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The World Bank

THE REPUBLIC OF ARMENIA

COUNTRY PORTFOLIO AND STRATEGY REVIEW

DISCUSSION PAPER

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ARMENIA

COUNTRY PORTFOLIO AND STRATEGY REVIEW

Introduction

1. The Government of Armenia and the World Bank have agreed to conduct a Country Portfolio and Strategy Review (CPSR). The purpose of this review is twofold: First, to take stock of the portfolio of projects financed jointly by the Government of Armenia and the World Bank, identify problem areas, and make operational recommendations on how to overcome them as soon as possible, with the purpose of securing economic development impact as quickly as possible. Second, to review progress in achieving development goals established in the Country Assistance Strategy (CAS) of July, 1997, and update strategy as well as lending and non-lending assistance priorities over the next one to two years. This is the second such review jointly conducted by the Republic of Armenia and the World Bank. The first Country Portfolio Performance Review was held on May 21-22, 1997, during a World Bank mission to finalize discussions on the CAS. The summary and conclusions of the Review are attached for information in Annex 1.

Portfolio Overview

2. The Bank's portfolio in Armenia is in transition: the early emergency operations, such as the *Rehabilitation Credit* and *Earthquake Reconstruction Credit* and related technical assistance, have closed, having achieved their objectives of stabilization. New credits are increasingly focusing on sector-specific investment and restructuring needs (details of portfolio composition by sector can be found in para. 8.) The number of projects under implementation is still growing: five projects were approved and three projects closed during FY98 (including SAC II, to be closed shortly). Table 1 below lists active and completed projects. The current portfolio consists of ten projects under implementation, with commitments totaling \$164.8 million. Total IBRD/IDA commitments to Armenia were US\$384.8 million as of April 30, 1998, of which US\$275.0 million (or 71 percent) has been disbursed.

TABLE 1: WORLD BANK LENDING TO ARMENIA

	Loan/Credit Amount (US\$ million)	Disbursed (as of 4/30/98) (US\$ million)	Approval Date	Closing Date
Active Projects:	\$164.8	\$53.0		
Agriculture Reform Support	\$14.5	\$0.0	1/27/98	12/31/02
Education	\$15.0	\$0.0	11/20/97	6/30/02
Enterprise Development	\$16.8	\$1.6	12/19/96	7/1/02
Health	\$10.0	\$0.0	7/29/97	6/30/02
Highway	\$31.0	\$12.9	9/14/95	12/31/00
Irrigation Rehabilitation	\$43.0	\$18.6	12/8/94	6/30/99
Power Maintenance	\$13.7	\$11.7	12/8/94	7/31/98
Social Investment Fund	\$12.0	\$5.6	11/9/95	6/30/00
SATAC	\$3.8	\$1.6	2/29/96	12/31/98
SATAC II	\$5.0	\$1.0	8/26/97	6/30/99
Completed Projects:	\$220.0	\$222.0		
Earthquake Rehabilitation	\$28.0	\$29.7	2/1/94	6/30/97
Institution Building	\$12.0	\$10.7	3/30/93	11/30/97
Rehabilitation	\$60.0	\$64.3	2/28/95	6/30/96
SAC	\$60.0	\$58.7	2/29/96	12/30/97
SAC II	\$60.0	\$58.6	8/26/97	6/30/99 (being closed)

Disbursement Performance:

3. The disbursement ratio¹ for FY97 was 39.1 percent, up from 33.8 percent for FY96 (see Annex 2 for details). This is considerably higher than the FY97 average Bank-wide ratio of 19.8 and the Europe and Central Asia Region average of 18.8 percent. This was a continuation of a positive trend -- starting in FY95, disbursement performance of investment projects improved each year. This has now changed, however. In FY98 Armenia's disbursement ratio is 17.6 percent, compared to the Bank-wide average of 17.0 percent, and the ECA average of 17.2 percent, while the aggregate disbursement lag² was 18 percent in FY98, up considerably from the FY97 lag of 5 percent.

4. One outcome we hope to achieve from this CPSR is an agreed plan of action to reverse the disbursement trend for investment projects. Quicker disbursements will mean that essential work is completed in a more timely manner. Portfolio performance ratings (including for disbursement) also have a significant impact on the amount of IDA available to Armenia. Past good performance ratings have translated into significantly higher IDA allocations than the norm.

¹ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year (investment projects only).

² For all projects in the Bank's country portfolio, the percentage difference between actual cumulative disbursements and the cumulative disbursement estimates at the time of approval of the projects.

Approval Process and Effectiveness Delays:

5. One major factor behind the disbursements lag is delays experienced in project effectiveness (see Annex 3). The average number of months between credit signing and effectiveness have increased from 2.0 to 2.6 months during the last year and a half. The average period between Board and effectiveness has also increased, from 2.4 to 3.2 months. For projects approved this fiscal year, the average periods from signing and Board are 3.0 and 4.6 months respectively. Excluding *SAC II* and *SATAC II* and only considering the three investment operations (*Health, Education, and Agriculture Reform*) there has been an even greater delay in effectiveness: 4.6 months from signing, and 6.4 months from Board. If we include the *Electricity Transmission and Distribution* project, the period between negotiations and effectiveness would increase even more.

6. The recent Presidential elections and cabinet changes undoubtedly contributed to these delays but they reflect longer-term trends. Another outcome we hope to achieve is agreed measures leading to speedier approval of negotiated projects. Time needed to obtain approval from the Constitutional Court and from Parliament are issues to address, so as to speed project implementation. One possibility that could be considered is a system whereby Parliament authorizes the government to approve anticipated borrowings from the World Bank during consideration of the budget (which should also include counterpart funding requirements for that year — discussed in para. 23). A similar provision could be made for commitments to borrow under a set ceiling, so as to allow the government to approve advances under the World Bank's Project Preparation Facility, and small loans/credits (for instance up to US\$5-10 million each). Briefing regularly key Parliamentarians on the rationale for projects being proposed and to involve them in understanding the key design elements, could also help minimize delays in projects becoming effective.

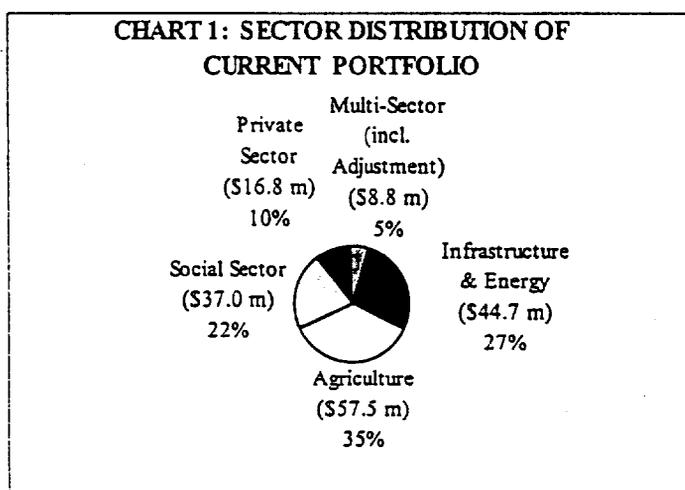
Project Ratings:

7. To assess the status of projects under implementation, the Bank uses two main indicators for measuring performance. The Development Objectives (DO) indicator measures whether a project is considered likely to achieve the economic, financial and social benefits, as well as bring about the institutional changes, expected at the start. The Implementation Progress (IP) indicator measures whether the project is proceeding according to its expected implementation schedule. Factors contributing to this rating include start-up delays, project management performance, procurement and disbursement performance, provision of timely financing; and progress in meeting legal and financial covenants. Overall portfolio performance was good during FY98, continuing the strong showing of earlier years (see Annex 4). However, an increasing number of individual components of projects have been rated unsatisfactory, given project management difficulties, procurement delays, or resistance to using approved credit funds for technical assistance. Generic issues such as procurement will be discussed further below. The overall conclusion is that the Government, and key members of Parliament, and the

World Bank should reach broad agreement on project design and major policy issues prior to negotiations, rather than leaving issues to be resolved during implementation.

Sector and Project Summaries

8. The current portfolio of ten projects is divided among: (a) macroeconomic and multi-sector institution building (accounting for 5 percent of the current portfolio); (b) infrastructure and energy projects (27 percent); (c) agriculture and irrigation projects (35 percent); (d) social sector projects (22 percent); and (e) private sector development projects (10 percent). (See Chart 1 below.)



(a) *Macroeconomic and Multi-Sector Institution Building*: The three policy-based (adjustment) operations approved to date (*Rehabilitation Credit* and *Structural Adjustment Credits I and II*) have been fully disbursed. Discussions are underway on a program of measures to be supported under a third Structural Adjustment Credit. Reform performance under the program has been generally strong, albeit with some slippages in the period surrounding the recent change in government. These adjustment operations were supported by three technical assistance credits: the *Institution Building Loan* (an IBRD loan of \$12 million closed in November, 1997), and *Structural Adjustment Technical Assistance Credits I and II* (of \$3.8 and \$5.0 million) approved to provide assistance in implementing the agreed reform program. Disbursements under these technical assistance projects has generally been somewhat slow, and reaching agreement on activities to be supported has at times been delayed.

(b) *Infrastructure and Energy*: One project in each of these sectors is under implementation. A *Highway* project for \$16.0 million was approved in September, 1995, and a supplemental credit of \$15.0 million was approved in June, 1997 to replace cofinancing originally expected from the Kuwait Fund. This project is financing an expanded program of periodic highway maintenance, repair of bridges and tunnels, and providing institutional strengthening to the Armenian Road Directorate. It also aims to encourage appropriate road user charges to finance future maintenance needs, improve road safety, and support the development of a private road construction and engineering

industry. Overall the project has made good progress, though the level of road user charges is still not sufficient to sustain the maintenance needs of the road network, and Government counterpart funding and funding for ARD's budget have consistently lagged behind agreed levels. The *Power Maintenance* project (US\$ 13.7 million) became effective in March 1995, and is aimed at improving the quality and reliability of electricity supply, and arresting and reversing the deterioration of thermal and hydro power generation units. Most of the work has been complete, and disbursements are at 86 percent of the credit amount. The closing date is now being extended from July, 1998 to January 1999 to allow the project to be fully completed.

