responsible for the review process.	Prior Action #3. To implement the new environmental impact assessment framework, the Borrower through its Cabinet: (i) has adopted Government Decree 2343-N dated December 28, 2023, to improve clarity and transparency on the procedure of public notification and hearings; and (ii) has adopted Government Decree 2294-N dated December 21, 2023, on Strategic Environmental Assessment (SEA) that regulates the procedure of SEA and identifies the scope and reporting requirements of the SEA.	Results Indicator 4: Number of EIA applications that are processed (registered, reviewed and decisions made on) yearly	239 [2021]	At least 287 (corresponding to at least a 20% increase) [end-2025]
Pillar 2: Enhancing equity and promoting human capital development				
Prior Action #5. To improve the targeting of social assistance, the Borrower, through the Government, has approved the 2021-2026 Action Plan of the Government of the Republic of	Prior Action #4: To support the needs of the new vulnerable group of refugees from Nagorno-Karabakh, the Borrower: (i) through its Cabinet has approved Government Decree 1864-N dated	Results Indicator 5: Share of the total Family Living Standards Enhancement benefits that is allocated to the poorest income	50% [2019]	65% [end-2025]



Prior actions		Results		
Armenia, which includes an action supporting the deployment of a new family vulnerability assessment system.	October 26, 2023 providing temporary protection status to such group for a year; and (ii) through its Cabinet has approved Government Decree 1756-L dated October 12, 2023 extending support for refugee teachers, including female teachers, to work in Armenia to support human capital development and employment.	quintile (pre-transfer)	0 [September 2023]	117,000, of which 52% female [end-2025]
		Results Indicator 6: Number of refugees who have received the temporary protection, of which female		
		Results Indicator 7: Number of refugee teachers who have found employment in the Armenian education system, of which female	0 [September 2023]	450, of which 85% female [end-2025]
Prior Action #6. To improve learning outcomes in the education system, the Borrower, through the Government, has approved and submitted for approval by the National Assembly a program which includes among its strategic areas actions the adoption of a new competency-based curriculum guided by learning outcomes, with a focus on strengthening STEM subjects, green education and foreign languages.	Prior Action #5. To support the implementation of the new competency-based curriculum, the Borrower, through the MoESCS has issued Ministerial Order 50-A/2 dated January 16, 2024, revising the national student assessment framework for tracking and using learning outcomes to monitor and improve the education system.	Results Indicator 8: Share of all schools implementing the revised curriculum in targeted grades (2 nd , 5 th , 7 th and 10 th grades)	6% [2022]	100% [end-2025]
	Prior Action #6: To improve and sustain the quality of medical services, the Borrower: (i) has approved on May 24, 2023, an amendment to Law HO-193 dated May 30, 2001 on licensing to move from termless licensing to five-year term licensing, and (ii) through the MoH has issued a Ministerial Order 2068-L dated April 25, 2023, updating the existing contracting mechanism, including performance-based additional payments that incentivize improved primary health care (PHC) access (use of preventive and pre-hospitalization visits) and increase PHC	Results Indicator 9: Share of persons aged 18 and older registered with the PHC doctor, who made 2 or more visits to the PHC doctor during the month preceding planned hospitalization	16% [2022]	37% [end-2025]



Prior actions		Results		
	doctors' reimbursement rates.			
Pillar 3: Strengthening the anti-corruption framework and justice sector efficiency				
Prior Action #7. To limit anticompetitive effects of state subsidies in a manner consistent with good international practices, the Borrower, through the Competition Protection Commission, has approved rules that it will apply for the evaluation of state aid, including: (i) the analytical steps required to identify distortive state aid, and (ii) the categories and conditions under which distortive state aid can be granted, including environmental reasons.	Prior Action #7. To improve the quality of policy making, the Borrower through its Cabinet has approved the regulatory impact assessment (RIA) methodology through Government Decree 2053-L dated November 23, 2023, to assess the regulatory impact applicable to the five sectors covered by the RIA (economic, including business and competition, social, health, environment and public finance).	Results Indicator 10: Number of adopted and published State Aid decisions (according to the new adopted rules) by the Competition Protection Commission per year	0 [2021]	4 [end-2025]
		Results Indicator 11: Number of draft legislations having undergone an RIA	0 [2021]	8 [end-2025]
Prior Action #8. To implement its Anti-Corruption Strategy and its Justice Sector Reform Strategy, the Borrower, through the Government, has submitted for approval by the National Assembly: (a) amendments to the Law on the Whistleblowing System, which aim to improve the reporting channels, including to the Corruption Prevention Commission, and ensure a broader range of protection mechanisms for people reporting corruption situations; (b) amendments to the Law on Public Service, which aim to improve reporting and monitoring of gifts received by public servants; and (c) amendments to the Law on Mediation, which aim to reform the mediation system and establish mandatory mediation regulations for certain types of cases.	Prior Action #8. To implement its Anti-Corruption Strategy, the Borrower: (a) through its Cabinet, has adopted Government Decrees 1135-N and 1148-N dated June 7, 2023, to operationalize the Law on Whistleblowing System; and (b) through the Corruption Prevention Commission (CPC) has issued Decree N01-N dated December 22, 2023 approving the creation of a gift register for public officials, which will be made public, and approving procedures for managing the gift register.	Results Indicator 12: Share of gift declarations registered in the gift register that are reviewed by the Corruption Prevention Commission	0% [2021]	30% [end-2025]
		Results Indicator 13: Newly registered cases of family matters in courts	2,203 [2021]	At least 1983 (corresponding to at least a 10% reduction) [end-2025]



RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Fostering climate change mitigation and adaptation, and improving the regulatory framework	
Share of Investment Committee new approved projects that have undergone climate screening (Percentage)	
Dec/2021	Dec/2025
0	100
Share of renovation loans (by value) provided through commercial banks to households targeting energy efficient renovations (Percentage)	
Dec/2021	Dec/2025
0	20
Levels of main pollutants and short-lived pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3) from at least 5 data collection points are publicly disclosed on a real-time basis (Microgram/m3)	
Dec/2021	Dec/2025
Not disclosed	Disclosed
Number of EIA applications that are processed (registered, reviewed and decisions made on) yearly (Number)	
Dec/2021	Dec/2025
239	At least 287 (corresponding to at least a 20 percent increase)
Enhancing equity and promoting human capital development	
Share of the total Family Living Standards Enhancement benefits that is allocated to the poorest income quintile (pre-transfer). (Percentage)	
Dec/2019	Dec/2025
50	65
Number of refugees who have received temporary protection status (Number)	
Sep/2023	Dec/2025
0	117,000
➤ of which female (Percentage)	
0	52%
Number of refugee teachers who have found employment in the Armenian education system (Number)	
Sep/2023	Dec/2025
0	450
➤ of which female (Percentage)	
0	85%
Share of all schools implementing the revised curriculum in targeted grades (2nd, 5th,7th and 10th grades) (Percentage)	
Dec/2022	Dec/2025



6	100
Share of persons aged 18 and older registered with the PHC doctor, who made 2 or more visits to the PHC doctor during the month preceding planned hospitalization (Percentage)	
Dec/2022	Dec/2025
16	37
Strengthening the anti-corruption framework and justice sector efficiency	
Number of adopted and published State Aid decisions (according to the new adopted rules) by the Competition Protection Commission per year (Number)	
Dec/2021	Dec/2025
0	4
Number of draft legislation having undergone a RIA (Number)	
Dec/2021	Dec/2025
0	8
Share of gift declarations registered in the gift register that are reviewed by the Corruption Prevention Commission (Percentage)	
Dec/2021	Dec/2025
0	30
Newly registered cases of family matters in courts (Number)	
Dec/2021	Dec/2025
2203	At least 1983 (corresponding to at least a 10% reduction)



