A new World Bank Group Country Partnership Framework (CPF) for FY19–23 will support the rebalancing of Armenia’s economy toward a new growth model, through three focus areas:

1) **Boosting export enablers and firm competitiveness,**
2) **Enhancing human capital and equity,**
3) **Sustainably managing environmental and natural resources.**

Under each focus area, the CPF incorporates key elements of good governance and inclusion, public accountability and transparency, citizen engagement, gender equity, spatial equity, and digital connectivity.

The World Bank’s active portfolio in Armenia performs satisfactorily and consists of 14 active operations, with a total commitment of $557.4 million.

It includes $80.87 million in International Development Association (IDA) credit and $468 million in International Bank for Reconstruction and Development (IBRD) loans, along with a Geothermal Exploratory Drilling project (Scaling-Up Renewable Energy Program [SREP]) amounting to $8.55 million.

An active program of 30 trust fund operations totaling $17.3 million is supporting institutional capacity building and stand-alone activities in the areas of energy, water, social protection, health, agriculture, poverty, urban development, the environment, transport, finance, and education.
Challenge: Noncommunicable diseases (NCDs), including cardiovascular diseases and cancers, account for 93 percent of deaths in Armenia. However, there are significant gaps in the prevention and management of NCDs at the primary care level. The 2016 Health System Performance Assessment indicates that 24 percent of individuals who were 15 and older had their blood glucose level measured during the past 12 months, while 43.5 percent who were 15 and older had their blood pressure measured by health care providers.

The Project Development Objective of the Disease Prevention and Control Project (DPCP) is to improve (i) maternal and child health (MCH) services and the prevention, early detection, and management of selected NCDs at the primary health care (PHC) level; and (ii) the efficiency and quality of selected hospitals in Armenia.

Results related to performance-based financing to improve MCH and NCD services in PHCs (Component 1):

- Between January 1, 2015, and February 28, 2019, more than 1 million persons between 35 and 68 years were screened for hypertension; 620,757 people between 35 and 68 years were screened for diabetes mellitus; roughly 225,754 women between 30 and 60 years were screened for cervical cancer; and 63,934 antenatal care attendees were screened for glycosuria, hypertension, and proteinuria in at least three antenatal visits.
- In 2014, 2,700 PHC providers were trained to implement clinical guidelines for cardiovascular disease, diabetes mellitus, and cervical cancer, and training of 950 administrative staff was conducted in preparation for the screening program.
- Enhanced verification of screening results was successful in 97.2 percent of PHC facilities (350 out of 360) and verification via phone call interviews was successful in 94.4 percent of PHC facilities (340 out of 360).

Results related to improving the efficiency and quality of selected hospitals (Component 2):

- The construction/renovation of two regional medical centers in Gegharkunik Marz and in Ararat Marz has been completed.
- The development of architectural designs for the construction of two regional medical centers in Gegharkunik Marz and Vayots Dzor Marz is in process.

Key partners: The Bank team works closely with the (i) Ministry of Health; (ii) Ministry of Territorial Administration and Development; (iii) Armenian Medical Association; and (iv) Ministry of Finance.

Key development partners include several international organizations, including the World Health Organization (WHO), Asian Development Bank (ADB), United Nations Children’s Fund (UNICEF), World Vision, and Save the Children, which are involved in different aspects of health care reform undertaken by the Government of Armenia.
ARMENIA: EDUCATION IMPROVEMENT PROJECT

**Challenge:** Since the 1990s, continued investment in education has been aimed at the reduction of poverty by increasing access to, and improving the quality of, general secondary education. The current project addresses the challenge of sustaining and expanding the accomplishments in general secondary education while addressing equity and quality concerns in both preschool, general, and higher education.

**The Project Development Objectives** are to improve the school readiness of children entering primary education, improve the physical conditions and availability of educational resources in upper-secondary schools, and support improved quality and relevance in higher education institutions in Armenia.