(c) *Agriculture*: Two agriculture projects are under implementation. The first, an *Irrigation Rehabilitation* Project, was approved in December, 1994. The \$43.0 million project is designed to assist in maintaining the level of irrigated agricultural production, improve water resources management, and accelerate the development of water distribution institutions and support facilities. The goals of this project are at some risk of not being met, since the OME water charges are not set at levels which will generate sufficient revenue to cover non-energy related operation costs and support required maintenance. The Bank is therefore recommending that the goals of the financial recovery plan for OME be widely discussed within the Government, with the goal of adopting a multi-year cost-recovery plan. A second project, *Agriculture Reform Support* (\$14.5 million) was approved in January, and is not yet effective, though it has been approved by the Constitutional Court. This project will provide loans for working capital and investments to small rural farms and business; agribusiness training and technical assistance in project finance to private agricultural processing and marketing enterprises; and beginning the restructuring of public services focusing on research and extension for small farmers.

(d) *Social Sector*: Three projects are under implementation in the social sectors. The *Social Investment Fund* (\$12.0 million) aimed to support the lower income groups through improvement of basic social services and employment generation activities. It included financing for rehabilitation of small scale infrastructure to improve living conditions, strengthening the capacity of private small-scale contractors and micro-businesses; and building capacity for monitoring and analyzing trends. Funds under the project are fully committed, and a follow-on operation is under Discussion. The *Health Financing and Primary Health Care Development* Project approved in July, 1997 became effective in late-March. This project provides \$10.0 million to support the implementation of the Government's health financing and primary health care reform. The third project is the \$15.0 million *Education Financing and Management Reform* Project. This project was approved in November, and became effective May 27. It aims to support implementation of the government's strategy for reform of general education through introduction of a financially sustainable system of textbook provision, and through training and technical assistance to support the planning, piloting and implementation of reforms.

(e) *Private Sector Development*: The *Enterprise Development Project* (\$16.8 million) is designed to provide a line of credit to provide financing for private sector enterprise, to strengthen commercial banks and capital markets, and to strengthen investment and export market development capacity of private enterprises. Nine

subloans have been approved under the line of credit, and six banks have been accredited. The Enterprise Support Fund however has not become operational, pending a decision by the Prime Minister.

9. Project data sheets for each operation under implementation are attached in Annex 5. These give a summary of the project objectives and description, and the status and issues involved in implementation and progress toward meeting the development objectives. It is proposed that these data sheets be updated during the CPSR discussion, and expanded to include agreed actions to improve project implementation.

Country Assistance Strategy Review

Objectives:

10. The objectives of the Bank's FY98-00 country assistance strategy (CAS) are to: (i) foster the rapid development of the private sector by promoting further structural reforms, strengthening the financial system and the legal and regulatory framework, and alleviating key infrastructure bottlenecks in energy, transport and water; and (ii) support social sustainability and the alleviation of poverty through the strengthening of the social safety net and improvements in the quality of and access to basic health and education services. One year into the CAS period, these objectives remain valid and at the core of the dialogue between the Government and the Bank.

Project Lending:

11. Based on prospects for sustained GDP growth and on expectations of a gradual easing of regional tensions, modest amounts of IBRD lending was expected over the CAS period. The base/high case scenario for Bank assistance in the CAS, therefore, called for an FY1998-2000 lending program of 10 projects (expected to total around \$260 million), financed through a soft blend of two-thirds IDA and one-third IBRD. At the time of the Board presentation of the CAS (July, 1997), the base/high case lending program consisted of 6 operations in FY98, two in FY99, and three in FY00. Total FY98 lending (all IDA credits) is expected to be \$134.5 million, with three operations slightly larger than originally planned (*Agriculture Reform* = \$14.5, *Education* = \$15.0, and *Municipal Development* = \$30.0).

TABLE 2: CAS PROPOSED FY98-00 LENDING

FY98	SAC II and SATAC II	\$65
	Health Financing & Primary Health	\$10
	Education Financing & Management	\$10
	Electricity Transmission & Distribution	\$35 **
	Agriculture Reform Support	\$10
FY99	Municipal Development	\$25 **
	Social Sector Adjustment	\$50
FY00	Energy Sector	\$20 **
	Trade & Transport Facilitation	\$20 **
	Private Sector Development	\$15 **
Total FY98-00		\$260

** Possible IBRD Lending

12. In FY98, five of the planned operations have already been approved (*SAC II*, *SATAC II*, *Health Financing*, *Education Financing*, and *Agriculture Reform*), and a sixth, *Municipal Development* (advanced into FY98 at the request of the Government), was approved on June 11.

13. Two operations are advanced in preparation, and currently scheduled for approval in FY99. The *Electricity Transmission and Distribution Project* was delayed from FY98, given the elections in the Spring, and the delays in meeting Board presentation conditions related to energy collections and tariffs. This project has been appraised and negotiated, and once the policy framework is in place, will be presented to the Bank's Board for approval. It is still intended that a portion of this project be financed on IBRD terms. A small *Title Registration Project* (\$8.0 million) will be presented early in FY99. This operation is a component of the Agriculture Reform project that was not as far advanced, and so was split off to avoid delaying the main portion of the project. We also hope to approve a balance of payments support operation (*Structural Adjustment Credit III*, focusing mainly on the social and energy sectors), the size of which is yet to be determined. At the Government's request, we added to the CAS lending program, a *Judicial Reform Project*, planned for late FY99 or early FY00 and a second Social Investment Fund. We may add a *Public Sector Reform Loan* for FY00-01, depending on the outcome of analysis and discussions with the Government in the next few weeks.

14. Other FY00-01 operations under discussion with the Government include: *Private Sector Development* (\$20 million), *Trade and Transport Facilitation* (\$20 million), *Water Sector Rehabilitation* (\$20 million), *Environment* (\$15 million), *Power and Gas Sector Restructuring* (\$30 million). The Power and Gas Sector Restructuring Project will be dependent upon progress on privatization of the power sector enterprises and the potential financing needs that would remain. The sequencing of these operations will depend on progress made, either on sector issues (energy), or on settlement of regional tensions (a precondition for a large-scale *Trade & Transport Facilitation* project), as well as on priorities communicated by the government. The Bank's assessment is that high priority

should be given to *Private Sector Development, Public Sector Reform, Water Sector Rehabilitation and Trade and Transport Facilitation*.

15. Approval of the operations listed above over the next two to three years, will only be possible if Armenia's economic performance and reform program remain very strong to enable continued large access to IDA resources and resumption of IBRD lending. Staying in a high case lending program, however, will depend on specific policy and performance conditions being met--satisfactory progress on macroeconomic management, energy sector privatization and restructuring, privatization and financial sector reform, and implementation of key reforms in the social sectors. Falling into a medium-case scenario (with continued implementation of comprehensive reforms, but a slower easing of regional tensions and slower economic growth), would mean a smaller share of IBRD resources (about one-quarter of the program), reflecting Armenia's more fragile creditworthiness. This would delay operations in energy, private sector development, and trade and transport facilitation. Macroeconomic developments in 1997 threatened Armenia's ability to access IBRD funding. This year's macroeconomic performance and stabilization and structural reforms will determine how much, if any, IBRD lending can be approved.

17. The Bank's annual lending allocation review determines countries' IDA allocations over a three-year period. Critical factors, other than progress in economic reforms, affecting the amount of IDA available for Armenia are performance of the portfolio of projects under implementation, and accountability/transparency of the public sector. As mentioned above, in the past Armenia was able to secure generous IDA allocations, based on good implementation performance ratings. Continuing this strong performance will be essential if these higher levels of IDA funding are to be available in future.

Non-Lending Activities:

18. The Bank's economic and sector work program (ESW) is designed to reflect the two broad CAS priorities. In FY98, as programmed in the CAS, we completed work on a Power Privatization study, and a Judicial Assessment. The Poverty and Social Protection Study will be discussed with the government shortly, and finalized early in FY99, and a Social Spending Note is also being prepared for discussion with the government in September, 1998. In FY99 we also plan to prepare a Financial Sector Update and a Public Sector Assessment.

19. As mentioned in the CAS, the Bank will complement this work by providing short, demand-driven policy notes on topics of interest to the Government, as well as targeted technical assistance financed from the Institutional Development Fund (IDF). In addition to the previously approved IDF grants for preparation of the National Environmental Action Plan (NEAP), and on Lake Sevan, in FY98 we approved an IDF grant to support Children's Initiatives. We are also ready to prepare, at the Government's request, a grant to help establish an independent policy advisory unit.

Systemic Project Implementation Issues

Project Implementation Arrangements

21. Project Implementation and PIU Organization: All but one project implementation units have been established as separate entities financed from credit proceeds. Until end 1997, the legal status of most PIUs was that of state owned companies. In accordance with privatization legislation, state enterprises were converted into closed joint-stock companies in early-1998. It would be useful to review during the CPSR discussions the impact of this change in PIUs legal status and the related arrangements that have been established to supervise PIU performance. The CPSR discussions should also allow for a reevaluation (on a case-by-case basis) of the justification for using PIUs to implement projects, as the implementation capacity of line ministries and agencies continues to improve. The aim should be to have line ministries responsible for policy oversight and in some cases also project identification, appraisal, and execution as soon as possible. The financing of PIUs from credit proceeds has been the rule so far. This practice is unusual in more mature country programs and the CPSR provides an opportunity to discuss how PIU financing from credit proceeds could go forward on a declining basis.