ANNEX 2: FUND RELATIONS ANNEX

Press release of Staff-level agreement available at:

[IMF Executive Board Concludes the 2023 Article IV Consultation and Completes the Second Review Under the Stand-By Arrangement with Armenia](#)

IMF Executive Board Concludes the 2023 Article IV Consultation and Completes the Second Review Under the Stand-By Arrangement with Armenia

December 11, 2023

- The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV Consultation and completed the second review under the Stand-By Arrangement (SBA) with Armenia. The Armenian authorities continue to treat the SBA as precautionary.
- Real GDP is projected to grow by 7 percent in 2023 before moderating to 5 percent in 2024. Inflation has subsided rapidly and is projected to revert to the central bank’s target of 4 percent by mid-2024.
- Key policy priorities include preserving macroeconomic stability, building fiscal buffers to support priority infrastructure and social spending, managing fiscal risk, enhancing the monetary policy, macroprudential, and supervisory frameworks, and strengthening economic resilience by advancing structural reforms in the labor and product markets, access to finance, and governance.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed the second review under the [Stand-By Arrangement](#) with Armenia. This provides the country with access to about US\$24.4 million (SDR 18.4 million), bringing the total access to about US\$73.3 million (SDR 55.2 million). The Armenian authorities continue to treat the SBA as precautionary.

Armenia’s strong growth momentum continued through 2023. Supported by robust private consumption and investment, the economy is projected to grow by 7 percent in 2023 before moderating to 5 percent in 2024. Over the medium-term, growth is projected to reach its potential of around 4.5 percent, while steadfast implementation of structural reforms under the program could increase potential growth further. Inflation is projected to revert to the central bank’s target of 4 percent by mid-2024 and stabilize around it. The current account is projected to reach 3 percent of GDP in 2023 and 2024 due to robust consumption and investment demand. Foreign direct investment and capital inflows have moderated. Fiscal overperformance has persisted, with the overall fiscal balance remaining in surplus through September 2023, owing to higher than anticipated revenue collection and spending under-execution, notwithstanding the authorities’ prompt fiscal support to address the urgent needs of Nagorno-Karabakh’s refugees.

The Executive Board today also concluded the 2023 Article IV consultation [\[1\]](#) with Armenia. The associated press release will be issued separately.

Following the Executive Board’s discussion today, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

“Armenia’s economy has managed to overcome recent external shocks and faces a favorable outlook, with strong growth in the context of moderate inflation. The program performance remains broadly satisfactory. However, an uncertain domestic and external environment warrant continued policy prudence and unwavering reform effort.



“The policy focus of the 2024 budget on preserving macroeconomic stability and providing humanitarian and development support to NK refugees is welcome. In the medium term, a gradual fiscal deficit reduction, anchored on Armenia’s fiscal rules, will ensure that public debt remains moderate. Progress on structural fiscal reforms including tax expenditure rationalization and SOE ownership policy will help contain fiscal risks and mobilize revenues to support priority expenditures on health, social protection, and capital projects.

“The monetary policy stance is appropriate and has helped ease inflation. The CBA should remain proactive in case strong demand conditions pose risks to the inflation outlook. The CBA’s plan to transition to a risk-based approach to price stability should ensure that the credibility of the inflation targeting framework is preserved. The flexible exchange rate has served Armenia well in absorbing external shocks, while building reserve buffers.

“In the face of rising financial sector risks, particularly in the housing sector, the CBA should advance its prudential regulation and supervisory reforms. Efforts should focus on preserving capital buffers, enhancing supervisory powers and capacities, and strengthening crisis management.

“Advancing structural reforms will support sustainable and inclusive growth. The authorities’ efforts to raise labor force participation and reduce structural unemployment, ease access to finance, diversify exports, and strengthen governance will enhance economic resilience and uplift potential growth.”



Table A2.1. Armenia: Selected Economic and Financial Indicators, 2020–25

	2020	2021	2022	2023	2024	2025
	Act.	Act.	Prel.		Proj	
National income and prices:						
Real GDP (percent change)	-7.2	5.7	12.6	7	5	4.5
Final consumption expenditure, Contrib. to Growth	-10.5	4	6.6	7.5	2.2	2.6
Gross fixed capital formation, Contrib. to Growth	-0.2	1.1	1.7	2.2	2.9	2
Changes in inventories, Contrib. to Growth	0.1	0.7	-0.9	-1	0	0
Net exports of goods and services, Contrib. to Growth	3.4	-0.2	5.2	-1.6	-0.1	-0.1
Gross domestic product (in billions of drams)	6,182	6,983	8,501	9,424	10,325	11,211
Gross domestic product (in millions of U.S. dollars)	12,642	13,861	19,514	23,787	24,745	26,569
Gross domestic product per capita (in U.S. dollars)	4,269	4,679	6,587	8,029	8,352	8,967
CPI (period average; percent change)	1.2	7.2	8.6	2.7	3.9	4
CPI (end of period; percent change)	3.7	7.7	8.3	2.5	4	4
GDP deflator (percent change)	1.8	6.9	8.1	3.6	4.3	3.9
Unemployment rate (in percent)	18.2	15.5	13	13.5	14	14
Investment and saving (in percent of GDP)						
Investment	19.7	20.7	21.7	23.3	24	23.8
National savings	15.7	17.2	22.5	20.2	20.9	20.2
Money and credit (end of period)						
Reserve money (percent change)	18.3	17.1	5	1.3	4	6
Broad money (percent change)	9	13.1	16.1	15.9	10.3	7.2
Private sector credit growth (percent change)	14.3	-3.9	4.5	13.2	7.5	5.9
Central government operations (in percent of GDP)						
Revenue and grants	25.2	24.1	24.3	25.2	25.1	25.2
<i>Of which</i> : tax revenue	22	22.1	21.9	22.9	23.1	23.3
Expenditure	30.6	28.7	26.4	28.2	29.7	29
Overall balance on a cash basis	-5.4	-4.6	-2.1	-2.9	-4.6	-3.8
Public and publicly-guaranteed (PPG) debt						
(in percent of GDP)	67.4	63.4	49.2	50.3	50.1	50.8
Central Government's PPG debt (in percent)	63.5	60.3	46.7	47.5	47.5	48.4
Share of foreign currency Central Government PPG debt (in percent)	75.6	71.2	62.1	58.2	55.8	51.7
External sector						
Exports of goods and services (in millions of U.S. dollars)	3,818	5,012	10,038	12,313	12,269	12,913
Imports of goods and services (in millions of U.S. dollars)	-5,082	-6,120	-10,186	-13,043	-13,192	-13,990
Exports of goods and services (percent change)	-34.1	31.3	100.3	22.7	-0.4	5.2
Imports of goods and services (percent change)	-33.2	20.4	66.5	28	1.1	6
Current account balance (in percent of GDP)	-4	-3.5	0.8	-3.1	-3.1	-3.6
FDI (net, in millions of U.S. dollars)	86	342	948	437	461	530
Gross international reserves (in millions of U.S. dollars)	2,616	3,230	4,112	4,004	3,903	4,006
Import cover 1/	5.1	3.8	3.8	3.6	3.3	3.2
End-of-period exchange rate (dram per U.S. dollar)	523	480	394
Average exchange rate (dram per U.S. dollar)	489	504	436

Sources: Armenian authorities; and Fund staff estimates and projections.

1/ Gross international reserves in months of next year's imports of goods and services, including the SDR holdings.

