

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC106390

Project Name	Armenia Mineral Sector Policy (P163060)
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Lending Instrument	IPF
Project ID	P163060
Borrower Name	Republic of Armenia
Implementing Agency	Ministry of Energy and Natural Resources, Government of Armenia - Prime Ministers Office
Environmental Category	C - Not Required
Date PID Prepared	10-Jan-2017
Estimated Date of Approval	15-Mar-2017
Initiation Note Review Decision	

I. Introduction and Context

Country Context

Since independence, and until 2008, Armenia had been featured as one of the pre-eminent reformers among the former Soviet Republics. Indeed, over a number of years, the country displayed a record of sustained growth, economic stability, low inflation, modest deficits and external debt, rising remittances from migrant workers abroad, and sharply falling poverty rates. However, many analysts pointed out at the time that the continuation of this development path required deepening reforms to sharpen the competitive framework of the economy, achieving closer integration with international trade and capital markets, building financial markets, and creating the conditions for the absorption of knowledge that leads to higher technological sophistication.

Almost a decade since 2008, Armenia's economy finds itself in radically different and challenging circumstances, with a low growth-low investment environment and stalled poverty reduction. A rapidly increasing public debt has left the country with no fiscal space to manoeuvre. The country also has one of the highest unemployment rates (18.5 percent) in the Europe and Central Asia region largely stemming from low job creation, and a mismatch of workers' skills and jobs. The country grapples with falling remittances, deteriorating external conditions, stalling poverty reduction, unfinished reforms in critical areas and worsening demographics that will soon pose fundamental constraints.

Going forward the main challenge is to reinforce macroeconomic stability and uncover new sources of stable and shared growth, anchored in a well-integrated and competitive economy. On the macroeconomic front, imports remain significantly higher than exports, and there is continued reliance on private and official transfers. Public debt has increased, limiting options in terms of external borrowing for financing growth. The fiscal consolidation in recent years has been marked by large

increases in current spending and falling public investment. The primary scope for strengthening public finances is therefore through revenue mobilization. In terms of strengthening competitiveness, Armenia has secured better market access to Russia and other large countries (such as Kazakhstan) through its EEU membership, but the dynamics in those markets have contributed to a decline in exports. Critical gaps in the business environment such as low incentives for entrepreneurs and high logistics costs, are important constraints on productivity and growth, as is the need for more market contestability.

Armenia has an abundance of mineral resources such as copper, gold, silver and zinc, as well as industrial minerals such as diatomite, gypsum, limestone, perlite and rhenium salt. In 2011, it ranked 7th in the world in molybdenum production. Armenia's economy has undergone major structural changes since independence, changing from an industry-based economy to increasingly becoming an economy based on agriculture and trade. The minerals sector represents one of few industrial sectors that have developed in an economically positive way, and it is seen by the Government as having an important role in further development of the country's economy. In the past 5 years, inflows from sector exports have been in the region of USD 500 million annually, making it Armenia's top sector in terms of export and inflow of foreign exchange. Mining companies are significant job providers, especially as they offer formal jobs in more rural areas. However, the potential for large-scale, short-term economic gains through investment in the sector often overshadows its likely impact on the environment and local communities.

Sectoral and Institutional Context

Mining, although a potential engine for growth, is also a contested subject in Armenia. There is strong suspicion of mining activities by parts of the population, and in particular civil society. This distrust is largely fueled by a lack of information and dialog between stakeholders, and the fact that most metallic mines were developed in the Soviet era under weak environmental and social standards. To address this lack of trust and improve the investment climate, the Armenian government, supported by the World Bank, has been considering the Extractive Industries Transparency Initiative (EITI) process for several years. On July 28, 2015, the Government of Armenia made a public announcement that they intend to seek EITI candidacy, and nominated the Minister-Chief of Staff of the Government, as the person to lead the implementation of the initiative. In August 2016 a Multi Stakeholder Group was formed and worked out the EITI priorities for Armenia as well as the action plan. Armenia submitted an EITI candidacy application in December 2017.

It is clear that the mining sector's future development has to be accompanied by a strong and transparent dialog on the future of the sector, between the government, the private sector, civil society and the communities affected by mining activities. In 2015-16, The World Bank, under the Extractive Industries-Transaction Advisory Facility Multi Donor Trust Fund (EI-TAF MDTF), supported the undertaking of a Strategic Mineral Sector Sustainability Assessment (<http://documents.worldbank.org/curated/en/289051468186845846/Armenia-Strategic-mineral-sector-sustainability-assessment>) . It showed that whereas mining is important to the Armenian economy, individual operations are not generally contributing sufficiently to the longer term sustainable development of the nation. This is in spite of a range of past and ongoing initiatives taken by the regulators to reform the sector. The current situation of low mineral prices is a fortuitous time for mining policy development, to ensure that when the next wave of development and investments arrives with an increase in mineral/metal prices, Armenia will be well prepared to manage the various challenges and opportunities that such times entail. The Report's main recommendation is to urgently embark on developing a national mining policy, as it has never had one, and couple this with the efforts that are being made to make Armenia an EITI compliant country. The main point of having such a sector policy is that it will help ensuring the sustainable development and regulation of the

sector, and its contribution to the achievement of an overall vision for national development

Relationship to CAS/CPS/CPF

The Project is aligned with the 2013-2017 Country Partnership Strategy, which places private sector led job creation at the center of its Strategy, focusing on i) supporting competitiveness and job creation and ii) improving efficiency and targeting of social services, with 'Improving governance and anti-corruption measures in public services as a cross-cutting theme, with a specific focus on the impacts on gender.

II. Project Development Objective(s)

Proposed Development Objective(s)

To support the development of a Mineral Sector Policy for Armenia that focuses on strengthening of the contribution of the mining sector to sustainable economic growth.

Key Results

- A Mining Policy is developed through an inclusive multi stakeholder process that is line with good international practices and standards for sustainable mineral sector governance
- Representatives from communities affected by mining (both men and women) participate actively in a dialog on the future of the sector
- A permanent dialog forum for key stakeholders in the mining sector (communities, civil society, companies and government agencies) is put in place, and allows better knowledge and access to information on the key characteristics, impacts, benefits and future strategy for the Armenian mining sector

III. Preliminary Description

Concept Description

IV. Safeguard Policies that Might Apply

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

V. Financing (in USD Million)

Total Project Cost:	0.45	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Extractives Global Programmatic Support			0.45

VI. Contact point**World Bank**

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