22. PIU Salaries/Staffing: The unified salary scale effective January 1, 1998 has resolved the problem of salary scales differing across projects/PIUs. The financing of PIU staff training and strengthening of their capacities has emerged over the last few months as a contentious issue. The CPSR provides an opportunity to review how satisfactory the implementation of the new compensation system has been and if there are other outstanding issues related to staffing and remuneration of PIU staff.

23. Taxation of PIU Staff: Over the last year there have been questions raised about whether PIU staff salaries are taxable, both for income taxes, and for social levies (pension fund and unemployment). This question has become more critical with the Pension Fund bringing a legal action against one PIU to recover unpaid social taxes. Under the World Bank/IDA's General Provisions, taxes may not be financed out of the proceeds of Bank loans and credits. This, however, does not mean that such taxes may not be imposed by Government. It only implies that the part of PIU staff remuneration that is financed from credit proceeds cannot be used to pay taxes.

Project Financing

24. Payment of Local Contribution: Arrears in payments of local contributions to some projects financed by the World Bank have seriously undermined project implementation, as well as causing delays in preparation of follow-up projects. While this situation has improved somewhat since the last CPPR, it is still a serious problem, especially for the *Highway Project* (with \$1.2 million in arrears from last year still due, and another \$2.7 million overdue so far in 1998), *Enterprise Development Project* and the *Social Investment Fund* (where \$160,000 is overdue). Prompt payment of government funding commitments is critical for the *Power Maintenance* project, for which equipment has

been secured and must be installed during the spring/summer construction season, though counterpart funding for the installation is not yet available. The Power Maintenance PIU estimates that 1998 counterpart funding requirements are 92.82 million drams in 1998, and 180.29 million drams for installation done in previous years and not yet paid. This is especially urgent, since the original closing date of the project was July, 1998. This date is now being extended until January, 1999 but further extensions may not be possible.

25. Estimated local contributions over 1998/1999 for projects under implementation are shown in the table below. While the budgeting of counterpart funding has improved, the timeliness of resources made available remains a serious source of concern. The recommendation from last year's CPPR to hold quarterly review meetings between the resident mission and the Ministry of Finance and Economy has not been implemented in a satisfactory manner. It is proposed to review during the CPSR options to improve timeliness of availability of government contributions and the joint monitoring of these contributions.

TABLE 3: COUNTERPART FUNDING REQUIREMENTS FOR PROJECTS UNDER IMPLEMENTATION

	1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture Reform		\$35,000	\$58,500	\$182,000	\$182,000	\$182,000	\$182,000	\$182,000
Education		\$35,000	\$250,000			\$35,000	\$450,000	
Enterprise Devel.								
Health								
Highway1/ (Drams '000)	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Irrigation		\$40,000	\$282,000	\$282,000	\$282,000	\$282,000	\$218,000	\$218,000
Power Maint.(Drams '000)	232,066	232,066	232,066	232,066				
SIF		\$80,000	\$80,000			\$80,000	\$80,000	

1/ Does not include Government's agreed contribution to ARD's regular budget

26. Cost-Sharing Arrangements: For all Bank borrowers, the Bank sets cost-sharing ceilings – the maximum share of project costs the Bank will finance.³ For Armenia, this limit has been set at 85 percent (and in some cases at 90 percent), given the government's constrained finances, and is consistent with Armenia's current IDA status. Local contributions have been on average close to this share of project costs. It should be noted, however, that the government's contribution to the project should be calculated net of taxes that accrue to the government budget. With IBRD lending foreseen in the near term, cost-sharing will need to gradually increase to the minimum contribution level of 25 percent for blend borrowers.

27. Exchange Rate Movements: IDA credits are committed in Special Drawing Rights (SDRs). The US\$ has strengthened over the past year or so, so that the SDR/US\$ exchange rate has moved from 1.5SDR=1US\$ to 1.35SDR=1US\$. This means that for projects approved when the US\$ was relatively weaker, there will be a financing shortfall. This is particularly affecting those projects approved in FY95, where the US\$

³ Bank cost-sharing limits apply to the Bank's overall lending program for a country (excluding adjustment, technical assistance, and financial intermediary projects), not to individual projects.

amounts of the credits has fallen by around 8 to 10 percent. See Table 1 for examples of the effect on five projects under implementation. Further strengthening of the US dollar could imply underfunding of project components and would imply a scaling down of project activities.

TABLE 4: EXCHANGE RATE SHIFTS FOR IDA CREDITS APPROVED

Project	Credit Amount (SDR)	US\$ Equiv. At Approval	US\$ Equiv. At 5/25/97	Percent Change
Highway (original)	10.3	\$16.0	14.6	-8.9%
Social Investment Fund	8.1	\$12.0	11.0	-8.3%
SATAC 1	2.6	\$3.8	3.6	-6.3%
Irrigation Rehab.	29.5	\$43.0	40.8	-5.1%
Power Maintenance	9.4	\$13.7	13.3	-3.2%

Procurement:

28. Delays in procurement decisions under Bank projects have increased significantly over the last 12 months. Also, progress in introducing new public procurement legislation and regulations, and in streamlining Government review mechanisms has been very slow. The draft Public Procurement Law that has been prepared using IDF financing has not yet been submitted to Parliament and the review of the effectiveness of the Tender Board and other existing supervisory bodies has not been completed.

29. Central Tender Board & Other Government Review Mechanisms: The number of cases of projects facing delays in key components due to slow procurement reviews by the Central Tender and other Government reviews has increased markedly over the last nine months. It is proposed that the CPSR be used as an opportunity to review existing procedures and to discuss their possible streamlining.

30. Public Procurement Legislation and Regulations: It is proposed that the CPSR review the status of preparation of public procurement legislation and regulations.

31. Taxation of Foreign Consultants: Effective from January 1, 1998, two new taxation laws apply to the tax regime of foreign and local consultants financed under the World Bank credits: (i) the Law on Personal Income Tax (applies to individuals, both residents and non-residents); and (ii) the Law on Profit Tax (applies to legal entities). There are [two] aspects of the new legislation, which might adversely affect foreign consultants and, consequently, make it difficult for Armenia to secure the use of international consultants under the World Bank projects.

(1) Double taxation. Individual foreign consultants working in Armenia are subject to income tax (15%) irrespective of duration of their stay. However, if they stay in Armenia less than 183 days in a calendar year, they are liable to pay income tax only on the amounts earned from sources within Armenia. If they stay longer than 183 days, they acquire tax liability in respect of all income including that received elsewhere. This leads to double taxation of foreign individuals working in Armenia, since most of them do not

get tax exemption for this period in their home countries. Such situation might be particularly harmful for foreign consultants, since Armenia, as of today, has only six bilateral treaties on prevention of double taxation.

(2) Withholding of taxes. In case a foreign consultant is not registered with the tax authorities (which is the case for most individual consultants or consulting firms which do not have their representation offices in Armenia), the income of profit tax is withheld at the source of payment. For lump-sum contracts, which are the most frequently used form of contracts for the World Bank projects, the total amount of the contract is subject to taxation, without regard to the expenses incurred by the consultant during the course of his assignment. Theoretically, a consultant, after receiving a net payment, has the right to directly submit the evidence of his business expenses to the tax authorities and request the refund. Practically, foreign consultants, most of whom do not speak fluent Armenian and are not sufficiently familiar with the local taxation system, would be in a very difficult situation if pressed to deal with these issues on their own.

Financial Management & Disbursement

32. Special Accounts: Currently, special accounts⁴ for projects in Armenia are primarily placed in foreign banks. The strengthening of the banking sector in Armenia will enable local banks to increasingly take on this role. To address the government's need for more timely and accurate information, as well as to provide more control over government expenditures, the MoFE requested, and the Bank agreed, to place the special accounts of the *SATAC 1*, *SATAC 2* and *Enterprise Development Project* (EDP) with the Central Bank of Armenia (CBA). (Formerly the *SATAC 1* and *SATAC 2* accounts were with ANZ Grindlays, and the *EDP* account was with Midland-Armenia Bank.) This is being done on a pilot basis, and the arrangement will be reviewed after a one to two year period. Since that decision was taken, there have been difficulties with this arrangement for the *EDP*. Therefore, a subsequent decision has been taken to move the special account for the *EDP* to a foreign bank with experience in this area, so as to enable enterprises to import the necessary goods without undue delay or cost. The special accounts for the *SATAC 1* and *SATAC 2* will remain with the CBA.

33. Capacity Building in Financial Management: The World Bank launched a streamlined disbursements mechanism, called the Loan Administration Change Initiative (LACI) in April, 1996. LACI implementation is expected to be spread over the period FY99-05. The LACI implementation strategy comprises the following core principles: (i) the Bank's development objectives include collaboration with Borrowers to strengthen their financial management capabilities; (ii) Borrowers are to ensure that appropriate financial management systems are in place to effectively implement projects; and (iii) loans are disbursed quarterly for eligible expenditures as shown in Borrowers' financial management reports (FMRs) that link project financial and management progress. The FMRs were designed as a tool to assist Borrowers in managing their projects and would also serve as a monitoring tool for the Bank against which disbursements would be

⁴ Special accounts are bank accounts held by the PIUs in which deposits of foreign exchange are made by the World Bank, for the use of the PIUs. The World Bank has requirements on the selection of such banks, and how such accounts are to be managed. These can be found in the Bank's Disbursement Handbook.

approved. . This system, however, will require that borrowers have adequate financial management and reporting systems and supporting internal controls. Once these systems and controls are adequate, LACI can be introduced. For most borrowers in the Region, this is unlikely within the next one to two years. As a first step, however, the Bank is requiring that all projects not yet appraised have financial management and reporting systems in place capable of supporting LACI-type disbursement procedures prior to negotiations. A World Bank Financial Management Specialist will participate in project preparation to advise on appropriate systems. The CPSR can be used to discuss assistance the Government may need in the area of financial management for World Bank-financed projects.