**Results achieved to date:**

- 17 new preschools have been established in the 2018/19 academic year, and roughly 350 5–6-year-old children have been enrolled. The activity is aimed at improving equitable access to preschool education and the school readiness of the participating students. All teachers serving in the newly established preschool groups received training from the National Institute of Education. 97 preschool education micro-projects were launched between 2015 and 2018, benefiting about 2,700 5–6-year-old students across Armenia.
- Rehabilitation and seismic retrofitting in the first batch of five schools have been completed and the schools were officially re-opened in late 2018. Rehabilitation of the second batch of high schools under the project will launch in late spring 2019. Rehabilitation of the new building of the National Center for Educational Technologies (NACET) is ongoing and will be completed in April/May 2019.
- ICT training of school representatives is ongoing. In late 2018, 584 teachers and principals were trained; in 2019, 1,500 more teachers and principals will be trained. The total number of trained school representatives will reach 4,000 and cover all 1,400 schools in the country.
- A draft of the National Curriculum Framework and State Standards has been developed. Work is in progress to identify a suitable approach for the revision of subject syllabi and standards.
- Twelve higher education institutions received grants under the Competitive Innovation Fund (CIF) to improve the quality and labor market relevance of their education programs, and 10 have completed the grant projects. The other two institutions will complete the implementation of the grant projects between April and July 2019. One of the beneficiaries is a regional-/marz-based institution.

**Key partners:** The Bank team works closely with the (i) Ministry of Education and Science, responsible for the overall policy setting as well as for the implementation of the project; and (ii) Ministry of Finance, responsible for conducting policy dialogue on the financial implications of the project and ensuring the proper flow of funds and financial monitoring of project activities.

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**Financing in million US Dollars**

* World Bank disbursements as of April 1, 2019.

**Key Dates:**

- Approved: March 13, 2014
- Effective: November 20, 2014
- Closing: September 30, 2021
**Challenge:** The improvements in living conditions witnessed in the country before the 2009 global financial crisis have since receded, resulting in increased inequality and more instances of people falling below the poverty line. In post-crisis Armenia, improvements in living conditions have remained slow, leading to the Government’s renewed focus on the efficiency of the social service delivery system and effectiveness of the Family Benefit Program. These efforts need further enhancement to cope with the protracted and high unemployment, poverty, and vulnerability, which disproportionately affect women. The Government of Armenia initiated a reform aimed at integrating the provision of social safety net delivery through the establishment of integrated social protection centers throughout the country. This major reform effort has been only partially implemented, and the majority of the integrated centers still need to be established and become operational.

**The Project Development Objectives are to (i) improve social protection service delivery; and (ii) strengthen the analytical and monitoring and evaluation functions of the agencies delivering social protection benefits and services.**

**Key expected results:**

- The project supports the model of the functional integration of four existing agencies responsible for pensions, social assistance, employment, and disability certification into an Integrated Social Protection Center (ISPC).
- This model is being rolled out to another 37 ISPCs. The activities, which include civil works, the provision of furniture and IT equipment with software, training and on-the-job mentoring, and active communication with the public, will ensure the fully operational nature of the centers, delivering high-quality services tailored to the needs of the beneficiaries.
- The project supports the development of a comprehensive monitoring and evaluation system for the social protection sector. It will finance an integrated system of monitoring and evaluation of social protection benefits and services, targeting over 70 different programs. This would enable the Ministry of Labor and Social Affairs to directly manage the beneficiary feedback, specifically collecting information on the quality of the delivered services.
- Following a period of slow implementation progress due to the Government’s fiscal consolidation measures and political changes, the project was back on track in 2018, though it is again recording an implementation slowdown. The closing date has been extended to November 30, 2020. Given the slow pace of implementation and low disbursement, it is unlikely that all the planned activities will be completed even by the new closing date.

**Key partners:** The Bank works closely with the Ministry of Labor and Social Affairs, as well as the State Employment Agency, State Social Security Service, and the NORK Foundation.

**Key development partner** involved in different components of the social protection reform is UNICEF.

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**ARMENIA: SOCIAL PROTECTION ADMINISTRATION PROJECT II**

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Financing in million US Dollars

* World Bank disbursements as of April 1, 2019.