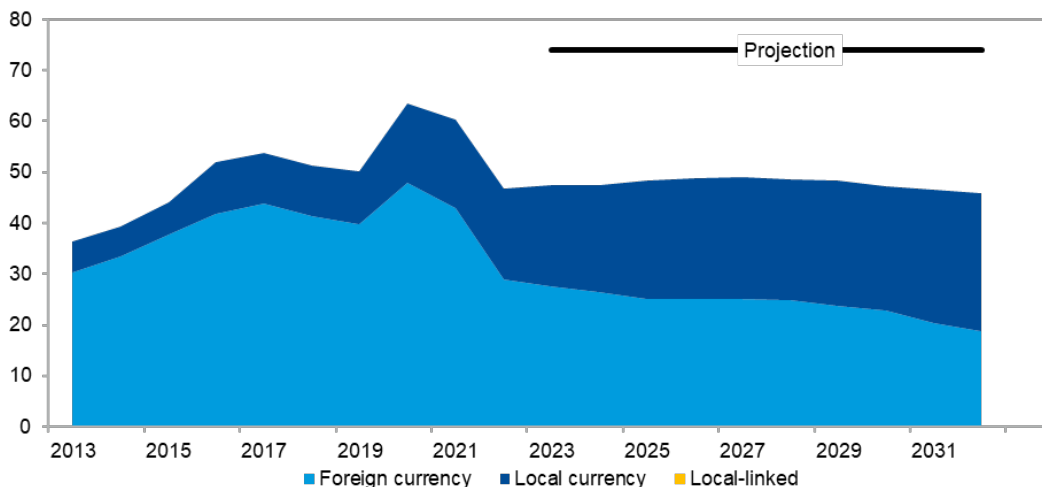
[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.



ANNEX 3: DEBT SUSTAINABILITY ANALYSIS FIGURES

A. Public Debt

Figure 1. Public Debt Structure by Currency (in percent of GDP)



Note: The perimeter shown is shown is central government.

Source: IMF Staff Report for the 2023 Article IV Consultation and Second Review Under the Stand-By Arrangement, December 2023.

Figure 2. Public Debt Fan Chart (in percent of GDP)

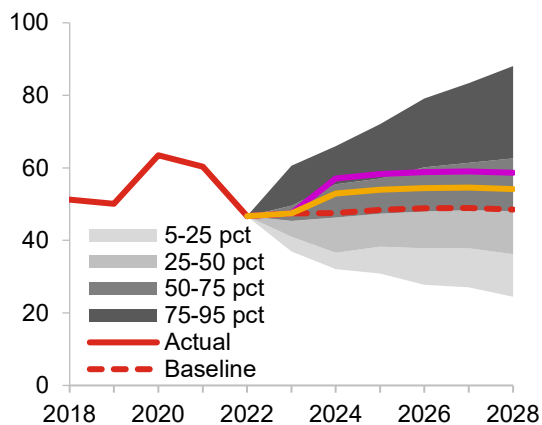
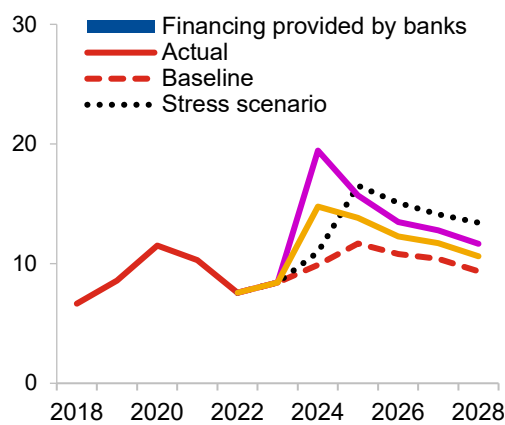


Figure 3. Gross Financing Needs (in percent of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis

Commodity prices

Exchange rate

Contingent liab.

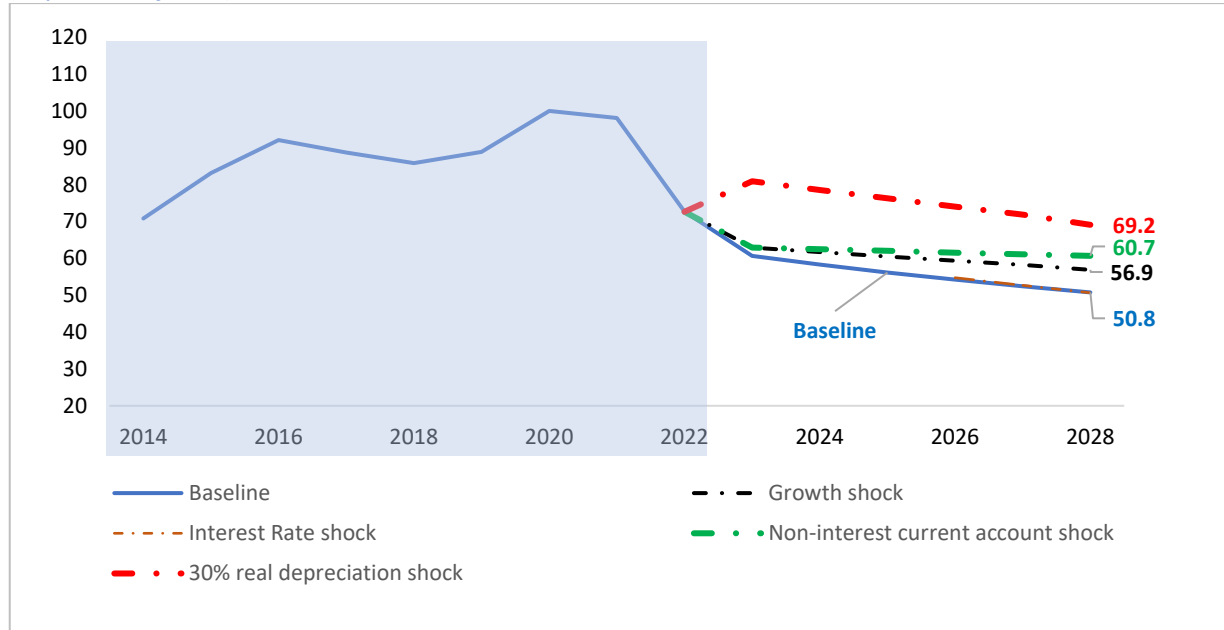
Natural disaster

Source: IMF Staff Report for the 2023 Article IV Consultation and Second Review Under the Stand-By Arrangement, December 2023.



4. External Debt

Figure 4. External Debt Scenario Analysis
(in percent of GDP)



Source: Based on IMF Staff Report for the 2023 Article IV Consultation and Second Review Under the Stand-By Arrangement, December 2023.