34. Accounting & Auditing: . The number of ex-post internal controls and audits that PIUs must respond to is still higher than reasonable, even after last year's agreement with the MoFE to review these requirements and reduce the number, and better define the scope of such audits. Up until now, most audits required under World Bank projects have been carried out by the local office of one international firm (Amyot). In general, audits have been submitted in a timely fashion, and have been found to be of acceptable quality. Beginning in FY99, however, Borrowers are urged to contract these audits with an international auditor (a local office of one of the "Big Six" accounting firms would be acceptable) in cases of revenue-earning enterprises.

Joint Action Plan

*Republic of Armenia - World Bank
First Country Portfolio Performance Review
Yerevan, May 21-22, 1997*

1. The first Country Portfolio Performance Review (CPPR) was held on May 21-22, 1997 in Yerevan. The meeting was chaired by the Deputy Minister of Economy, Mr. Armen Darbinian and Mr. Vahram Nercissiantz, World Bank Resident Representative. All ministries responsible for World Bank projects and Project Implementation Units (PIUs) were represented at the meeting. Recommendations of the meeting were discussed with the Minister of Economy, Mr. Vahram Avanesian. A list of participants is attached (Annex 1).
2. The objectives of the CPPR were to review overall progress in program implementation, to identify generic and project specific problems affecting program implementation, and to propose possible solutions. Specifically, the CPPR served to: (i) identify factors causing implementation delays and actions needed to address them; (ii) establish an agreed set of actions and timetables to further improve portfolio performance; (iii) review institutional arrangements for project implementation and monitoring; (iv) identify lessons from project implementation which should be taken into account in the design of future projects and in the Country Assistance Strategy (CAS); and (v) establish a joint supervision and monitoring system of portfolio performance.
3. The meeting focused on six broad areas: (i) project financing; (ii) procurement; (iii) disbursements; (iv) project implementation arrangements; (v) implementation progress; and (vi) lessons for other projects.
4. A detailed discussion of the status of portfolio and country issues is provided in the background Discussion Paper for the first CPPR, which was distributed to participants ahead of the meeting. Attached to the Discussion Paper were project data sheets on the eight investment operations currently under implementation. These data sheets were reviewed and endorsed by the meeting. Front-line follow-up on the actions and issues identified in the project sheets will be handled by the World Bank Resident Mission and the Project Implementation Units.
5. The CPPR discussions confirmed the overall good portfolio performance, with all eight investment projects under implementation rated satisfactory or highly satisfactory in terms of meeting their development objectives and of implementation progress. Over the last three years, project preparation and implementation capacities in ministries and PIUs have improved dramatically. Also, World Bank procurement and disbursement procedures are well understood and staff from PIUs have been adequately trained.

6. Recommendations resulting from the CPPR discussion were the following:

- Improved program monitoring & coordination. All participants welcomed the CPPR as an opportunity to exchange information and share experiences relating to project implementation. It was agreed that joint meetings to review portfolio performance and, more generally, operational issues will be organized twice a year. In addition, it was agreed that the Ministry of Economy would periodically host meetings of all PIUs and responsible ministries to share best practices and to identify generic issues affecting program implementation.
- Timely availability of local contributions. Delays in the payment of local contributions have led to a slow-down in the implementation of projects (in particular Highway and Power Maintenance projects). Although payment arrears have been cleared for all projects except for the Armenia Social Investment Fund (ASIF), the participants in the meeting supported closer monitoring of local contribution payments. It was agreed that the Ministry of Finance and Economy and the World Bank Resident Mission would meet on a quarterly basis to review budgetary allocations to projects and to ensure that all expected local contributions would be fully included in future government budget submissions.
- Competition in local procurement. Issues are arising in the local procurement of consulting services and goods. For consulting services, the PIUs and the Ministry of Finance and Economy will share best practices and will propose guidelines to: (i) ensure that sufficient competition exists among local firms/individuals; (ii) develop indicative fee scales; and (iii) clarify the tax treatment of contractors under World Bank projects.
- Public procurement reform. A draft Public Supply Contract Regulation has been prepared by the Ministry of Finance and Economy. The meeting supported the ongoing efforts to reform public procurement and to streamline internal controls and audit requirements. The World Bank representatives indicated that they would consider positively the financing of technical assistance to implement the new public procurement regulations and to establish the necessary supervisory bodies. Participants recommended that, as part of the effort of adopting new public procurement regulations, attention be given to changing the method used to estimate unit costs. The existing method is based on 1984 Soviet standards (unit costs are calculated in rubles and then valued in current dollars using a conversion factor). With the development of competitive structures and active markets in all countries of the region, the meeting recommended that international and/or domestic market prices be used in the costing of proposals/projects.

7. The following specific actions were agreed:

- By June 1, 1997, the cofinancing agreement concerning the U.S. contribution to the Power Maintenance project will be signed by the Ministry of Finance and Economy;
- By July 1, 1997, the Ministry of Finance and Economy will inform the World Bank of the proposed payment schedule for the local contribution to the ASIF and will ensure that this project is included in future budget submissions;
- By August 1, 1997, the Ministry of Finance and Economy will have reached agreement with the Road Directorate on the treatment of contract penalties that have accumulated due to delays in the payment of Government contributions;
- By September 1, 1997, the Ministry of Finance and Economy will have reviewed the existing salary scale among PIU staff and will share with the Bank recommendations on establishing guidelines that would be applied across projects;
- By October 1, 1997, the Ministry of Finance and Economy will have reviewed the tax and legal issues associated with the different status of PIUs.

June 18, 1997

His Excellency Armen Darbinian
Minister of Finance and Economy
Ministry of Finance and Economy
Yerevan
ARMENIA

Dear Mr. Darbinian:

First Country Portfolio Performance Review

It was a great pleasure to meet you during my recent visit to Armenia. I appreciated the opportunity to discuss with you and your colleagues in Government the World Bank's proposed Country Assistance Strategy for Armenia covering the period 1998-2000. In addition, I very much benefited from the review of the World Bank financed portfolio in Armenia. In that context, please find attached the agreed Action Plan prepared as a result of these Country Portfolio Performance Review (CPPR) discussions. For your information, a copy of the discussion paper prepared ahead of the meeting is also attached.

The CPPR meeting confirmed that overall performance of the portfolio is very good and that projects under implementation are broadly achieving their objectives. I was impressed during the discussions with the beneficiary ministries and the Project Implementation Units (PIUs) by their strong ownership of the projects and their familiarity with World Bank procedures.

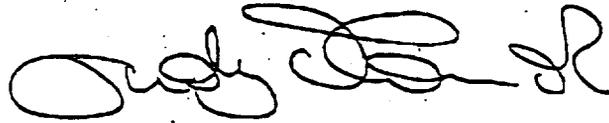
I would like to draw your attention to two recommendations of the CPPR. The first concerns the timely payment of local contributions to projects financed by the World Bank. Although, most payment arrears have been cleared (the only exception being the Social Investment Fund), we are worried that the payment delays which occurred in 1996 and early 1997 will be repeated. Such delays would slow down the implementation of existing projects and jeopardize the preparation of new projects. The second recommendation concerns the support expressed by the meeting to the ongoing efforts to reform public procurement and to streamline internal controls and audit requirements. Moving rapidly towards adopting competitive and transparent public procurement practices is important to the efficient allocation of scarce public resources. In this context, I would like to reiterate the World Bank's willingness to consider positively the financing of technical assistance to improve public expenditure management as part of the proposed Second Structural Adjustment Technical Assistance Credit.

As a result of the merger of the Ministries of Finance and Economy, I would like you to confirm that World Bank projects previously under the responsibility of the Ministry of Economy will now be under the responsibility of the Ministry of Finance and Economy.

In my new capacity as Country Director for Armenia as of July 1, I intend to follow closely the policies of my predecessor, Mr. Basil Kavalsky, and aim for the strongest possible partnership between Armenia and the World Bank. I look forward to a close working relationship with you and your colleagues.

With best wishes in your new assignment,

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Judy O'Connor', with a large, stylized flourish at the end.

Judy O'Connor
Project Advisor
Country Department IV
Europe & Central Asia

Attachments

PORTFOLIO TABLES: ARMENIA
Disbursement Status from LOA data of 4/30/98

Project Name	Loan			Disbursements					TOTAL	% Disbursed
	Amount (\$M)	Effective	Closing	FY94	FY95	FY96	FY97	FY98		
Agriculture Reform Supp.	14.5	6/98	P 12/02	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0% *
Earthquake Reconstruction	28.0	4/94	6/97	3.0	9.4	12.0	5.3	n.a.	29.7	106% C
Education	15.0	5/98	6/02	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0%
Enterprise Development	16.8	4/97	7/02	n.a.	n.a.	n.a.	0.1	1.5	1.6	9%
Health	10.0	3/98	6/02	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0%
Highway 1/	31.0	2/96	12/00	n.a.	n.a.	1.4	9.3	2.2	12.9	42%
Institution Building	12.0	6/93	11/97	1.0	2.3	4.1	3.9	-0.5	10.7	90% C
Irrigation Rehab.	43.0	2/95	6/99	n.a.	4.1	6.7	4.4	3.2	18.6	43%
Power Maintenance	13.7	3/95	7/98	n.a.	0.5	1.9	7.2	2.2	11.7	86%
Rehabilitation	60.0	3/95	6/96	n.a.	63.4	0.9	n.a.	n.a.	64.3	107% C
Social Investment Fund	12.0	1/96	6/00	n.a.	n.a.	0.7	1.2	3.7	5.6	47%
SAC	60.0	3/96	12/97	n.a.	n.a.	29.4	29.3	0.0	58.7	98% C
SATAC	3.8	3/96	12/98	n.a.	n.a.	1.0	0.1	0.5	1.6	43%
SAC II	60.0	9/97	6/99	n.a.	n.a.	n.a.	n.a.	58.6	58.6	98%
SATAC II	5.0	9/97	6/99	n.a.	n.a.	n.a.	n.a.	1.0	1.0	20%
Total Armenia:	384.8			4.0	79.7	58.1	60.7	72.4	275.0	71%
<i>(of which Investment)</i>	<i>204.8</i>			<i>4.0</i>	<i>16.3</i>	<i>27.9</i>	<i>31.4</i>	<i>13.8</i>	<i>93.4</i>	<i>46%</i>
<i>(of which Adjustment)</i>	<i>180.0</i>			<i>0.0</i>	<i>63.4</i>	<i>30.3</i>	<i>29.3</i>	<i>58.6</i>	<i>181.5</i>	<i>101%</i>
Opening Undisbursed Balance:				12.0	37.0	84.2	109.4	78.6		
<i>(of which Investment)</i>				<i>12.0</i>	<i>37.0</i>	<i>83.3</i>	<i>80.3</i>	<i>78.6</i>		
<i>(of which Adjustment)</i>				<i>0.0</i>	<i>0.0</i>	<i>0.9</i>	<i>29.1</i>	<i>0.0</i>		
Disbursements As % of Undisbursed Opening Balance				33.6%	215.4%	69.0%	55.5%	92.1%		
<i>(of which Investment)</i>				<i>33.6%</i>	<i>44.0%</i>	<i>33.4%</i>	<i>39.1%</i>	<i>17.6%</i>		

1/ Includes Armenia Highway Supplemental Credit approved in FY97.