**Key Dates:**

- Approved: March 24, 2014
- Effective: October 29, 2014
- Original Closing Date: December 31, 2018
- New Closing Date: November 30, 2020
Challenge: Fragmentation in the organization of Armenia's territories is exacerbated by insufficient budgets, leading to inefficiencies and the inability of local governments to effectively deliver services to their constituencies. The Armenia Development Strategy (ADS) for 2012–2025 aims to overcome territorial development disparities through targeted territorial development policies and programs. It will require stronger intra-governmental coordination, as well as significant capacity building and institutional development within the organizations involved in local and regional development. The Administrative-Territorial Reform aimed at the consolidation of 915 communities has been ongoing, and 52 community clusters have already been established.

The Project Development Objective is to improve the quality and use of, as well as access to, community and intercommunity infrastructure.

Key expected results:

- Local populations will benefit from renovated and rehabilitated social infrastructure, thus improving the living conditions of people in vulnerable communities.
- The project will directly benefit more than 150 mostly rural communities and enable them to identify their own investment needs and economic development priorities. It is expected that at least 250 permanent and 1,500 temporary jobs will be created and about US$8 million in wage income will be generated.
- The project will support the piloting of socioeconomic initiatives for clusters, bringing together communities that will create livelihood and employment opportunities, particularly for women. These are expected to be productive communal investments that could, for example, support economic development through improvements in agricultural production or commerce, conditions for production and manufacturing, and/or human capital development opportunities.
- Community councils, municipal officials, school boards, and other community-based organizations will benefit from capacity-building support to effectively plan and maintain their investments.
- The Armenian Territorial Development Fund (ATDF) will be supported to transform its work from smaller projects to larger, sustainable development projects.
- Overall, the project is expected to fund the design, selection, and implementation of more than 100 community micro projects and over 30 enlarged community subprojects while fostering intercommunity cooperation within established clusters.

Key partners: The Bank works closely with the Ministry of Territorial Administration and Development and the project implementing agency: the Armenian Territorial Development Fund.

Key development partners involved in different areas of the territorial development reform are the Swiss Agency for Development and Cooperation (SDC), U.S. Agency for International Development (USAID), German Technical Cooperation Agency (GIZ), and the European Union (EU).
**ARMENIA: THIRD PUBLIC SECTOR MODERNIZATION PROJECT**

**Challenge:** The biggest technical task and challenge for the Third Public Sector Modernization Project (PSMP-3) is the implementation of an integrated government financial management information system (GFMIS). As of September 2018, the project had not been able to agree on the technical specifications of the GFMIS to initiate the procurement process. Project implementation has been affected by a series of external factors, including the recent velvet revolution and earlier government changes and fiscal consolidation. The project mid-term review, due by end-June 2019, may inform potential project restructuring to adjust the project design to the Government’s new priorities, in particular those related to financing the GFMIS under PSMP-3. Change management in relation to the introduction of new systems and practices may become another challenge when project implementation registers tangible progress and may need to be addressed through proactive engagement with project counterparts and civil society.

The Project Development Objective is to improve: (a) the quality of the public financial reporting; and (b) access to selected enhanced e-government services.

**Selected measurable results will include:**

- Systematic collection and processing of citizen feedback on public services;
- Reduced time for processing passport extensions through consular departments from a baseline of 500 hours on average, and reduced time for issuing certificates on civil status through consular departments from a baseline of 60 days on average. The e-consular system was successfully launched in 2018 and system-generated data can be summarized beginning in 2019.
- Increased competition for inter-regional transport routes from a baseline of 1.1 bids per route;
- Reduced time to transmit pre-trial investigative information between prosecutors’ offices in various regions from a baseline of one per week.

**Key partners:** The Bank team is working closely with the (i) Office of the Government of Armenia, which is the main project counterpart and has been leading public administration and e-governance reforms; (ii) Ministry of Finance on part of GFMIS; and (iii) Ministry of Foreign Affairs, Ministry of Transport, Communication and Information Technology, Ministry of Justice, General Prosecutor Office, Police, Commission on Ethics of High-Ranking Officials, and other stakeholders partnering on specific automation and e-service delivery solutions.