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

DPO2 Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Fostering climate change mitigation and adaptation, and improving the regulatory framework for environmental management		
Prior action #1	Positive	<p>Positive</p> <p>This is expected to have large impacts on household welfare with progressive distributional effects. The bottom 20 percent of the population in Armenia spends over 16 percent of their budget on housing and utility expenses.^[1] The share of these expenses is highest among lower-income households and lowest for the top decile (at 13 percent). Hence, to the extent that energy efficiency gains result in lower energy costs, these actions can expand disposable incomes with progressive distributional incidence.</p> <p>Implementing energy efficiency policies may also require large upfront investments and technical knowledge that are out of reach for dwellings and businesses of poor and vulnerable populations. The prerequisite to invest before seeking reimbursement makes participation in the program unattainable for these households. To address this and to have progressive impacts on poverty, the Government may consider establishing interest-free eco-loans as grants, specifically targeting poor households. Empirical evidence finds that this approach can encourage investments in energy efficiency regardless of the household’s income level.^[2] Considering that nearly half of the poor have access to credit (49 percent in 2022), they can potentially benefit from the subsidized loans/grants. Currently, it is possible to permit relatives (with a clear definition of “relative” in this context), to serve as borrowers. This extends the benefits of subsidized loans to those who lack access to financial services. This is in contrast to traditional mortgages, where homeowners are typically required to be the primary borrowers.</p> <p>^[1] Armenia Integrated Living Conditions Survey, 2020. ^[2] Dato, Prudence, 2018, “Investment in Energy Efficiency, Adoption of Renewable Energy and Household Behavior: Evidence from OECD Countries,” <i>The Energy Journal</i>, Vol. 39, No. 3.</p>



Prior action #2	Significant positive	<p>Neutral</p> <p>This is expected to simultaneously boost equity and growth. It is well-established that air pollution and environmental damage pose significant health risks and reduce the quality of life of the population. Health issues can lead to increased premature mortality rates, increased private and public expenses in medical treatments, as well as reduced productivity and increased absenteeism among the working population. While there are studies that show poorer populations in middle-income countries tend to live and work in more polluted areas (World Bank 2023^[1]), the distributional impacts of pollution and environmental hazards require further research in Armenia.</p> <p>^[1] World Bank, forthcoming, Poverty and distributional consequences of air pollution in Tbilisi.</p>
Prior action #3	Positive	<p>Neutral</p> <p>PA#3 on Environmental Impact Assessment will be neutral for addressing poverty and social dimensions of investments without further amendments to relevant laws and decrees governing EIA to ensure requirements for assessment and management of social risks and impacts. As part of an overview assessment of the Government’s system for assessing and managing environmental and social risk against the Bank’s Environmental and Social Framework (ESF) a review was undertaken of the Law on Environmental Impact Assessment and Expertise (EIAE), as revised in June 2023. On social issues, the EIAE law does not comprehensively cover the identification and management of social risks and impacts, nor does it explicitly require the identification or management of impacts on disadvantaged and vulnerable groups. The focus of prior action is on revisions related to procedures for public notification and hearings but without changes to address social aspects key groups will be missed from the process of consultation on impacts that may affect them. Similarly, it is important that the scope of Strategic Environmental Assessment (SEA) should also address social dimensions.</p>
Pillar 2: Enhancing equity and promoting human capital development		
Prior action #4	Neutral	Positive



	<p>PA#4 on crisis-related legal status is expected to have positive impact on poverty reduction by increasing the coverage of government support to the refugee population. Although more data and analysis are needed to assess the needs and the well-being of this population and its possible implications on the social and economic aspects in Armenia, vulnerability among these people are expected to be high. Even before September 2023, a large share of the residents of NK was suffering from food shortage due to the closure of the Lachin Corridor – 11 percent of households reporting that adult members had only one meal and 35 percent had two meals on average due to food shortage. In addition, 65 percent of the population had partially sufficient food and 30 percent insufficient food.^[1] There is an analysis that indicates that winterization costs can be high^[2] without any support, which may further impact households in securing basic needs including food, energy, and housing. Mobilizing fast-disbursing funds to assure access to essential public services and basic needs is essential to blunt the human and economic impacts of the conflict.</p> <p>PA#4 on employment opportunity is expected to have positive impact on poverty. Evidence from past crisis during COVID-19 pandemic indicates that temporary job losses would not only result in short term income losses but can result in a decade of lower earnings for some people. Given these potential negative impacts both in the shorter and longer run, employment protection for refugee teachers will help reverse human capital losses to improve both current and future productivity and growth.</p> <p>There may be shorter-term negative poverty impact for the host communities, but the actual impact will depend on the spatial distribution of population. It is difficult to quantify the impacts on the host communities due to data limitations in Armenia. Experiences from other countries show that possible impacts include heightened competition in the labor market, food security, housing, housing and decreasing accessibility to services, which may negatively impact the well-being of the households in host communities. However, given that the population increase in Yerevan, for example, is 3 percent of the original population where almost 30 percent of the refugee population relocated,^[3] and if this population is scattered across the city as opposed to concentrating to one locality, potential adverse impact may be negligible. Also, the impact on service delivery and opportunities in the labor market may be relatively small. For example, if we assume that 25 percent of this population are school-</p>
--	--



		<p>age children and the remaining 75 percent are the working age population, that will add around 20,000 working age population in Yerevan. Given the strong growth in registered jobs from 183,000 in 2018 to 730,000 in 2023,^[4] impact on the labor market may be relatively small.</p> <p>^[1] World Food Programme, 2023, <i>Context analysis and the possible implications of the refugee influx to Armenia in September 2023</i>. ^[2] World Food Programme, 2023, <i>Context analysis and the possible implications of the refugee influx to Armenia in September 2023</i>. ^[3] As of October 2023. UN Women, 2023, <i>Voices of women activists and civil society organizations: First respondents to the Armenia refugee crisis. Gender Alert I</i>. ^[4] Arka News Agency, 2023, <i>Pashinyan announces new record of registered jobs in Armenia</i>, November 23, 2023.</p>
Prior action #5	Neutral	<p>Positive</p> <p>This is expected to have a direct impact on the welfare of the poor by closing the gap in learning outcomes which leads to improving productivity in the labor market. In Armenia, despite near universal school coverage (grades 1-9), it’s quality limits the returns to education in the labor market. Moreover, there are large gaps in learning outcomes across income groups – the gap of 66 points in the international test score between the poor and the non-poor is larger than the typical gap of 55 points across the 50 countries for which the data are available.^[1] Private education and tutoring is also not very common, especially among the poor – while 12 percent of the non-poor households uses private tutoring services, the rate is only 5 percent among the poor households in 2022.^[2] Improved curriculum is also expected to address the high rates of youth who are “Not in Education, Employment, or Training” (NEETs) by providing relevant knowledge and skills required in the labor market.</p> <p>^[1] World Bank, forthcoming, <i>Armenia Systematic Country Diagnostics</i>. ^[2] Based on the World Bank staff calculation using ILCS 2022.</p>
Prior action #6	Neutral	<p>Positive</p> <p>This is expected to benefit the poor as the poor disproportionately face difficulties accessing and affording health care services. According to the analysis by the World Bank, the poor are deprived in terms of health, with over 40 percent of the poor having to terminate usual activities due to illness, injury or bad health, compared to 36 percent among the non-poor. Moreover, data shows that the significantly higher share of the poor (9.5 percent) face</p>



		difficulties affording health care services compared to the non-poor (3.4 percent) in 2021. Given that ill health is a major cause of poverty, addressing the quality and accessibility to health care is expected to have positive impact on poverty reduction.
Prior action #7	Neutral	Positive
Pillar 3: Strengthening the anti-corruption framework and justice sector efficiency		
Prior action #7	Positive	Neutral in short term, positive in longer term This is expected to have neutral shorter-term impact and positive longer-term impact by promoting executive accountability which leads to improved efficiency and quality of public service.
Prior action #8	Indirect, potentially positive	Positive This is also likely to have positive impacts on the poor through inclusive service delivery and growth by promoting executive accountability which leads to improved efficiency and quality of public service.



ANNEX 5: PARIS ALIGNMENT

Program Development Objective(s): The development objective of this DPO series is to promote green, resilient and inclusive development in Armenia, by fostering climate change mitigation and adaptation, improving the regulatory framework for environmental management, enhancing equity and promoting human capital development, and strengthening the anti-corruption framework and justice sector efficiency.

Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?