C = Closed

* = Not yet effective.

ARMENIA PORTFOLIO

Elapsed Time for Effectiveness

Project Name	Months to Effectiveness from		
	Signing	Board	Negotiations
Agriculture Reform Supp.	3.0	4.5	6.1
Education	3.7	6.3	8.4
Enterprise Development	3.3	4.1	5.5
Health	7.0	8.2	9.5
Highway 1/	4.5	5.1	7.1
Institution Building	2.3	2.6	4.1
Irrigation Rehab.	2.3	2.6	4.3
Power Maintenance	3.0	3.5	5.4
Social Investment Fund	1.7	1.9	3.5
SAC	0.6	0.7	2.0
SATAC	0.6	0.7	2.0
SAC 2	0.7	0.9	2.3
SATAC 2	0.7	0.9	2.3
Total:	2.6	3.2	4.8
Average in July, 1997:	2.2	2.6	4.8
Average in December, 1996:	2.0	2.4	4.6

1/ Includes Armenia Highway Supplemental credit approved in FY97.

ARMENIA PORTFOLIO Project Ratings

Project Name	Loan Amount (\$ M)	FY98 Ratings		Detailed Ratings			
		Develop. Objective	Implem. Progress	Project Mgmt.	Counterpart Funds	Procure- ment	Financial Covenants
Agriculture Reform	14.5	S	S	HS	S	S	n/r
Education	15.0	S	S	S	n/r	S	n/r
Enterprise Development	16.8	S	S	S	U	S	n/a
Health	10.0	S	S	S	S	S	S
Highway 1/	31.0	S	S	HS	U	S	U
Institution Building	12.0	S	S	S	S	S	n/r
Irrigation Rehab.	43.0	S	S	HS	S	S	S
Power Maintenance	13.7	S	S	S	U	S	S
Social Investment Fund	12.0	S	S	HS	S	S	S
SAC	60.0	HS	S	S	n/r	S	n/r
SATAC	3.8	S	S	U	S	S	S
SAC II	60.0	S	S	S	n/r	S	n/r
SATAC II	5.0	S	S	S	S	S	S

n/r = not rated. n/a = not applicable

1/ Includes Armenia Highway Supplemental Credit approved in FY97.

AGRICULTURE REFORM SUPPORT PROJECT
Credit No. 30350-AM

<u>Credit Amount:</u>	S14.5 million
<u>Board Date:</u>	01/17/98
<u>Signing Date:</u>	03/12/98
<u>Effectiveness Date:</u>	06/10/98 (planned)
<u>Closing Date:</u>	12/31/02
<u>Amount Disbursed: (as of 4/30/98):</u>	S 0.0 million

Project Objective and Description: The objectives of the Project are to: (a) support the development of private sector farming and agroprocessing; (b) improve and expand credit in the farming sector; and (c) increase the efficiency of providing agricultural services relating to research, education, information and extension. Specifically, the project will provide: (i) loans for working capital and investments to small, rural farms and businesses; (ii) agribusiness training and technical assistance in project finance to private agricultural processing and marketing enterprises to assist them in post-privatization restructuring; and (iii) the initiation of the restructuring of public services in the agricultural sector by focusing on research and extension involving small farmers.

Progress/Issues on Development Objective: This project has not been made effective. It was recently approved by the Armenian Constitutional Court, but has not been sent to the Presidential Administration for consideration and forwarding to the Parliament for consideration.

Implementation Progress/Issues: The main pending institutional issues which will impact the pace and success of ARSP implementation include: (a) resolving the legal status of the PIU and beneficiaries under the project; and, (b) the timely contracting of the local consultants who are to assist the Executive Directorate of the Agricultural Research Council in priority setting and elaboration of arrangements to integrate agricultural research, education, and extension.

After lengthy discussions with the Ministry of Finance and Economy and the Foreign Aid Coordination Center by an IDA mission in April, it was agreed that the PIU would be registered as a closed joint stock company with the Agribusiness Development Center as a sub-section of the PIU. In addition, the Agricultural Support Centers would be registered as daughter enterprises of the PIU. Both of these arrangements would allow the policy of the GOA to be followed regarding registration of PIUs as closed joint stock companies, and would also permit the agreements on disbursement procedures and eligibility of payment categories to be adhered to as finalized in the Development Credit Agreement for the ARSP. Local consultants to the Agricultural Research Council

will continue to be paid directly by the PIU; the Agricultural Support Centers (once legally registered) will open local accounts to which the IDA share of their monthly operational costs will be transferred each month.

Regarding staffing of the Executive Directorate of the Agricultural Research Council, the consultant positions were advertised in March, and the selection process was completed in early April for the main positions (Director, two Deputy Directors, and two agricultural institutions specialists). The approval of these selected candidates is awaiting decision by the Project Management Board. The April mission strongly recommended that the selections of this open selection process be confirmed as quickly as possible. The agenda for the Executive Directorate of the Agricultural Research Council is already quite full and even though Parliamentary approval of the ARSP is expected to be decided only in early June, failure to get the Executive Directorate established immediately will delay restructuring of the agricultural research system by as much as a year.

EDUCATION FINANCING AND MANAGEMENT REFORM PROJECT
Credit No. 30070-AM

<u>Credit Amount:</u>	S15.0 million
<u>Board Date:</u>	11/20/97
<u>Signing Date:</u>	02/04/98
<u>Effectiveness Date:</u>	05/27/98
<u>Closing Date:</u>	06/30/02
<u>Amount Disbursed: (as of 4/30/98):</u>	S 0.0 million

Project Objective and Description: The project will support implementation of the government's strategy for reform of general education, through introduction of a financially sustainable system of textbook provision, and through training and TA to support the planning, piloting and implementation of financing and management reforms. The objectives of the Textbook Component are: (a) to improve the quality of, and reduce the costs of, school textbooks and teachers' manuals; (b) to ensure that all pupils have access to required textbooks for the core curriculum; (c) to establish the basis for a sustainable, demand-driven system of financing school textbooks; and (d) to achieve full cost recovery of textbooks within four years, except for the poorest groups. The objectives of the Capacity Building for Reform Management Component are: (a) to establish processes and incentives to increase efficiency in the allocation of resources within general education; (b) to give schools the flexibility, and build their capacity, for effective management of their own resources, while promoting community and parental participation in school funding and management; and (c) to improve capacity for assessment and monitoring of school performance.

Progress/Issues on Development Objective: As the project just became effective, it is too early to assess progress on meeting objectives, with the exception of the textbook component which has been piloted under the PPF. The pilot has revealed strong support by all stakeholder groups for the school-based revolving fund system and good prospects for achieving long term financial sustainability.

Implementation Progress/Issues: The PMU and the Ministry's two working groups have worked extremely hard and effectively over the last year, making substantial progress in introduction of the new textbook system and in development of rationalization plans. In the last four months, however, serious delays have occurred: in project effectiveness; in award of contracts for textbook purchase; in evaluation of bids for TA for the textbook component; in procurement of other TA. The delays have been due in part to the timing of the Presidential elections and change in government, but also to new bureaucratic procedures related to project administration which are adding greatly to the workload of

international participation in the publishers' competitions has also contributed to the delay in signing the textbook contracts; measures are being discussed to address some of the valid concerns in next year's competition. Confirmation/clarification of the policy for school-based management will be essential for successful implementation of the Capacity Building Component; however, little progress has been made on this front and efforts have not been followed through to pilot the proposed new status for per-pupil-funded schools.

ENTERPRISE DEVELOPMENT PROJECT
Credit No. N0060-AM

<u>Credit Amount:</u>	\$16.8 million
<u>Board Date:</u>	12/19/96
<u>Signing Date:</u>	01/13/97
<u>Effectiveness Date:</u>	04/21/97
<u>Closing Date:</u>	07/01/02
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 1.6 million

Project Objective and Description: The aim of the project is to increase the viability and bankability of Armenian companies through improved planning and development of export links and joint venture deals to enhance investment, imports, exports and technology; and, to strengthen the lending capacity of the banking system, especially for export-oriented projects, and to provide term finance for investment by private enterprises. The project's objectives are: (i) to assist in financing such productive facilities and resources in the Republic of Armenia as will contribute to the economic and social development of the country, (ii) to strengthen commercial banks and other financial institutions and the capital market, and (iii) to strengthen investment and export market development capacity of private enterprises.

