

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

Report No.: PIDC28590

Project Name	Social Investment and Local Development RETF
Region	EUROPE AND CENTRAL ASIA
Country	Armenia
Sector(s)	Other social services (100%)
Theme(s)	Decentralization (10%), Participation and civic engagement (9%), Other human development (30%), Municipal governance and institution building (21%), Rural services and infrastructure (30%)
Lending Instrument	Lending Instrument
Project ID	P156378
Borrower Name	MINISTRY OF FINANCE
Implementing Agency	Ministry of Territorial Administration and Emergency Services, Armenia Territorial Development Fund (ATDF)
Environment Category	B - Partial Assessment
Date PID Prepared	17-Feb-2016
Estimated Date of Approval	01-Jul-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Armenia experienced strong economic growth before the global economic crisis; since then recovery has been slow. Economic growth resumed after 2011 and real GDP growth increased to 7 percent in 2012 before slowing to 3.5 percent in 2013. With a per-capita gross national income (GNI) of US3,790, Armenia is a lower-middle-income country.

Armenia is undergoing several reforms related to a need to create a well-functioning market oriented economy and to improve the existing system of governance towards meaningful decentralization. The country is characterized by significant territorial disparities. Economic activity is largely concentrated in the capital Yerevan, which accounts for about one-third of the country's population, about a quarter of the nation's poor, and more than half of the national GDP. Territorial disparities lead to migration from depressed and remote areas to Yerevan and underutilization of the economic potential of lagging territories, hamper economic development and job creation, and reduce the efficiency of public policy.

The availability, accessibility, and quality of economic and social infrastructure and of social services provided at the community level are still very low, especially outside of Yerevan. Small cities account for the majority of the poverty in Armenia, but rural areas also see disparities.

Sectoral and Institutional Context

The governance system in Armenia is highly centralized with the central government being responsible for capital investment and key areas of public service provision, including health care, education, and social protection. The regional marz authorities represent the central government in the field and oversee implementation of its policies. Communities are governed by elected Community Councils and Heads of the Community (local government level). In contrast to marz authorities, local governments have their own budgets. Local governments are primarily responsible for administrative functions and operation and maintenance (O&M) of existing local level infrastructure. Armenia's 915 communities, of which 866 are rural and 49 are urban, differ greatly in terms of their size and development levels. Nearly half of them have fewer than 1,000 inhabitants.

This fragmentation is exacerbated by insufficient budgets and leads to inefficiencies and the inability of local governments to effectively deliver services to their constituencies. The large number of extremely small local government jurisdictions also hampers efforts to promote economies of scale and to efficiently develop local economies.

The Government of Armenia (GOA) recognizes that a highly centralized governance system and high concentration of wealth in Yerevan are not conducive to sustainable economic and social development of the country and exacerbate high and persistent territorial disparities. The Armenia Development Strategy (ADS) for 2012–2025 aims to overcome territorial development disparities, ensure even territorial development, and implement targeted territorial development policies as mid- and long-term priorities. Targeted territorial development programs should ensure accelerated economic development for the most depressed territories and enable them to approach the average economic development level of the country.

The Ministry of Territorial Administration and Emergency Situations (MTAES) has also prioritized overcoming territorial disparities in its 2011 Concept for Territorial Development. This concept emphasizes the creation, rehabilitation, and development of economic infrastructure and an increase in the quality and accessibility of public social services (such as educational, health, cultural, and environmental) at the territorial/community level.

Armenia is committed to reforming its local self-governance (LSG) system in line with the European Charter of Local Self-Government, which the country ratified in 2002. Currently, the functioning of the LSG system is regulated by the Law on Local-Self Government adopted in 2002 and adjusted in 2013, which does not yet provide sufficient basis for LSG development.

For almost 20 years, the GOA has addressed territorial imbalances by implementing small-sized investment projects, known as microprojects, to support social infrastructure at the community level through the Armenian Territorial Development Fund (ATDF). ATDF is an autonomous public organization accountable to its Board, chaired by the Prime Minister of the Republic of Armenia. It was created in 1996, with WB technical and financial assistance, to provide immediate support to the rehabilitation of local infrastructure and to enhance the living conditions of the poorest using a demand-driven approach and direct community involvement. ATDF's interventions to date have focused on (a) rehabilitating and improving local community infrastructure and services with the aim to reduce vulnerability, satisfy basic socioeconomic needs, and generate employment at the local level and (b) providing training and technical assistance (TA) to local authorities to support

decentralization reforms and local institutional capacity building.

In 2014, the GOA approved ATDF's Evolution Strategy, which envisages an evolution of ATDF to support Armenia Development Strategy objectives and address the growing territorial disparities. It involves ATDF transitioning from implementing mostly social infrastructure microprojects to also focusing on territorial development projects; it also will promote a diversification of the funding sources of ATDF's operations. This transition will require an enhancement of ATDF's staffing, functions, operational procedures, and capacity.

Currently the GOA is preparing a new territorial development strategy which will identify approaches to address territorial disparities. The GOA intends to support this strategy through the design and implementation of territorial development projects delivered by ATDF.