Yes. The DPO reform program is consistent with Armenia’s 2021 updated NDCs⁵⁴ to the Paris Agreement, as well as with the National Adaptation Plan⁵⁵ and LTS⁵⁶. Armenia’s CCDR is currently being developed. The NDCs foresee a 40 percent reduction of GHG emissions per unit of GDP by 2030 (vs 1990 level), with actions in sectors of Energy, Industrial Processes and Product Use, Agriculture, Forestry and Other Land Use, Waste. The LTS states that energy sector emissions decreased by 3.2 times compared to the year 1990, which is evidence of low-carbon development trends including energy efficiency in Armenia. DPO2 supports amendments to construction norms, and introduces new norms for energy efficiency in buildings, improving overall energy consumption. Regarding adaptation, the reforms in the energy and urban sectors are in line with the NAP by balancing risk reduction and development. The reforms address Armenia’s climate change vulnerabilities and increase climate resilience by adopting new construction norms that strengthen climate resilience. Reforms from the first pillar are supporting green growth by addressing several country-specific climate action priorities, contributing to mitigation and adaptation, and strengthening resilience to the anticipated impacts of climate change.

Therefore, the path of the reforms supported by the DPF is consistent with the country’s national climate action plans.

⁵⁴ <https://unfccc.int/sites/default/files/NDC/2022-06/NDC%20of%20Republic%20of%20Armenia%20%202021-2030.pdf>

⁵⁵ https://unfccc.int/sites/default/files/resource/NAP_Armenia.pdf

⁵⁶ <https://eu4climate.eu/download/draft-lt-leds-of-armenia/>

Mitigation goals: assessing and reducing the risks	
 Pillar 1: For World Bank change mitigation and adaptation, and improving the regulatory framework for environmental management Environmental Management and Inclusive Development Policy Operation (P179849)	
Prior Actions 1, 2 and 3	
Prior Action 1:	<i>To strengthen climate-resilience and energy efficiency in buildings and infrastructure, the Borrower, through its Committee of Urban Development, has approved new construction norms through Order 31-N dated December 22, 2022, for ensuring energy efficiency of buildings and establishing energy efficiency assessment indicators.</i>
Prior Action 2:	<i>To implement the new framework for monitoring air pollution, the Borrower, through its Cabinet: (i) has issued Government Decree 23-N on January 4, 2024 governing the procedures related to registering, summarizing, analyzing and archiving information concerning state inventory and recording emissions of pollutant substances into the ambient air; and (ii) has issued Government Decree 32-N on January 4, 2024 approving the procedures for developing draft emission value limits of pollutant substances into the ambient air and authorizing, rejecting and revoking emissions permits for legal entities and individuals engaged in business activities that have submitted draft emission value limits.</i>
Prior Action 3:	<i>To implement the new environmental impact assessment framework, the Borrower through its Cabinet: (i) has adopted Government Decree 2343-N dated December 28, 2023 to improve clarity and transparency on the procedure of public notification and hearings; and (ii) has adopted Government Decree 2294-N dated December 21, 2023 on strategic environmental assessment (SEA) that regulates the procedure of SEA and identifies the scope and reporting requirements of the SEA.</i>
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Prior Actions 1, 2, and 3 will not cause significant increase of GHG emissions. On the contrary, several of the reforms will reduce GHG emissions and support Armenia's transition to a low GHG emissions development path. Specifically, the Prior Actions under Pillar 1 will contribute to reductions of GHG emissions by adopting legally binding government strategy on energy efficiency, as well as supporting bylaws that enhance the amended AAP regulation which measure air pollutants and GHGs.
Conclusion Pillar 1 (Prior Actions 1,2 and 3): All three Prior Actions from Pillar 1 are aligned with the mitigation goals of the Paris Agreement.	

Pillar 2: Enhancing equity and promoting human capital development	Prior Actions 4, 5, 6 and 7
Prior Action 4:	<i>To support the needs of the new vulnerable group of refugees from Nagorno-Karabakh, the Borrower: (i) through Cabinet has approved Government Decree 1864-N dated October 26, 2023 providing temporary protection status to such group for a year; and (ii) through the Cabinet has approved Government Decree 1756-L dated October 12, 2023 extending support for refugee teachers, including female teachers, to work in Armenia to support human capital development and employment.</i>
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This Prior Action is not expected to cause significant increase of GHG emissions. Government decrees approved under this Prior Action introduce aid to refugees and only



	finance soft components – for example, construction of physical infrastructure to host them, which could have posed short-term increase in GHGs are not supported by this reform .
Prior Action 5:	<i>To support the implementation of the new competency-based curriculum, the Borrower, through the MoESCS has issued Ministerial Order 50-A/2dated January 16,2024, revising the national student assessment framework for tracking and using learning outcomes to monitor and improve the education system.</i>
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This Prior Action is not expected to cause significant increase of GHG emissions.
Prior Action 6:	<i>To improve and sustain the quality of medical services, the Borrower: (i) through the National Assembly has approved on May 24, 2023, an amendment to Law HO-193 dated May 30, 2001 on licensing to move from termless licensing to five-year term licensing, and (ii) through the MoH has issued a Ministerial Order 2068-L dated April 25, 2023, updating the existing contracting mechanism, including performance-based additional payments that incentivize improved primary health care (PHC) access (use of preventive and pre-hospitalization visits) and increase PHC doctors’ reimbursement rates.</i>
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This Prior Action is not expected to cause significant increase of GHG emissions.
Conclusion Pillar 2 (Prior Action 4, 5, and 6): All three Prior Actions from Pillar 1 are aligned with the mitigation goals of the Paris Agreement.	

<u>Pillar 3: Strengthening the anti-corruption framework and justice sector efficiency</u>	Prior Actions 7 and 8
Prior Action 7:	<i>To improve the quality of policy making, the Borrower through its Cabinet has approved the regulatory impact assessment (RIA) methodology through Government Decree 2053-L dated November 23, 2023, to assess the regulatory impact applicable to the five sectors covered by the RIA (economic, including business and competition, social, health, environment and public finance).</i>
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This Prior Action is not expected to cause significant increase of GHG emissions. On the contrary, the reforms adopted under this Prior Action will reduce GHG emissions and support Armenia’s low carbon pathways. The proposed reform adopts a new Regulatory Impact Assessments (RIA) methodology to assess regulatory impacts in five sectors where the RIA is mandatory: social, health, economy, finance, and environment .
Prior Action 8:	<i>To implement its Anti-Corruption Strategy, the Borrower: (a) through its Cabinet, has adopted Government Decrees 1135-N and 1148-N dated June 7, 2023, to operationalize the Law on Whistleblowing System ; and (b) through the Corruption Prevention Commission (CPC) has issued Decree N01-N dated December 22, 2023 approving the creation of a gift register for public officials, which will be made public, and approving procedures for managing the gift register.</i>



Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. This Prior Action is not expected to cause significant increase of GHG emissions.
Conclusion Pillar 3 (Prior Actions 7 and 8): Both Prior Actions from Pillar 3 are aligned with the mitigation goals of the Paris Agreement.	
Conclusion Mitigation Goals for the DPO: The operation is aligned with the mitigation goals of the Paris Agreement.	

Adaptation and resilience goals: assessing and managing the risks	
<u>Pillar 1: Fostering climate change mitigation and adaptation, and improving the regulatory framework environmental management</u>	Prior Actions 1, 2 and 3
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<p>No. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Armenia to reforms adopted under this Pillar were found to be low risk. The climate-related hazards such as extreme precipitation, heatwaves, droughts, and geophysical hazards (e.g., earthquake) are not expected to significantly impact the effectiveness of the prior actions in Pillar 1.</p> <p>By supporting environmental sustainability and mitigation, climate action, several reforms from this pillar will support adaptation and have positive impact on climate resilience as well.</p> <p>The aimed outcomes of the proposed reforms in energy and public administration are not expected to be affected by risks from climate hazards.</p>
Conclusion Pillar 1 (Prior Actions 1, 2 and 3 and 4): All three Prior Actions from Pillar 1 are aligned with the adaptation and resilience goals of the Paris Agreement.	