**Key development partners** include the Ministry of Finance of the Russian Federation, providing about US$8.2 million in parallel financing for GFMIS implementation.

### Financing Table

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Financing in million US Dollars
* World Bank disbursements as of April 1, 2019.

**Key Dates:**
- Approved: September 30, 2015
- Effective: May 6, 2016
- Closing: December 31, 2020
Challenge: Armenia’s tax-to-GDP ratio historically remained low for its level of income. This was the result of narrow tax bases with numerous tax exemptions and a weak capacity to detect and penalize tax frauds, both of which undermine compliance and contribute to widespread tax evasion and informal sector activities. The 2014 merger of the Ministry of Finance and the State Revenue Committee (SRC) was reversed in March 2016. The closing date of the Tax Administration Modernization Project (TAMP) previously was extended from April 15, 2018, to September 30, 2018, to enable completion of several project activities, and at the request of the Armenian Ministry of Finance, it was again extended to January 31, 2019. All activities of the project were in fact successfully completed by December 31, 2018.

The Project Development Objective is to modernize Armenia’s tax administration to (i) increase voluntary tax compliance, (ii) reduce tax evasion, (iii) reduce compliance costs, and (iv) increase administrative efficiency.

Results achieved to date:

- TAMP introduced simplified procedures to remove barriers on taxpayers to fulfilling their obligations through e-filing and enhanced taxpayer services. The “Doing Business 2019” report on October 31, 2018, identified two reforms related to tax administration: (a) voluntary value added tax registration at the time of business incorporation to improve business startups; and (b) administrative measures to simplify the payment of taxes, enhancing compliance with corporate income tax, value added tax, and labor tax rules.
- The Project also established a modern risk-based (computerized) audit case management system to improve compliance and create a well-targeted enforcement mechanism.
- Average adjustment results from audits were US$13.7 million against the project baseline of US$10.1 million (end-of-project target was US$12.1 million).
- There was a 101.8 percent ratio of collected revenue to the tax administration’s operational costs against the project baseline of 74 percent (end-of-project target was 83 percent).
- Only two centralized tax inspectorates remain at headquarters against the baseline number of 39 (end-of-project target was 29).
- It now takes 262 hours to prepare and pay taxes against the baseline of 500 (end-of-project target was 400 hours).

Key partners: The Bank team ensured that implementation arrangements are designed to facilitate cross-departmental coordination within the Ministry of Finance and State Revenue Committee (SRC).

Key development partners include representatives from USAID, the International Finance Corporation (IFC), and the International Monetary Fund (IMF). The project worked in tandem with the USAID Tax Reform project, where USAID provided extensive complementary technical assistance.
ARMENIA: SECOND COMMUNITY AGRICULTURAL RESOURCE MANAGEMENT AND
COMPETITIVENESS (CARMAC2) PROJECT

Challenge: The livestock sector continues to face challenges, such as unsustainable pasture management and underutilization, persistent livestock diseases, processing and marketing constraints, and reduced productivity. This project builds on World Bank experience and successes in agriculture, rural development, pasture and livestock management, and participatory community development promoted under the CARMAC project to help Armenia address these urgent challenges and provide investment support.

The Project Development Objective is to (i) improve the productivity and sustainability of pasture and livestock systems in targeted communities; and (ii) increase the marketed production from selected livestock and high-value agri-food value chains. This would be evidenced by: (i) increased livestock productivity as measured by milk productivity and an increase in daily animal weight gain; (ii) the increased efficiency of communal pasture management as measured by increased communal budgetary revenues from the lease of pastures; (iii) increased farm sales from livestock; and (iv) increased pasture management effectiveness.

