



ARMENIA: Poverty Reduction Support Credit Series

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OVERVIEW

Armenia has a decade-long history of sustained reforms. However, survey results in the early 2000s showed that, despite growth, poverty was slow to fall, job creation was weak, and the production base of the economy was too narrow.

The first generation of reforms in Armenia in the 1990s helped restore the country's macroeconomic stability and create basic institutions of operating market economy. However, since the country was not demonstrating equally impressive outcomes in micro-economic and social indicators, the Government approved a Poverty Reduction Strategy Program (PRSP) in 2003 and, with the assistance of the World Bank, designed a series of four annual Poverty Reduction Support Credits (PRSCs) specifically directed at fighting poverty.



The PRSCs focused on building strong governance so as to raise greatly social spending, sharpen competition, mitigate social and environmental risks, and modernize the rural economy. Over the period of the four PRSCs, Armenia experienced strong growth and poverty reduction. Macroeconomic discipline and management showed impressive results with GDP expanding by 58 percent from 2004-08. Measures sharpening competition and entrenching property rights cut across trade, utilities regulation, as well as aviation, telecom, property and contract law, banking and capital markets, and rural sectors. Actions to address social and environmental risks across sectors like education, health, etc., resulted in the decline of all consumption based measures of poverty and extreme poverty. Interventions in the rural economy resulted in an acceleration in productivity growth and cost recovery in areas served by extension services, and an increase in farmer access to advisory services (from none to 40 percent).

Progress on prior actions was tracked using an agreed set of monitoring indicators derived from the PRSP. Key examples include: increase in the percentage of poor households receiving the family poverty benefit to 70 percent; increase in water supply duration to 18.5 hours; increase in utilization rate of hospitals by poor to 30 percent. In many cases the PRSCs provided the necessary impetus required to move the reforms forward. For example, the World Bank's backing as well as the use of public survey data to monitor tax reform impact supported difficult reforms even when it was politically difficult.

The PRSC program ended in May of 2008. Initially the Country Assistance Strategy (CAS) had envisaged three PRSCs in line with the base-case scenario. However the country's macroeconomic and institutional reform performance throughout the CAS period allowed the program to move to a high case and disburse the fourth credit.

RESULTS



"The significance of this reform is that it was tackled with various angles and with the use of various products offered by the World Bank. The PRSC Program mandated conditional ties for adoption of an illegal logging system, and the required assistance was provided to strengthen the system. Additionally, the Government's commitment to fund the system and to provide adequate leadership at the highest levels was firmed in number of legal documents."

— Mher Sadoyan, Director, Armenia Tree Project, NGO Beneficiary



"All of the reform steps implemented with the support of the PRSC series have contributed to increasing efficiency of customs operations and improving service delivery provided to economic agents. However to become fully operational, these reforms require more time than the life-line of the project. Thus when project's intended outcomes are materialized, Armenia will have a customs system in place which will be in conformity with best international standards."

— Suren Karayan, Deputy Minister of Finance, Government of Armenia

- The economy grew by an impressive 58 percent between 2004 and 2008. The poverty rate plummeted from 56 percent in 1998 to 26.5 percent in 2006.¹
- Education spending increased from 2.2 percent to 2.9 percent of GDP between 2004 and 2008, resulting in the doubling of teachers' salaries over this period.
- Fairer tax and customs administration resulted in greater government revenues. These rose from 14 percent to nearly 17 percent of GDP between 2004 and 2008.
- Measures to sharpen competition led to more liberal telecommunications and civil aviation regimes, which are especially important in a landlocked country. As a result of increased competition, consumer choice expanded and prices fell.

¹All these statistics are prior to the current global economic crisis, which risks pushing some of the most vulnerable back into poverty.



LESSONS LEARNED

- The fact that the PRSCs were deeply rooted in the Government's poverty reduction strategy contributed to the success of reforms. Equally important, the Government's strategy was prepared with wide societal consultation and participation.
- The Government, supported by the World Bank, implemented various sector-specific investment projects (such as the ones that shifted resources to primary health care or supported irrigation, rural infrastructure, schools, canals, roads) in parallel with the PRSC reforms. Thus, the poverty-fighting effects of all these activities were magnified, and delivered results for the poor.
- PRSCs were the basis around which ministries and partners conducted policy discussions and developed a common understanding of how each could best help to cooperate and implement reforms.
- Technical Assistance from donors was critical for success as they brought in modern techniques and good lessons from other countries.

COUNTERPARTS

- The Prime Minister
- The Chief Economic Advisor to the President of the Republic
- The Ministry of Finance and Economy
- The Central Bank
- State Tax Service
- State Customs Committee
- The Ministry of Labor and Social Affairs
- The Ministry of Education and Science
- The Ministry of Energy
- The Ministry of Agriculture
- The Ministry of Justice
- The Ministry of Environmental Protection
- The Ministry of Territorial Administration

- The Ministry of Trade and Economic Development
- The Ministry of Transport and Communications
- The Ministry of Health
- Public Services Regulatory Commission
- The Chamber of Control
- The Department of Civil Aviation
- The Competition Commission

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- [More information on PRSC I »](#)
- [More information on PRSC II »](#)
- [More information on PRSC III »](#)

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