<u>Pillar 2: Enhancing equity and promoting human capital development</u>	Prior Actions 4, 5 and 6
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	No. As per the Education sector note, education investments such as curriculum development, teacher training, skills development, management, and financial reform have low exposure to climate hazards.
Conclusion Pillar 2: All four Prior Actions from Pillar 2 are aligned with the adaptation and resilience goals of the Paris Agreement.	

<u>Pillar 3: Strengthening the anti-corruption framework and justice sector efficiency</u>	Prior Actions 7 and 8
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	No. The anticipated risks from climate hazards in Armenia are unlikely to significantly impact the effectiveness of the Prior Actions in Pillar 3.



Conclusion Adaptation and Resilience Goals for the DPO: The operation is aligned with the adaptation and resilience goals of the Paris Agreement	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: The operation is aligned with the goals of the Paris Agreement	



ANNEX 6: CHANGES IN DPO2 PRIOR ACTIONS AND RESULT INDICATORS

DPO 2 Trigger (as per DPO1 matrix)	Reworded prior action in DPO2	Justification for change
<p>(Indicative) Trigger #1. To implement the new PIM framework, the borrower through Ministry of Economy adopts a ministerial order on digital PIM policy and procedures, mandatory for all public projects to: (i) enable real-time tracking of the status of all pre- and post-IC stage projects, including PPP projects; and (ii) improve budgetary reporting on the performance of the large capital projects.</p>	<p>Dropped.</p>	<p>The Ministry of Economy advanced in digitalizing the PIM framework during the last year and conducted a tender to develop digital software for real-time tracking of the PIM framework. However, the process faced procurement challenges. Implementation of this action is thus delayed.</p>
<p>(Indicative) Trigger #2. The Borrower, through its Committee of Urban Development, incorporates disaster and climate-resilience and energy efficiency provisions into the regulations for the design of new and existing buildings and infrastructure, by approving: (i) revised construction norms for urban development, rural and urban settlement planning, and (ii) new construction norms for ensuring energy efficiency of buildings and establishing energy efficiency assessment indicators.</p>	<p>PA #1. To strengthen climate-resilience and energy efficiency in buildings and infrastructure, the Borrower, through its Committee of Urban Development, has approved new construction norms through Order 31-N dated December 22, 2022, for ensuring energy efficiency of buildings and establishing energy efficiency assessment indicators.</p>	<p>Edits to clarify objective and to streamline the matrix and strengthen the link between DPO 1 and 2 and the results indicator, the construction norms for urban development, rural and urban settlement planning, which has already been approved in May 2023 was dropped from the Prior Action.</p>
<p>(Indicative) Trigger #3. To implement the new framework for monitoring air pollution, the borrower: (i) revises the procedure for state registration of harmful effects on the atmospheric air; and (ii) revises the procedure of drafting and approval of the regulations of permissible limits of the air pollutant emissions into the atmospheric air.</p>	<p>PA #2. To implement the new framework for monitoring air pollution, the Borrower, through its Cabinet: (i) has issued Government Decree 23-N on January 4, 2024 governing the procedures related to registering, summarizing, analyzing and archiving information concerning state inventory and recording emissions of pollutant substances into the ambient air; and (ii) has issued Government Decree 32-N on January 4, 2024 approving the procedures for developing draft emission value limits of pollutant substances into the ambient air and authorizing, rejecting and revocation of emissions permits for legal entities and individuals engaged in business activities that have submitted draft emission value limits.</p>	<p>Edits to clarify that government level decree and strengthen objective.</p>



<p>RI #3. Levels of main pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3) from at least 5 data collection points are publicly disclosed on a real-time basis</p>	<p>RI #3. Levels of main pollutants and short-lived climate pollutants (PM2.5, PM10, SO2, CO, NOX, Hg, Ar, Cu, Mo, NH3) from at least 5 data collection points are publicly disclosed on a real-time basis</p>	<p>Added ‘and short-lived climate pollutants’ to the text.</p>
<p>(Indicative) Trigger #4. To implement the new EIA framework, the borrower: (i) revises the government decision related to procedures for public notification and hearings; and (ii) adopts a decree on Strategic Environmental Assessment (SEA) that regulates the relations connected with the implementation of the preliminary assessment, identifies the scope of the SEA, and defines the main stages of SEA, monitoring and post-project analysis.</p>	<p>PA #3. To implement the new environmental assessment framework, the Borrower through Cabinet: (i) has adopted Government Decree 2343-N dated December 28, 2023, to improve clarity and transparency on the procedure of public notification and hearings; and (ii) has adopted decree 2294-N dated December 21, 2023, on Strategic Environmental Assessment (SEA) that regulates the procedure of SEA and identifies the scope and reporting requirements of the SEA.</p>	<p>Edit to clarify that government level decree. Other changes are editorial and not substantive.</p>
<p>RI #4: Number of EIA applications that are processed yearly</p>	<p>RI #4: Number of EIA applications that are processed (registered, reviewed and decisions made on) yearly</p>	<p>“Processed” is elaborated. Target redefined to present it as a percent increase instead of an absolute number.</p>
<p>(Indicative) Trigger #5. To support the implementation of a new targeting methodology, the Borrower, through the MLSA, rolls out the new system using the new registration module, the Family Vulnerability Assessment module, and interoperability with 10 databases.</p>	<p>Dropped and a new social protection reform has been proposed.</p> <p>Prior Action #4: To support the needs of the new vulnerable group of refugees from Nagorno-Karabakh, the Borrower: (i) through its Cabinet has approved Government Decree 1864-N dated October 26, 2023 providing temporary protection status to such group for a year; and (ii) through its Cabinet has approved Government Decree 1756-L dated October 12, 2023 extending support for refugee teachers, including female teachers, to work in Armenia to support human capital development and employment.</p>	<p>Despite progress towards the trigger identified in the DPO 1, this action is dropped due to implementation delays and reprioritization of reforms due to the humanitarian crisis followed the influx of refugees. The trigger is replaced with the PA addressing the immediate support to the new vulnerable group by focusing on measures to support the socio-economic integration of this group and their short-term needs.</p> <p>Details on progress of trigger: The trigger advances the implementation of the new targeting system, based on a modernized unified information system that will include new beneficiary registration and Family Vulnerability Assessment modules for vulnerability benefits and interoperability with databases to cross-check income and assets information. The MLSA has drafted amendments to the Law of Social Assistance and the Law Social Benefits which set the framework for the program and are prerequisites for the system rollout. The MLSA has also drafted the amendment to the Decree for the rollout of the new system (N-145), which includes critical provisions on data exchanges among government agencies for the purpose of the FBP application. Deployment of the new VAS is expected through government decree (N-145) that</p>