Key expected results:

- Support for services for farmers involved in livestock production in another 109 communities has been initiated as compared to the planned 100 (in addition to the 81 included under CARMAC).
- As a result of project interventions, milk productivity for cattle has increased by 15 percent as compared to an end-project target of 20 percent; the sales of animals, both cattle and sheep, was estimated at 29,463 and 38,640, respectively, compared to the targets of 33,000 and 67,000; the pasture management effectiveness score is 39.2 while the target was 50; and in 2018, the value of the annual marketed production of milk, meat, fruits, and vegetables was estimated at 2,499 million Armenian dram (AMD) compared to the target of 800 million AMD.
- The Value Chain Development component is to enhance the ability of agricultural producers and processors to meet domestic demand and access international market opportunities in the food value chains of fodder-based milk and meat and in processed fruit and vegetables.
- The capacity of public sector institutions to facilitate business development and enable market access in the selected value chains has been improved. The project supported the opening of a one-stop shop at the State Service of Food Safety (SSFS) to make it easier for the private sector to interact with the agency.

Key partners: The Bank works closely with the Ministry of Agriculture and regional governors, as well as village mayors and farmer groups.

Key development partners: The Bank cooperates with the SDC (which implements similar projects in Armenia), GIZ, and the United Nations Development Programme (UNDP).
Challenge: The Irrigation System Enhancement Project (ISEP) is designed to address some of the irrigation and drainage (I&D) sector challenges, with the aim of contributing to the country’s ultimate goal of ensuring efficient, cost-effective, and sustainable irrigation.

The Project Development Objectives are (i) to reduce the amount of energy used and to improve irrigation conveyance efficiency in targeted irrigation schemes; and (ii) to improve the availability and reliability of important sector data and information for decision makers and other stakeholders.

Results expected and achieved to date:

- Three lots of Meghri gravity scheme construction have been completed, saving 2.8 million-kilowatt hours (kWh) of electricity annually. Construction of two lots of the Kaghstrashen gravity scheme was also completed and put into operation during this irrigation season, saving 8.0 million kWh annually. Combined with energy savings realized as a result of the rehabilitation of diversion canals, the irrigation system has saved a total of about 26 million kWh. The Baghramyan-Norakert gravity scheme has also been completed, and rehabilitation works on the tertiary network financed from Additional Financing are ongoing. With the completion of the Geghardalich gravity scheme, savings will reach 36.4 million kWh annually, equivalent to about 30 percent of the total needs of the irrigation system in Armenia.
- Rehabilitation of selected diversion canals has been completed, leading to an improvement in the conveyance efficiency of the outlet canals of selected schemes by reducing water losses by about 23 million cubic meters annually.
- As a result of project interventions, the I&D services will be improved on more than 12,000 hectares.
- Supervisory control and data acquisition (SCADA)-compatible water measurement devices have been installed in 83 observation points against an originally planned 71, generating information on the amount of water available to the system and its operators: water supply agencies (WSAs) and water users associations (WUAs); 50 percent of WUAs now have water intakes that are trackable by the State Committee of Water Systems (SCWS) in real time (baseline: 0 and end-target: 100 percent).
- A technical audit of infrastructure of all WUAs, completed in June 2018, will provide crucial information on the needs of capital and maintenance investments and irrigation water management.

Key partners: The Bank works closely with the SCWS under the Ministry of Energy Infrastructures and Natural Resources, as well as the Ministries of Agriculture and Finance.

Key development partners: The Bank team closely cooperates with the Eurasian Development Bank (EDB). Other partners involved in the sector include the German Development Bank (KfW), the French Development Agency (AFD), the Japan International Cooperation Agency (JICA), and the European Investment Bank (EIB).
ARMENIA: LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT

Challenge: Incoming tourism is Armenia’s second export line item and covers more than half of service export. Urban areas have higher rates of unemployment, giving small cities the highest levels of poverty. Balanced regional development is therefore a key priority. Although the goal of eradicating extreme poverty has been realized in Armenia, achieving shared prosperity still has a long way to go. Industrialization is currently not the main reason behind the lower poverty at the regional level, and reforms need to focus on services.

The Project Development Objective is to improve infrastructure services and institutional capacity for an increased contribution from tourism to the local economy in five selected regions of Armenia.