Progress/Issues on Development Objective: The main part of the project, the line of credit, is proceeding satisfactorily. Commitments on subprojects comprise about 20% of the credit line. Nine "no-objections" have been given for subloans, and six banks have been accredited. In addition, there is a good applications pipeline. The BAC (Banking Advisory Center) has performed satisfactorily and has worked with 10 banks, assisting the accreditation process. The ESF (Enterprise Support Fund) component of the EDP will be housed in the recently established ADA (Armenian Development Agency). There are currently, however, negotiations regarding the ESF between the Ministry of Industry and Trade and the Ministry of Finance and Economy regarding possible re-allocation of partial ESF funds. The Prime Minister will soon take a decision on this matter, as promised to the mission currently in the field, by Friday, May 29.

Implementation Progress/Issues: An ongoing problem remains between the sub-borrowers and their contractors abroad. As the contractors are generally unwilling to ship their goods to the enterprises without payment upfront (and they are seemingly not accepting letters of credit from Armenian commercial banks), enterprises are oftentimes taking out bridging loans (at very high interest rates) to cover the costs. The FFMPC (the PMU) cannot under normal disbursement rules advance funds from the Special Account to cover these costs. At the same time neither the Midland-Armenia Bank nor the CBA

have the experience to deal with importation under the Bank's special account arrangements. However, a number of solutions have been discussed with the FFPMC which allow some immediate disbursements, while the transfer of the special account to a foreign bank with experience in utilizing Bank special accounts is expected to resolve the problem in general.

Environmental Assessments: There have been problems regarding the environmental assessments which are being conducted by the Agency of Environmental Assessments. Although the agency charges a fee for the assessments, it seems that they do not have the capacity and expertise to properly conduct or oversee the assessments. This has been evidenced by several assessments already completed. In the interim each subproject receives a short environmental report highlighting possible adverse impacts, which is included in the appraisal summary.

**HEALTH FINANCING AND PRIMARY
HEALTH CARE DEVELOPMENT PROJECT**

Credit No. 29790-AM

<u>Credit Amount:</u>	\$10.0 million
<u>Board Date:</u>	07/29/97
<u>Signing Date:</u>	09/02/97
<u>Effectiveness Date:</u>	03/31/98
<u>Closing Date:</u>	06/30/02
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 0.0 million

Project Objective and Description: The project supports the implementation of Armenia's health financing and primary health care reform. The project objectives are to: (i) improve quality and efficiency of primary health care through training and retraining of primary health care staff, introduction of practice guidelines and improving the infrastructure and equipment in selected PHC facilities; (ii) improve efficiency, transparency and targeting of public health spending by introducing basic benefits package, performance based provider payment methods and modern financial management; and, (iii) mobilize communities to take an active role in defining local health care priorities and sustaining basic health care services.

Progress/Issues on Development Objective: The development objectives of the project remain highly relevant. No major shift in the health sector strategy is expected. Indicators measuring progress towards meeting its development objectives were discussed with the PMU and generally accepted. In its Project Progress Report for the period ending June 30, 1998, the PMU is expected to (i) make some suggestions on revising the indicators; (ii) indicate when Bank assistance would be required to measure some of the indicators; and (iii) collect the baseline data of the indicators also explaining from where the data is taken and who specifically will be responsible for monitoring their progress.

Implementation Progress/Issues: The Credit was declared effective on March 31, 1998 (delayed from December 1997 due to parliamentary consideration of the Project and then the Presidential elections). Because the Minister of Health was re-appointed conditions are currently very favorable for successful start of project implementation.

Health Care Financing Component: The Director the State Health Agency (SHA) has been appointed and a site selected. The civil works should be completed in approximately six months. The Director of the SHA has been provided temporary office space in order to begin operating. Most of the required technical assistance under the component will be financed by the Dutch government on a grant basis. We have been

informed by the Dutch Embassy in Moscow that they have approved the funding of \$1.5 million in technical assistance for the joint Armenia/Georgia Health Financing Project over a period of two years. TNO Prevention and Health will be directly contracted to provide this assistance. A planning session was held in Armenia with Georgian representation in April. This will be followed by a workshop in Georgia in June.

Primary Health Care Component: The first task will be to issue an RFP for training of general practice physicians and nurses, curricula and PHC guidelines development. A draft of these TORs have been reviewed and comments provided. A revised TOR and shortlist are currently with the Bank for consideration. The team discussed how to prepare good terms of reference and how to manage consultants. The PHCDP manual was revised and approved as a condition of effectiveness. It was agreed that a cap of US\$200,000 would be placed on proposals from polyclinics. During the first year, the equivalent of 10 microprojects will be piloted in Yerevan and Ararat marz. A new PHCDP manager has been selected and the PHCDP team (promotion, appraisal, evaluation) has been recruited with the Bank's no objection. The Ministry of Health must issue the statement of family practitioners before training of family practitioners can begin and before the PCHDP Committee can adopt the operational manual.

Project Management: The PMU has moved into its new office space. Urgently needed equipment and furniture was purchased with remaining PHRD funds prior to effectiveness. It is very likely that the PMU will require additional space as the PHCDP and other project activities grow. The mission suggests that nearby space in the Ministry be allocated to the project as it becomes available.

The procurement plan was reviewed and updated and the schedule of procurement of works and equipment was reconciled. Discussions were also held with the PMU computer experts to review the Bank's guidelines for procurement of computer equipment. Some concern was expressed with the annual procurement of medical equipment and drugs for the PHCDP and it was suggested that these items be procured more frequently in order to avoid problems with storage and delay delivery to recipients. The PMU will discuss the issue further with UNICEF.

Project reporting requirements have been discussed. It was agreed that progress reports would be semi-annual, rather than quarterly, as is indicated in the credit agreement. The monitoring and evaluation indicators which will be included in the progress report were also discussed and agreed upon.

At this stage of project implementation, there are no serious problems affecting implementation. Issues which might potentially delay implementation include likely difficulties resulting from (i) the need to hire qualified staff for the management positions of the SHA at a civil servant salary scale; and (ii) the organization of PHC facilities in accordance with entirely new principles under the PHCDP.

IRRIGATION REHABILITATION PROJECT
Credit No. 26670-AM

<u>Credit Amount:</u>	\$43.0 million
<u>Board Date:</u>	12/08/94
<u>Signing Date:</u>	12/16/94
<u>Effectiveness Date:</u>	02/23/95
<u>Closing Date:</u>	06/30/99
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 18.6 million

Project Objective and Description: To assist Armenia in maintaining the level of irrigated agricultural production, improve the country's water resources management, and accelerate the development of water distribution institutions and support facilities needed for a market-based privatized agriculture.

Progress/Issues on Development Objective: (A) Water Resources Management - newest monitoring indicators are for 1997, and show: (1) increase in water delivery; (2) overall expenditure on O & M in the project area is relatively stable, but still indicates insufficient expenditure on maintenance, as 90% of the USD 7.5 million goes for energy expenses; (3) cost recovery of O & M indicates that collections as compared to total costs is about 45% (or only 25% if only cash collections are considered).

(B) Development of Water Distribution Institutions - progress to date has been better than originally targeted for the third year of project implementation: (1) 73 WUAs formed in project area and 14,560 hectares of total project area covered by these WUA's; (2) 6 WUA's to whom management of O & M for tertiary canals has been successfully transferred from OME, and 648 hectares covered-by these transferred tertiary canals.

Implementation Progress/Issues: Expenditure on maintenance of Armenia's irrigation systems is inadequate to permit timely and satisfactory delivery of water to farmers and to guarantee the long term sustainability of structures following rehabilitation. Another major shortcoming is OME's current inability to properly plan and monitor its activities. However, with the introduction of appropriate policy and institutional measures recommended below, it should be possible for OME to improve its management capacity, operate the irrigation systems efficiently and to cover its expenses. This transformation will be conditional on OME's ability to assess and collect water charges in excess of current levels. In this regard, a financial recovery plan was prepared with OME and the PIU during April-November 1997 and agreed on with the Ministry of Agriculture. The plan foresees a gradual increase over four years of OME's average water charge from

HIGHWAY PROJECT
Credit Nos. 27760-AM and
27761-AM

<u>Credit Amount:</u>	\$31.0 million
<u>Board Date:</u>	09/14/95
<u>Signing Date:</u>	10/02/95
<u>Effectiveness Date:</u>	02/14/96
<u>Closing Date:</u>	12/31/00 (revised)
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 12.9 million

Project Objective and Description: The project finances an expanded program of periodic highway maintenance, repair of selected bridges and tunnels, provide materials for routine road maintenance, provide modern road maintenance equipment, and institutional strengthening of the Armenia Road Directorate. The Development Objectives are to: (i) help preserve the Armenian national road network and reduce transport operating costs by expanding maintenance operations; (ii) help develop an institutional framework adapted to the requirements of the road sector of a market economy; (iii) expand the resource base for road maintenance by encouraging appropriate road user charges; (iv) assist in developing an effective private road construction and engineering industry; and (v) improve road safety.

Progress/Issues on Development Objective: Good progress is being made in meeting all of the development objectives except (iii). Institutional strengthening and developing the private construction industry have been excellent, periodic maintenance is proceeding on schedule, and a Road Safety Plan has been prepared. A seminar was held in Yerevan on road user charges and road funds, which was well received and resulted in the enactment of charges for heavy and transit vehicles. However, the level of road user charges is still much too low to provide a level of financial support needed to sustain the road network.

Implementation Progress/Issues: Implementation is proceeding well on all fronts except for the availability of counterpart funding and ARD budget financing, where the Ministry of Finance is continually behind in meeting its commitments. This has resulted in delays in paying contractors, and in funding for routine maintenance.

AGRICULTURE REFORM SUPPORT PROJECT
Credit No. 30350-AM

<u>Credit Amount:</u>	\$14.5 million
<u>Board Date:</u>	01/17/98
<u>Signing Date:</u>	03/12/98
<u>Effectiveness Date:</u>	06/10/98 (planned)
<u>Closing Date:</u>	12/31/02
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 0.0 million

Project Objective and Description: The objectives of the Project are to: (a) support the development of private sector farming and agroprocessing; (b) improve and expand credit in the farming sector; and (c) increase the efficiency of providing agricultural services relating to research, education, information and extension. Specifically, the project will provide: (i) loans for working capital and investments to small, rural farms and businesses; (ii) agribusiness training and technical assistance in project finance to private agricultural processing and marketing enterprises to assist them in post-privatization restructuring; and (iii) the initiation of the restructuring of public services in the agricultural sector by focusing on research and extension involving small farmers.