		<p>regulates interoperability for the platform, the new VAS system would be first rolled out in the Kotayk region and then nationally starting in in March 2024.</p> <p>The piloting of the VAS started with delay. The national rollout will only start once the piloting is finalized.</p>
Results Indicator 5: Share of the total Family Living Standards Enhancement benefits that is allocated to the poorest income quintile (pre-transfer).	Target of 75% adjusted to 65% by end-2025	Target adjusted to reflect delay of vulnerability assessment rollout.
	Added: RI #6: Number of refugees who have received the temporary protection status, of which female	New results indicator in line with new crisis response measure.
	Added: RI #7: Number of refugee teachers who have found employment in the Armenian education system, of which female.	New results indicator in line with new crisis response measure.
(Indicative) Trigger #6. To support the implementation of the new competency-based curriculum, the Borrower, through MoESCS, revises the national student assessment framework for tracking learning outcomes.	PA #5. To support the implementation of the new competency-based curriculum, the Borrower, through the MoESCS has issued Ministerial Order 50-A/2 dated January 16, 2024, revising the national student assessment framework for tracking and using learning outcomes to monitor and improve the education system.	The prior action is strengthened to better link the assessment framework with monitoring and strengthening of the education system.
RI #7: Share of all schools piloting the revised curriculum in targeted grades (2 nd , 5 th ,7 th and 10 th grades)	RI #8: Share of all schools implementing the revised curriculum in targeted grades (2 nd , 5 th ,7 th and 10 th grades)	Edited to make the implementation of reform clear.
(Indicative) Trigger #7. To ensure universal access to essential health services of high quality in Armenia, the Borrower, through a Government Decree, adopts the Concept Note for Universal Health Coverage (UHC).	<p>Dropped. A different health reform has been proposed.</p> <p>Prior Action #6: To improve and sustain the quality of medical services, the Borrower: (i) has approved on May 24, 2023, an amendment to Law HO-193 dated May 30, 2001 on licensing to move from termless licensing to five-year term licensing, and (ii) through the MoH has issued a Ministerial Order 2068-L dated April 25, 2023, updating the existing contracting mechanism, including performance-based</p>	<p>The government adopted the Concept Note for Universal Health Coverage (trigger in DPO 1) in February 2023. However, on a technical level, there were important omissions from the Concept Note.</p> <p>Details: This prior action was to spur the most significant healthcare reform effort in three decades to reorient service delivery, financing, and governance towards UHC as committed to under Armenia’s 2023-26 Healthcare System Development Strategy. The adoption of the Universal Health Coverage (UHC) Concept Note in February 2023 was an important first step for implementing such a significant reform. The UHC Reform proposes to expanded and uniform benefits</p>



	<p>additional payments that incentivize improved primary health care (PHC) access (use of preventive and pre-hospitalization visits) and increase PHC doctors' reimbursement rates.</p>	<p>package for the whole population; establish a sustainable health financing system based on the principles of state social responsibility and social solidarity of the population; and increase availability of good quality health care services and equity in access to essential healthcare services for every citizen in Armenia without financial barriers. For this purpose, it also suggests to mobilize additional funds to finance the implementation of the reform.</p> <p>While there was a consensus on the overall aim (providing affordable quality health care to the Armenian population) and general principles of the Concept Note, it was agreed that the Universal Health Insurance (UHI) law would address remaining major concerns and queries raised during the Concept Note review process. There has been significant progress in drafting the UHI law and have been submitted to government for review and feedback in 2023. The latest draft version was submitted to the government in mid-October 2023. MoH aims to obtain government approval of the UHI Law by end-2023, and Parliamentary approval in early 2024.</p> <p>To implement the UHC important and complicated reform there are many prerequisites to improve the health service delivery. The DPO 2 focuses on two of them: i) to require the health sector providers to update their knowledge and ensure their up-to-date standards of care and also to upgrade the health care facilities the prior action will support to replace the current termless licensing to five-year term licensing, ii) to improve the quality of Primary Health Care (PHC) services the DPO 2 will support to update the contracting mechanism, to incentives improvement in performance by linking it to the additional payments.</p>
<p>Left empty at DPO1 stage</p>	<p>RI #9: Share of persons aged 18 and older registered with the PHC doctor, who made 2 or more visits to the PHC doctor during the month preceding planned hospitalization</p>	<p>Results Indicator #8 was added to reflect the impact of PA #6 on the health care reforms.</p>
<p>(Indicative) Trigger #8. The Borrower through its Government approves the RIA methodology to assess the regulatory impact in five sectors (applicable to the impact</p>	<p>PA #7. To improve the quality of policy making, the Borrower through its Cabinet has approved the regulatory impact assessment (RIA) methodology through Government</p>	<p>Edits to clarify objective and coverage.</p>



domains covered by RIA in Armenia).	Decree 2053-L dated November 23, 2023, to assess the regulatory impact applicable to the five sectors covered by the RIA (economic, including business and competition, social, health, environment and public finance).	
Left empty at DPO1 stage	RI #12: Number of draft legislations having undergone an RIA	Results Indicator #11 was added to reflect the impact of PA #7 on strengthening the Regulatory Impact Assessment (RIA)
(Indicative) Trigger #9. The Borrower through its Government (a) adopts procedures for management of the anonymous whistleblowing website; (b) approves the creation of the gift register, which will be made public, and approved procedures for managing the gift register; and (c) approves the legislative package for the establishment of the Arbitration Centre.	PA #8. To implement its Anti-Corruption Strategy, the Borrower: (a) through its Cabinet, has adopted Government Decrees 1135-N and 1148-N dated June 7, 2023 to operationalize the Law on Whistleblowing System; and (b) through the Corruption Prevention Commission (CPC) has issued Decree N01-N dated December 22, 2023 approving the creation of a gift register for public officials, which will be made public, and approving procedures for managing the gift register.	Edits to clarify objective and the borrower entity responsible for action and to streamline the prior action, the sub-action on establishment of arbitration center was dropped. However, this reform was accomplished, and the Arbitration Center was established, and charter of “Arbitration and Mediation Center of Armenia” was registered in May 2023. Further, the amendment to the “Commercial Arbitration” Law was adopted in May 2023 by the National Assembly. This amendment revises the regulatory framework for arbitration to ensure impartiality, trustworthiness and enforcement of arbitration and will help to promote the efficiency of the justice sector through alternative dispute resolution.
RI #9: Share of registered non-criminal corruption cases reported to Corruption Prevention Commission used for initiation of proceedings.	Dropped.	Dropped to streamline the result indicators under this Prior Action and keep one indicator for anti-corruption reform and one for justice sector reform.
RI #11: Share of participants in mediation proceedings that express satisfaction with the quality of services provided.	Dropped.	Same as above.
RI #12: Newly registered cases of family matters in courts	RI #13: Newly registered cases of family matters in courts	Baseline changes to capture only new registration of family matters in courts and target ambition increased from 5 to 10 percent reduction and presented as a percent decrease instead of an absolute number.