The ATDF's transition and new mandate are being supported by a US\$30 million loan from the WB as well as a US\$303,000 grant from the Swiss Agency for Development and Cooperation (SDC) to enhance ATDF's existing structure, functions, operational procedures, and capacity (such as staffing, training, and facilities). In parallel to the WB-supported operation, "Social Investment and Local Development Project", and co-funding for ATDF from BMZ/GIZ and USAID (implemented by a group of different agencies, including GIZ, CoE, UNDP and ATDF), SDC is implementing the "Improvement of the Local Self-Governance System in Armenia" program. The program was launched by SDC in 2014 under a programmatic approach elaborated in close cooperation with MTAES. The program aims at strengthening accountability, effectiveness and efficiency of the Local Self Governance (LSG) system in Armenia through: a) supporting LSG consolidation reform in "pilot" communities; and b) working with a wider number of municipalities and communities on improving processes and instruments of local governance, efficient service provision and effective economic development. This program supports the achievement of ATDF's overall results framework into which all development-partner supported investments feed.

Relationship to CAS/CPS/CPF

The Country Partnership Strategy (CPS) for the period of 2014–2017 aims to build on progress achieved to date in reducing poverty and improving access to quality social services. In particular, it identifies the importance of continuing to promote a community-driven approach to basic infrastructure service delivery. The proposed project is consistent with the second strategic cluster of the CPS, 'Improving Efficiency and Targeting of Social Services'. Support to the implementation of ATDF's evolution strategy is listed as a key objective under this cluster.

The Project is also strongly aligned with the World Bank's twin goals, supporting elements of the ADS that focus on eliminating extreme poverty, mitigating poverty of the poorest 40 percent of the population, boosting their prosperity, and reducing territorial development disparities. This includes the rehabilitation and creation of social infrastructure aimed at improving social welfare in poor and vulnerable communities, mitigating territorial disparities through the implementation of projects in these vulnerable communities and areas, and strengthening efficiency in community governance.

II. Project Development Objective(s) Proposed Development Objective(s)

The proposed development objective is to increase the access of pilot municipalities in Syunik and Vayots Dzor marzes to direct capital investments for improving sustainable public infrastructure and services across multiple communities.

Key Results

Expected Outcomes:

1. Increase in volume of capital investments into improvement of municipal services (per capita) in targeted municipalities
2. Number of municipalities with increased access to basic inter-community infrastructure needs
3. Percentage of funded projects that are well-maintained and have a functioning cost recovery mechanism, according to the quality, maintenance, and cost of civil works assessment

Intermediate Outcomes and Outputs:

1. Number of inter-community capital investment projects
2. Number of direct project beneficiaries
3. Number of trainings conducted (project proposal preparation, operations and maintenance, etc.)

III. Preliminary Description

Concept Description

This project complements the recently approved Armenia: Social Investment and Local Development Project (SILD - P148836), financed by the World Bank. It provides additional resources to complement Component 2 of the SILD Project in order to pilot new innovative inter-community projects in two regions targeted by the larger SDC's LSG program. It is being processed as a separate project, rather than additional financing, as it is part of SDC's larger engagement in Armenia to strengthen accountability, effectiveness and efficiency of the local self-government system and thus has narrower objectives specifically aligned to the SDC's parent program. It will follow the operational procedures developed for the SILD.

The Project will provide direct capital investments to facilitate tangible improvements in terms of local development and public service provision. Pilot municipalities will have the opportunity to apply for grants to fund projects with the objective of meeting minimal public infrastructure requirements (such requirements are defined on individual basis for each municipality by MTAES on the basis of feasibility studies already conducted with the support of GIZ and participatory decision making of targeted municipalities), thereby providing better services to citizens and supporting economic activities through inter-communal cooperation. The pilot areas, identified by SDC in consultation with the GOA, are located in Southern Armenia and include Shinuhair (Tatev), Goris, Sarnakunk and Meghri in Syunik Marz and Zaritap, Vayk, Jermuk in Vayots Dzor Marz. These municipalities will have the opportunity to apply for funding under the project selection procedures for Component 2 of the SILD, which are currently under preparation. The phasing and logic of distribution of funds across the two regions and across the above mentioned municipalities will depend on the phasing of the reform and the quality of project proposals presented.

This funding will stimulate the municipalities to:

- a) Improve effectiveness and efficiency of public services by introducing new models of service provision through inter-municipal cooperation;
- b) Invest into local economic development and strengthen the municipalities' role in the provision of transactional services for rural economic development through improving public infrastructure that, in turn, can lead to the growth of local revenues.

Links of proposed capital investment projects to local and regional development plans and municipal budgets through co-funding will be among the conditions for all project grants.

These pilots have the potential to generate experience and models that can be widely applied later by ATDF throughout the country for stimulating more effective and efficient service provision and regional economic development through inter-communal cooperation and inform the further rollout of Component 2 of SILD.

Targeted Areas

Component 2 of the SILD project as well as direct capital investments planned by USAID and regional development grants of the EU will be implemented nationwide, whereas this SDC-funded RETF will be streamed specifically to two regions – Syunik and Vayots Dzor – where other SDC projects are being implemented. This geographic focus is expected to yield reinforcing links between SDC’s interventions in the field of local governance and economic development and employment and, thus, greater impact.

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:	2.39	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Borrower			0
Free-standing Single Purpose Trust Fund			2.39

VI. Contact point

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