Progress/Issues on Development Objective: This project has not been made effective. It was recently approved by the Armenian Constitutional Court, but has not been sent to the Presidential Administration for consideration and forwarding to the Parliament for consideration.

Implementation Progress/Issues: The main pending institutional issues which will impact the pace and success of ARSP implementation include: (a) resolving the legal status of the PIU and beneficiaries under the project; and, (b) the timely contracting of the local consultants who are to assist the Executive Directorate of the Agricultural Research Council in priority setting and elaboration of arrangements to integrate agricultural research, education, and extension.

After lengthy discussions with the Ministry of Finance and Economy and the Foreign Aid Coordination Center by an IDA mission in April, it was agreed that the PIU would be registered as a closed joint stock company with the Agribusiness Development Center as a sub-section of the PIU. In addition, the Agricultural Support Centers would be registered as daughter enterprises of the PIU. Both of these arrangements would allow the policy of the GOA to be followed regarding registration of PIUs as closed joint stock companies, and would also permit the agreements on disbursement procedures and eligibility of payment categories to be adhered to as finalized in the Development Credit Agreement for the ARSP. Local consultants to the Agribusiness Development Center

will continue to be paid directly by the PIU; the Agricultural Support Centers (once legally registered) will open local accounts to which the IDA share of their monthly operational costs will be transferred each month.

Regarding staffing of the Executive Directorate of the Agricultural Research Council, the consultant positions were advertised in March, and the selection process was completed in early April for the main positions (Director, two Deputy Directors, and two agricultural institutions specialists). The approval of these selected candidates is awaiting decision by the Project Management Board. The April mission strongly recommended that the selections of this open selection process be confirmed as quickly as possible. The agenda for the Executive Directorate of the Agricultural Research Council is already quite full and even though Parliamentary approval of the ARSP is expected to be decided only in early June, failure to get the Executive Directorate established immediately will delay restructuring of the agricultural research system by as much as a year.

EDUCATION FINANCING AND MANAGEMENT REFORM PROJECT
Credit No. 30070-AM

<u>Credit Amount:</u>	\$15.0 million
<u>Board Date:</u>	11/20/97
<u>Signing Date:</u>	02/04/98
<u>Effectiveness Date:</u>	05/27/98
<u>Closing Date:</u>	06/30/02
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 0:0 million

Project Objective and Description: The project will support implementation of the government's strategy for reform of general education, through introduction of a financially sustainable system of textbook provision, and through training and TA to support the planning, piloting and implementation of financing and management reforms. The objectives of the Textbook Component are: (a) to improve the quality of, and reduce the costs of, school textbooks and teachers' manuals; (b) to ensure that all pupils have access to required textbooks for the core curriculum; (c) to establish the basis for a sustainable, demand-driven system of financing school textbooks; and (d) to achieve full cost recovery of textbooks within four years, except for the poorest groups. The objectives of the Capacity Building for Reform Management Component are: (a) to establish processes and incentives to increase efficiency in the allocation of resources within general education; (b) to give schools the flexibility, and build their capacity, for effective management of their own resources, while promoting community and parental participation in school funding and management; and (c) to improve capacity for assessment and monitoring of school performance.

Progress/Issues on Development Objective: As the project just became effective, it is too early to assess progress on meeting objectives, with the exception of the textbook component which has been piloted under the PPF. The pilot has revealed strong support by all stakeholder groups for the school-based revolving fund system and good prospects for achieving long term financial sustainability.

Implementation Progress/Issues: The PMU and the Ministry's two working groups have worked extremely hard and effectively over the last year, making substantial progress in introduction of the new textbook system and in development of rationalization plans. In the last four months, however, serious delays have occurred: in project effectiveness; in award of contracts for textbook purchase; in evaluation of bids for TA for the textbook component; in procurement of other TA. The delays have been due in part to the timing of the Presidential elections and change in government, but also to new bureaucratic procedures related to project administration which are adding greatly to the workload of the PMU and are delaying procurement and other decisions. Opposition by local firms to

HIGHWAY PROJECT
Credit Nos. 27760-AM and
27761-AM

<u>Credit Amount:</u>	\$31.0 million
<u>Board Date:</u>	09/14/95
<u>Signing Date:</u>	10/02/95
<u>Effectiveness Date:</u>	02/14/96
<u>Closing Date:</u>	12/31/00 (revised)
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 12.9 million

Project Objective and Description: The project finances an expanded program of periodic highway maintenance, repair of selected bridges and tunnels, provide materials for routine road maintenance, provide modern road maintenance equipment, and institutional strengthening of the Armenia Road Directorate. The Development Objectives are to: (i) help preserve the Armenian national road network and reduce transport operating costs by expanding maintenance operations; (ii) help develop an institutional framework adapted to the requirements of the road sector of a market economy; (iii) expand the resource base for road maintenance by encouraging appropriate road user charges; (iv) assist in developing an effective private road construction and engineering industry; and (v) improve road safety.

Progress/Issues on Development Objective: Good progress is being made in meeting all of the development objectives except (iii). Institutional strengthening and developing the private construction industry have been excellent, periodic maintenance is proceeding on schedule, and a Road Safety Plan has been prepared. A seminar was held in Yerevan on road user charges and road funds, which was well received and resulted in the enactment of charges for heavy and transit vehicles. However, the level of road user charges is still much too low to provide a level of financial support needed to sustain the road network.

Implementation Progress/Issues: Implementation is proceeding well on all fronts except for the availability of counterpart funding and ARD budget financing, where the Ministry of Finance is continually behind in meeting its commitments. This has resulted in delays in paying contractors, and in funding for routine maintenance.

IRRIGATION REHABILITATION PROJECT

Credit No. 26670-AM

<u>Credit Amount:</u>	\$43.0 million
<u>Board Date:</u>	12/08/94
<u>Signing Date:</u>	12/16/94
<u>Effectiveness Date:</u>	02/23/95
<u>Closing Date:</u>	06/30/99
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 18.6 million

Project Objective and Description: To assist Armenia in maintaining the level of irrigated agricultural production, improve the country's water resources management, and accelerate the development of water distribution institutions and support facilities needed for a market-based privatized agriculture.

Progress/Issues on Development Objective: (A) Water Resources Management - newest monitoring indicators are for 1997, and show: (1) increase in water delivery; (2) overall expenditure on O & M in the project area is relatively stable, but still indicates insufficient expenditure on maintenance, as 90% of the USD 7.5 million goes for energy expenses; (3) cost recovery of O & M indicates that collections as compared to total costs is about 45% (or only 25% if only cash collections are considered).

(B) Development of Water Distribution Institutions - progress to date has been better than originally targeted for the third year of project implementation: (1) 73 WUA's formed in project area and 14,560 hectares of total project area covered by these WUA's; (2) 6 WUA's to whom management of O & M for tertiary canals has been successfully transferred from OME, and 648 hectares covered by these transferred tertiary canals.

Implementation Progress/Issues: Expenditure on maintenance of Armenia's irrigation systems is inadequate to permit timely and satisfactory delivery of water to farmers and to guarantee the long term sustainability of structures following rehabilitation. Another major shortcoming is OME's current inability to properly plan and monitor its activities. However, with the introduction of appropriate policy and institutional measures recommended below, it should be possible for OME to improve its management capacity, operate the irrigation systems efficiently and to cover its expenses. This transformation will be conditional on OME's ability to assess and collect water charges in excess of current levels. In this regard, a financial recovery plan was prepared with OME and the PIU during April-November 1997 and agreed on with the Ministry of Agriculture. The plan foresees a gradual increase over four years of OME's average water charge from

2.95 dram/m³ to 6 drams/m³. The first increase was due to take place this year with an increase from 2.95 to 3.8 dram/m³.

However, this step was delayed, and in fact an alternative measure was adopted in March 1998. The national budget allocated \$8 million to OME to cover virtually all the expected energy costs for 1998 associated with the irrigation system. As a consequence, the OME water charge was decreased to 1.9 dram/m³. This rate will likely not generate sufficient revenue to cover non-energy related operation costs and support substantially more maintenance than has been done annually in the recent past. In addition, the lowering of the rate creates a risky situation for OME and for future annual national budgets. Water users will now expect to pay a lower rate in future than agreed under the OME financial recovery plan. But this will entail diverting budget revenue to subsidize water consumption and perpetuate uneconomic use of water in areas of high cost water supply (where pumping exceeds 80 meters). As a result, IDA recommends that the goals of the financial recovery plan for OME be widely discussed within the Government of Armenia, with the goal of adopting a multi-year cost-recovery plan at the level of the Cabinet.

POWER MAINTENANCE PROJECT
Credit No. 26660-AM

<u>Credit Amount:</u>	\$13.7 million
<u>Board Date:</u>	12/08/94
<u>Signing Date:</u>	12/23/94
<u>Effectiveness Date:</u>	03/23/95
<u>Closing Date:</u>	07/31/98
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 11.7 million

Project Objective and Description: The project consists of: (i) maintenance of two existing 200 MW thermal units at the Hrazdan Power Plant, one 150-MW thermal unit at the Yerevan Power Plant, and provision and installation of spare parts and materials for the critical maintenance of selected hydro power plants on the Sevan-Hrazdan Cascade, including rehabilitation of two units at Gyumush Power Plant. The objectives of the project are to: (i) arrest and reverse the deterioration of three thermal generation units and three hydro power generation units, and improve their availability (reduce unscheduled down-time); and (ii) strengthen the electricity load management and dispatch capability of the national dispatch center and arrest the further deterioration of the electricity distribution system.