ANNEX 7: ANALYTICAL UNDERPINNINGS TABLE

Prior Actions	Analytical Underpinnings
PA#1. Energy Efficiency	<p>International Energy Agency, 2022. <i>Armenia Energy Policy Review</i>.</p> <p>International Energy Agency, 2022. <i>Energy Efficient Buildings in Armenia: A Roadmap</i>.</p> <p>International Energy Agency, 2020. <i>Energy-Efficient Buildings in Armenia: A Roadmap</i></p> <p>International Energy Agency, 2015. <i>Eastern Europe, Caucasus and Central Asia</i>.</p> <p>GIZ, 2021. <i>Socio-Economic Survey of the Heating Energy and Related Issues in the Pilot Communities of Lori, Shirak and Kotayk Marzes of Armenia</i>.</p> <p>Key findings: Armenia’s buildings (the largest energy consuming sector) account for nearly 40 percent of the total electricity demand, with estimated energy-saving potential ranging from 40 percent to 60 percent across residential, public, and commercial buildings. Progress on improving energy efficiency in the residential sector has proved challenging.</p>
PA#2. Ambient Air Pollution	<p>EU4Climate, 2022. <i>Concept for Improving Air Quality Monitoring in Armenia</i>.</p> <p>EU4Environment, 2022. <i>The Environmental Compliance Assurance System in Armenia: Current Situation and Recommendations</i>. https://www.eu4environment.org/app/uploads/2022/03/Environmental-compliance-assurance-system-in-Armenia.pdf</p> <p>Key findings: Welfare costs associated with air pollution are high in Armenia, and air pollution is not being effectively monitored or regulated. The current Law on Atmospheric Air Pollution from 1994 does not include provisions allowing for an assessment system for ambient air quality management and the existing law also lacks an effective system for monitoring of priority pollutants.</p>
PA#3. Environmental Impact Assessment	<p>EU4Environment, 2022. <i>The Environmental Compliance Assurance System in Armenia: Current Situation and Recommendations</i>.</p> <p>World Bank, 2016. <i>Strategic Mineral Sector Sustainability Assessment</i>.</p> <p>Key findings: The 2014 Law on Environmental Impact Assessments has significant shortcomings that prevent it from being an effective mechanism for identifying, avoiding, and mitigating the negative impact of economic activity on the environment. It does not offer substantial tools to support the mitigation of adverse impacts and does not provide an effective mechanism for public awareness, community notification, and public participation in decision-making processes for existing and forthcoming economic activities. An example is in the mining sector, with the main problems relating to pollution, management of mining sites, and lack of rehabilitation efforts, which negatively affect water resources and threaten the health of people and the ecosystems.</p>



<p>PA#4. Temporary Protection Status and Employment (crisis-related)</p>	<p>World Bank and UNICEF, 2020. <i>Core Diagnostic of the Social Protection System in Armenia</i>.</p> <p>World Bank. 2023. Public Expenditure Review (PER).</p> <p>Key findings: Armenia’s social protection system is not sufficiently focused on building resilience of vulnerable groups and communities. For example, the current design of the eligibility formula for the Family Living Standards Enhancement Program makes the program less responsive to income shocks and puts less weight on the vulnerability of the working poor and unemployed, and it is neutral in terms of integrating active working age beneficiaries into the labor market.</p> <p>On crisis-response:</p> <p>Bowen, Thomas, Carlo del Ninno, Colin Andrews, Sarah Coll-Black, Ugo Gentilini, Kelly Johnson, Yasuhiro Kawasoe, Adea Kryeziu, Barry Maher, and Asha Williams. 2020. <i>Adaptive Social Protection: Building Resilience to Shocks</i>. Washington, DC: World Bank.</p> <p>O’Brien, C., Z. Scott, G. Smith, V. Barca, A. Kardan, R. Holmes, C. Watson, and J. Congrave. 2018. “Shock-Responsive Social Protection Systems Research: Synthesis Report.”</p> <p>World Bank (2022). <i>Safe and Learning in the Midst of Fragility, Conflict and Violence: A World Bank Approach Paper</i>.</p>
<p>PA#5. Education</p>	<p>World Bank, 2020. <i>Work for Better Future in Armenia: An Analysis of Jobs Dynamics</i>.</p> <p>World Bank, 2021. <i>Armenia: Teacher Profile and Policies</i>. Washington, DC.</p> <p>World Bank, 2019. <i>Enterprise Survey</i>.</p> <p>World Bank, <i>Forthcoming</i>. <i>Curriculum Reform in Armenia</i>.</p> <p>Activities conducted under the (i) <i>Education Improvement Project</i> (P130182) support the revision of subject standards and curricula of non-STEM subjects piloted in 20 schools; and (ii) technical assistance under the <i>EU4Innovation Trust Fund</i> (TF0B0597) supports the revision of subject standards and curricula of STEM subjects for all grades and inputs for the development of an assessment framework.</p> <p>Key findings: (1) Armenia suffers from skills gaps and skills mismatches between workers and firms, with the education system unable to meet the skills needs of the labor market. One driver (among others) of these skills gaps and mismatches is the existing curriculum, which is insufficiently focused on improving learning outcomes, and is also not supported by an assessment framework that can effectively track learning outcomes. (2) An impact evaluation was carried out to estimate the impact of a revised curriculum on learning. A differences-in-differences strategy was applied -- the first difference in between treated and untreated grades, and the second difference in between treated (Tavush) and untreated regions (Lori and Shirak which show parallel trends in terms of student outcomes and school inputs). Preliminary results have shown an average positive impact</p>



	<p>of 0.13 of a standard deviation on student assessments in mathematics and selected science subjects.</p>
PA#6. Health care	<p>World Bank. 2023. Public Expenditure Review (PER).</p> <p>World Bank. 2023. Primary Health Care Assessment: Building Effective PHC in Armenia. Draft.</p> <p>Key findings: (1) Armenia's health system is facing challenges due to an increasing disease burden from NCDs and an aging population. The health financing system is dominated by out-of-pocket spending, which raises concerns about equity. Public health spending is lower than peers and is not efficiently allocated and spent. Primary health care is under-utilized due to concerns about cost and quality. The health spending is skewed towards hospital care and high pharmaceutical costs. To address these challenges, Armenia aims to undertake an ambitious reform towards universal health care coverage. The reform rollout needs to be clear about operational and financing arrangements, including a careful estimate of reform costs and financing sources. Complementary reforms are also needed to improve the quality and efficiency of spending. (2) The PHC assessment in Armenia revealed that Armenians have excellent geographical access to PHC facilities, but overall PHC utilization is low due to concerns about unavailability of services, their quality, and cost. Armenia spends less from public sources on PHC compared to other middle-income countries in the WHO European Region. Provider payments are low, and contracting of PHC services does not reward better quality. Current capacity, protocols, and processes are insufficient to facilitate proper integration of service delivery within and between healthcare facilities. To address these constraints and strengthen the health system's response to the growing burden of NCDs, reforms are recommended in three main areas: improving access to PHC, improving the quality of PHC, and supporting effective PHC governance mechanisms.</p>
PA#8. Regulatory Impact Assessment	<p>Nyman et al, 2019. <i>Promoting Competition and Creating Contestable Markets in Armenia</i>. World Bank, Washington DC.</p> <p>World Bank. Forthcoming. Compendium and comparative analysis of international good-practice guidelines and practices for environmental, social and health impact assessments and Methodological Guidance for Sectoral Impact Assessment in Armenia".</p> <p>Key findings: To boost competition and market contestability, Armenia needs to (i) open markets through pro-competition sectoral regulation; (ii) promote a level playing field, including through developing and implementing a framework for state aid control; and (iii) strengthen the competition law and its enforcement. Further, the RIA framework needs to be improved including on the grounds for implementation of in-depth RIA and specifics of common and sector specific RIA methodologies.</p>
PA#9. Anti-Corruption	<p>World Bank, 2023. <i>Public Sector Accountability Framework- Armenia Corruption Survey</i>.</p> <p>World Bank, 2023. <i>Strengthening Public Sector in Armenia: Input for Digitalization Strategy for Corruption Prevention. Technical Note</i>.</p>



OECD, 2022. *Anti-Corruption Reforms in Armenia. Pilot 5th Round of Monitoring Under the Istanbul Anti-Corruption Action Plan.*

Key findings: Over the years, large-scale corruption, such as collusion between large companies and the public sector, has limited investment opportunities and crowded out competition. At the same time, petty corruption has imposed severe constraints on the quality of services provided to citizens and their access to such. Following the Velvet Revolution in 2018, significant anti-corruption reforms have contributed to a notable reduction in citizens' perceptions of public sector corruption. Digitization has an important role for corruption prevention functions.