Key Expected Results:

- Improved road accessibility in Project areas, measured by number of beneficiaries and rehabilitated kilometers
- Improved water supply in Project areas, measured by hours per day of piped water services
- Increased tourism spending
- Increased number of jobs created by activities linked to support for the tourism industry (gender disaggregated)
- Establishment and operation of a Destination Management Organization (DMO)

Key partners: The Bank team works closely with the (i) Ministry of Economic Development and Investment, which is responsible for the overall policy setting under a newly established State Committee of Tourism and for overall implementation of the project; (ii) Ministry of Culture; (iii) Ministry of Nature Protection; (iv) Ministry of Territorial Administration and Development; and (v) Armenia Territorial Development Fund, which is the project implementing entity that coordinates and manages the implementation activities on a day-to-day basis.

Key development partners include (i) USAID, which is implementing a project, together with Smithsonian Institution, aimed at improving Armenia’s cultural heritage offerings to promote tourism; (ii) GIZ; (iii) KfW; and (iv) ADB.
**ARMENIA: LIFELINE ROAD NETWORK IMPROVEMENT PROJECT**

**Challenge:** Since the launch of the Lifeline Road Improvement Project (LRIP) in 2009, there have been noticeable improvements in both local employment and journey time. Despite the extensive rehabilitation and visible improvement, however, about 50 percent of the Lifeline Road Network (LRN) remains in poor condition. The degraded part of the LRN causes high transport costs and journey times for road users. This has occurred due to a historic pattern of underinvestment and deferred maintenance, as well as the inefficient use of available resources involving a focus on capital investments rather than investments in maintenance, which has resulted in a considerable maintenance backlog.

**The Project Development Objective** is to improve the access of rural communities to markets and services through the upgrading of selected lifeline roads and to strengthen the capacity of the Ministry of Transport, Communication and Information Technology (MOTCIT) to manage the LRN.

**Results achieved to date:**

- Number of kilometers rehabilitated under the project is 299 (target: 360 kilometers).
- Average speed on lifeline roads in project areas has improved from 20 to 40.15 kilometers per hour.
- The Road Financing Study has been finalized and endorsed by the Government.
- 30 “Safe Village” projects have been completed (target: 30).
- The development and use of the Road Asset Management System (RAMS) within the MOTCIT to support decision making on the LRN is under implementation (to roll out by December 2019).
- Percentage of project-related grievances addressed by the project implementation unit increased from 0 to 100 (target 100).
- Users’ perceptions of improved access to markets and services increased from 0 to 4.73 (target 4.5; measured by 1–5 scale).
- Number of rural people with access to an all-season road increased from 600,000 to 817,870.
- Share of rural population with access to an all-season road increased from 51 to 69.52 percent (target 71.8 percent).

**Key partners:** The Bank works closely with (i) MOTCIT; (ii) “Transport Projects Implementation Organization” State Non-Commercial Organization; and (iii) Armenian Roads Directorate State Non-Commercial Organization (ARD).

**Key development partners** include the ADB, which is implementing road projects and with which the Bank team coordinates closely on policy issues; and the EIB on road safety matters.

**Financier**

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Financing in million US Dollars
* World Bank disbursements as of April 1, 2019.