Progress/Issues on Development Objective: The maintenance investments under the project have helped improve the quality and reliability of electricity supply and arrested and reversed the further deterioration of the generation units included in the project.

Implementation Progress/Issues: Deliveries of equipment financed by the project began in August 1996. Two thermal units at Hrazdan Thermal Power Plant have been rehabilitated and are operating and producing 200 MW of power each. The stator windings and batteries were installed in one unit at Kanaker Hydro Power Plant, and the unit was put back into operation in December 1997, and is producing 12.5 MW. Unit No. 5 of the Yerevan Thermal Power Plant was overhauled from June 1997 to October 1997, and is now back in operation, producing 50 MW. The repairs to additional units at Yerevan Thermal Plant are scheduled for spring/summer 1998. Stator windings for Unit 4 at Gyumush Hydro Power Plant were installed in early 1998, and Unit 4 is now undergoing testing. Work on Unit 3 began in spring 1998. Some communications equipment has been provided to strengthen the transmission and dispatch capacity.

This project has required an unusual number of letters of credit/special commitments for the various suppliers of goods. It is essential that in this final phase of

the project, the Special Account remain with the Bank of New York, so that letters of credit can be processed quickly.

The closing date for the project is July 31, 1998, but an extension is being requested to allow one additional season for installation of goods now being procured by the project. It is envisaged that the credit will close on January 31, 1999.

Counterpart Funds: The lack of counterpart funds has been a problem from the beginning of the project. It was initially envisaged that Armenergo, the beneficiary, would provide installation services for the equipment financed under the Project as part of its local contribution. The central government has budgeted funds in its annual budget to cover part of the local costs, but frequently these funds have come late, and for less than the expected amount. The PIU estimates that 1998 counterpart funding requirements are as follows: (i) 92.82 million Armenian drams for installation in 1998; and (ii) 180.29 million Armenian drams for installation done in previous years and not yet paid.

SOCIAL INVESTMENT FUND

Credit No. 27840-AM

<u>Credit Amount:</u>	\$12.0 million
<u>Board Date:</u>	11/09/95
<u>Signing Date:</u>	11/15/95
<u>Effectiveness Date:</u>	01/05/96
<u>Closing Date:</u>	06/30/00
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 5.6 million

Project Objective and Description: The ASIF aims to support the lower income groups among the Armenian population through improvement of basic social services and creation of employment opportunities. The primary objective is to: (a) rehabilitate basic small-scale infrastructure that can result in immediate improvements of the living conditions of the poorest among the population; (b) strengthen the capacity of private small-scale contractors and other micro-businesses so that they can benefit directly or indirectly from contracts financed by the ASIF; (c) generate employment through financing of labor-intensive public works; and (d) build greater capacity for policy makers to monitor and analyze trends in the level and structure of poverty in Armenia.

Progress/Issues on Development Objective: As of April 7, 1998 the ASIF received 485 microproject proposals, 212 microprojects were approved, 133 are under implementation, and 79 have been completed. Approximately 250,000 community members have benefited. The majority of microprojects involve small-scale school rehabilitation and water pipeline connection projects, and have benefited poor communities in the Northern and Southern regions of Armenia. The works have been carried out by private small-scale contractors (mostly new), generating employment in small communities. All projects involve the participation of local communities who propose, design and manage the projects. Assessments conducted have shown that communities benefiting perceive high performance and dedication of the ASIF and revealed that the project has had a tremendous positive impact on communities. This is primarily the result of ASIF's demand-driven approach in responding to the community's perceived priorities.

Implementation Progress/Issues: While good progress is noted under the ASIF, a number of recurring implementation constraints were observed during the Mid-Term review Mission in April of 1998, including: (i) the ASIF is not reaching its institution building goal -- creation of an agency to be viable vehicle for future community development. There is a need to strengthen capacity building measures used to improve the ability of community groups to organize and manage their own activities, particularly for the critical areas of operations and maintenance; (ii) there is limited attention given to

the poverty alleviation objective during microproject promotion and appraisal; (iii) there is limited ASIF involvement in the transfer of responsibility to microproject committees for microproject implementation. Recommendations were made and agreements were reached for improving these critical areas.

Matching Fund Activities: In January of 1998, the first agreement was signed with Aznavour pour l'Armenie (APA). Good results encouraged other donors and NGOs to collaborate. Other ASIF cofinancing agreements followed: Medecins sans Frontieres/Belgium, Norwegian Refugee Council and Tekeyan Cultural Association. Microproject cofinancing agreements with these total US\$37,529. Matching fund pledges received total US\$1.3 million. One million dollars was raised at the charitable concert by Charles Aznavout in Paris in January, 1998 and is expected to be transferred as a matching fund contribution for the rehabilitation of schools in Armenia. ASIF now plans to talk with Armenian-based organizations including the Lincy Foundation, the Armenia General Benevolent Union, and the Catholic Relief Services.

Borrower Contributions: To date total expenditures under the Borrower contribution are in the amount of US\$40,000. No replenishment to the project account has been made, so the Borrower is behind in compliance with the Credit Agreement. This was discussed with the Deputy Minister of Finance and Economy during the April mission. He confirmed that the 1998 Government budget includes allocations for borrower contribution under the ASIF. The mission was assured a timetable would be prepared for depositing the overdue contributions and the first deposit will be made in May of 1998.

Project Management Issues: Disbursements are below the estimated cumulative disbursement forecast for 1997 (US\$6.6). There are several explanations: (i) significant early delays involving the replenishment of the second tranche of the Dutch Grant account; (ii) the Accounting Unit's involvement in several audits conducted by the National Assembly, the Control Department of the Armenian Government, the Central Board for Fiscal Control of the Ministry of Finance and Economy, the Tax Inspectorate of the Republic of Armenia and KPMG. These audits were conducted simultaneously at the ASIF Office over a six month period, which resulted in significant delays in the processing of payments in the Accounting Unit; (iii) delays (15 to 20 days) in the Bank's processing of Withdrawal Application forms; (iv) increasing delays of microproject approvals by the ASIF Board (10 days on average but some up to two months). In addition, all irrigation projects regardless of the size have to be approved by the Board, causing significant delays in the processing of irrigation projects; and (v) administrative complexity involving the administration of contracts under cost-sharing arrangements.

To facilitate procurement reviews by the Bank and accelerate the implementation of microprojects, the prior review arrangements under the project were revised increasing the prior review thresholds for microproject review, civil service works contracts and disbursement based on SOEs for civil works projects to US\$100,000. To facilitate further the implementation of microprojects, the threshold for Board review will also need to be revised in the project's Operational Manual from US\$50,000 to US\$100,000.

STRUCTURAL ADJUSTMENT TECHNICAL ASSISTANCE CREDIT

Credit No. 28250-AM

<u>Credit Amount:</u>	\$3.8 million
<u>Board Date:</u>	02/29/96
<u>Signing Date:</u>	03/04/96
<u>Effectiveness Date:</u>	03/22/96
<u>Closing Date:</u>	12/31/98 (revised)
<u>Amount Disbursed:</u> (as of 4/30/98):	\$ 1.6 million

Project Objective and Description: The primary objective is to support the implementation of the Government's reform program to stabilize the economy and create the conditions for a resumption of growth and an improvement in living standards. The project supports the implementation of reform measures included in the SAC. Technical assistance is focused on four key areas: privatization and post-privatization, financial sector restructuring, civil service reform, and resource mobilization.

Progress/Issues on Development Objective: Implementation of the reform program has been satisfactory. The technical assistance is aimed at facilitating implementation of key reform measures, for instance in the areas of privatization and improved financial discipline in the enterprise sector. Delays in developing a civil service reform strategy have occurred and the resource mobilization component is currently being reviewed. At this time, the development objective rating is only marginally satisfactory. Most project activities, however, are now being awarded, and work is being initiated over the next few months.

Implementation Progress/Issues: Due to delays in implementation, the closing date was extended by one year, to December 31, 1998. Under the Customs Enforcement component work had been at a standstill due to management changes in the Customs Department; a new Director has recently been appointed and work is expected to recommence in the next month. The firm PADCO has completed work on the financial analysis in the water sector. Work is ongoing on drafting the legal framework for the establishment of the Energy Regulatory Commission. A review of TA needs in the area of public sector reform is underway, with recommendations due to the Bank by end-June. At the request of the government, the special account for this project was recently moved to the Central Bank of Armenia, on a pilot basis.

STRUCTURAL ADJUSTMENT TECHNICAL ASSISTANCE CREDIT II
Credit No. 29810-AM

<u>Credit Amount:</u>	\$5.0 million
<u>Board Date:</u>	08/26/97
<u>Signing Date:</u>	09/02/97
<u>Effectiveness Date:</u>	09/22/97
<u>Closing Date:</u>	06/30/99
<u>Amount Disbursed: (as of 4/30/98):</u>	\$ 1.0 million

Project Objective and Description: The project supports the implementation of reform measures included in SAC II. Technical assistance is focusing on eight key areas: privatization, capital markets and the financial sector, energy sector, social protection, health and education, resource mobilization, public information, and judicial sector reforms.

Progress/Issues on Development Objective: Implementation of the reform program is generally strong, with the second tranche of SAC II released end-December, 1997.

Implementation Progress/Issues: The following activities under the credit are being launched: (i) introduction of IAS transaction accounting – local consultants working; (ii) public information – strategy has been approved and budget and staffing has been reviewed by the Bank and a no objection issued; (iii) pension pillar assignment and pension reform strategy under the social protection component – work is ongoing; (iv) introduction of IAS in power sector companies – proposal pending from the Ministry of Energy; (v) health facilities restructuring strategy – contract negotiated, Bank's no objection pending. The capital markets component is on hold pending discussions with USAID. Additionally, assistance for the Establishment of a National Depository Institution component is dependent on the USAID program which may cover this component. At the request of the government, the special account for this project was recently moved to the Central Bank of Armenia, on a pilot basis.