**Key Dates:**

- Approved: January 31, 2013
- Effective: July 15, 2013
- Closing: December 30, 2019
- Additional Financing Approved: July 31, 2015
- Additional Financing Effective: April 20, 2016
- Additional Financing Closing: December 30, 2019
Challenge: Armenia’s power transmission infrastructure is old and under-maintained. The average age of transmission assets is 45 years. The Government recognizes the need for urgent rehabilitation, and an increase in power supply reliability is among the key strategic objectives of the sector. The original loan is financing the replacement of (a) the transmission line connecting two key generation centers in the central part of the country (Hrazdan Thermal Power Plant [TPP]) and in the south (Vorotan Cascade of hydropower plants), which serve large electricity consumers in the central-eastern part of the country, and (b) the Lalvar-Noyemberyan transmission line, which is critical to the reliability of the northeastern part of the transmission network and to the reliable supply of power to end-users. The Additional Financing loan (US$37.5 million) is financing rehabilitation of the Haghtanak, Charentsavan-3, Vanadzor-1, and Zovuni-2 substations. The Haghtanak substation is critical to ensuring a reliable power supply to distribution substations and consumers in the western parts of Yerevan. Charentsavan-3 serves residential consumers and functions as a switching station that links to six other substations in northeastern Armenia. Vanadzor-1 serves residential and large industrial consumers in the northern parts of Armenia. The Zovuni-2 substation, located in the northern part of Yerevan, is an important hub as a transformation point from the 220 kilovolt (kV) to the 110kV networks, which supply electricity to the capital city.

The Project Development Objective is to increase the reliability and capacity of the transmission network.

Results achieved to date:

- The construction of all foundations, installation of all towers, and stringing activities of the overhead transmission line from Hrazdan TPP to Shinuhayr substation have been completed.
- Part 1 and Part 2 of RAP for the Lalvar-Noyemberyan transmission line have been cleared and approved by the World Bank, and land acquisition is under way.
- Rehabilitation works at Haghtanak and Vanadzor-1 substations are lagging and expected to be completed by end-May 2019 and in the last quarter of 2019, respectively.
- After months of suspension, High Voltage Electric Networks’ (HVEN) new management is determined to continue the rehabilitation of the substation, given its systemic importance to ensuring the transmission network’s reliability. HVEN is currently negotiating the terms of a contract extension (i.e., contract price and completion date), and the contractor has also been requested to resume the delivery of equipment.
- The preparation of a bidding document for Zovuni-2 is under way and expected to be submitted for Bank review by the end of April 2019.

Key partners: The Bank team works closely with the (i) High Voltage Electric Networks of Armenia, the power transmission company responsible for the construction, operation, and maintenance of the high-voltage power transmission network of the country; and (ii) Ministry of Energy Infrastructures and Natural Resources, which is responsible for the overall policy setting.
ARMENIA: ELECTRICITY TRANSMISSION NETWORK IMPROVEMENT PROJECT

Challenge: The reliability of the power supply is among the key challenges currently facing the power sector of Armenia. The proposed project will leverage the World Bank’s current engagement in the energy sector in Armenia, including the ongoing Electricity Supply Reliability Project (ESRP) and its Additional Financing (ESRP AF), to help the Government comprehensively address the challenge of supply reliability. It will finance the rehabilitation of the substations of Ashnak, Ararat-2, and the Yerevan Thermal Power Company (YTPC), which will help reduce the number of equipment failures due to technical reasons. The Ashnak substation is essential to ensuring a reliable power supply to consumers in the eastern and northeastern parts of Armenia, including a large dairy products company, an asphalt plant, and a diamond polishing and jewelry production factory, which employ around 6,500 people. The YTPC substation is used for the evacuation of electricity from the modern and efficient combined-cycle gas turbine (CCGT) plant with 240 MW of installed capacity. The existing CCGT plant at YTPC accounts for 20 percent of the total annual electricity generation in the country. Therefore, it is essential to ensuring an adequate and low-cost electricity supply to the more than 1 million electricity consumers in the country. The Ararat-2 substation is an important transmission hub in the Ararat region (marz), 40 km southeast of the city of Yerevan. The project will also finance the purchase of specialized machinery and equipment for the power transmission network.

The Project Development Objectives are to increase the reliability and capacity of the transmission network.

Results achieved to date:

- All works at YTPC have been completed, while rehabilitation works at the Ashnak substation are lagging and expected to be completed in the last quarter of 2019.
- The preparation of a bidding document for Ararat-2 is under way and expected to be submitted for Bank review by the end of April 2019.

Key partners: The Bank team works closely with the (i) High Voltage Electric Networks of Armenia, (ii) Yerevan Thermal Power Plant, and (iii) Ministry of Energy Infrastructures and Natural Resources, which is responsible for the overall policy setting.
Challenge: The financial viability of the state-owned power generation companies (ANPP and YTPC) and the private power distribution company (ENA) have been deteriorating since 2011 due to a number of factors. Specifically, the financial standing of ANPP and YTPC deteriorated due to non-core business-related borrowing, lending, and expenses by those companies; and ENA became financially distressed due to the lack of an adequate mechanism to compensate for its losses resulting from the mismatch between actual and forecast costs of purchasing electricity, which is the main determinant of its margin. ANPP and YTPC have accumulated large cash deficits amounting to US$104 million, which were closed by (a) building up payables by delaying payments to their suppliers; (b) taking expensive commercial loans to finance the required expenditures related to the generation and supply of electricity; and (c) deferring the expenditures required for main operational needs. A part of the Government’s program to restore the financial viability of the sector is supported under the Program for Results.

The Project Development Objective is to support the Borrower’s efforts to ensure an adequate and reliable electricity supply by improving the financial standing of the state-owned power generation companies and the private power distribution company.

Results achieved to date:

- Independent verification reports on achievement of the targets for disbursement-linked indicators for 2018 are expected by June 30, 2019.
- The cash deficit of ANPP and YTPC was reduced to US$33.6 million as of March 21, 2019.
- The Ministry of Energy Infrastructures and Natural Resources, acting as the sole shareholder of YTPC and ANPP, adopted decisions prohibiting non-core business-related expenditures, lending, and borrowing by those companies.
- The commercial loans of ANPP and YTPC were fully repaid.
- The Public Sector Regulatory Commission (PSRC) amended the methodology of tariff margin calculation for ENA to allow its margin for each new tariff period to fully reflect the loss (revenue) accrued due to differences between the forecast and actual cost of electricity purchased during the preceding tariff period.
- PSRC amended the methodology of tariff calculation for nuclear and thermal power generating plants to allow tariffs for each new tariff period to fully reflect the loss (profit) resulting from differences between forecast and actual cost of purchased fuel due to fluctuations in the foreign exchange rate during the preceding period.

Key partners: The Bank team works closely with the (i) Yerevan Thermal Power Plant, (ii) Armenian Nuclear Power Plant, (iii) Ministry of Energy Infrastructures and Natural Resources, and (iv) Public Services Regulatory Commission.
Challenge: Armenia has had a relatively low export base, with a declining sophistication in export products over the years, while its export basket is primarily concentrated in commodities that have low value added and are vulnerable to volatility in global markets. Another challenge is the need to attract efficiency-seeking foreign direct investment (FDI), maximizing benefits to the local economy. Furthermore, though it is crucial that Armenia meet the requirements of global quality standards to be able to promote its products and services, its national quality infrastructure suffers from weaknesses that hinder technology upgrading and undermine the competitiveness of its exports.

The Project Development Objective is to strengthen the Government’s capacity to provide export promotion, investment attraction, and quality management services to firms.

Key expected results:

- At least 40 contracts with new customers for exporters will be generated.
- Seven facilities in the form of public-private partnerships (PPPs) will be created to strengthen industry clusters (cluster development PPPs) and to facilitate efficiency-seeking FDI to strengthen their level of engagement in Armenia and promote skills development by funding joint projects between multinationals and academia (research and skills development PPPs).
- Four new FDIs will be generated through investment promotion services.
- Two Industrial Laboratories of the National Institute of Metrology will be internationally recognized.
- A National Accreditation Body will obtain international recognition.
- Training of the technical staff of the national quality infrastructure will be provided.

Key partners: The Bank works closely with the intergovernmental Board, which is chaired by the Deputy Prime Minister and responsible for the overall implementation of the Project, and with the Foreign Financed Projects Management Center (FFPMC), which, starting April 1, 2019, will be transformed into the Project Implementation Department (PID) of the Ministry of Finance and be responsible for the fiduciary aspects of project activities. The Project is undergoing a mid-term review and is expected to be restructured in March 2019 to improve implementation performance and alignment with the new priorities of the Government of Armenia.