



**Centre for Development Policy and Research**

# **ARMENIA COUNTRY STUDY**

**EC-PREP COMMISSIONED STUDY:**

**IMPLEMENTATION OF POVERTY REDUCTION STRATEGIES IN THE NIS**

**(JUNE 2004)**

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## **ACRONYMS AND ABBREVIATIONS**

CDF	Comprehensive Development Framework
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MTEF	Medium Term Expenditure Framework
NIS	Newly Independent States
PRSP	Poverty Reduction Strategy Paper

### TIME LINE OF THE PRSP PROCESS IN ARMENIA

Stage in PRSP Process	Date
Interim-PRSP	
JSA of I-PRSP	
I-PRSP approved by IDA/IMF Boards	
PRGF approved by IMF Board	
Full PRSP launched at national conference chaired by the President	
PRSP approved by Presidential Decree	
JSA of PRSP	
World Bank discusses CAS and JSA of PRSP Boards	
IMF Boards?	
PRSP Progress Report	

## **PREFACE**

EC-PREP is a programme of research to enhance collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community's development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DFID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies. The Studies are designed by DFID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared as an input into the EC-PREP commissioned study "Implementation of Poverty Reduction Strategies in the NIS". PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of (a) five desk studies - Azerbaijan, Georgia, Tajikistan, Moldova and Uzbekistan – with shorter versions of the latter two that have yet to complete PRSPs; (b) two in-depth case studies (Armenia and the Kyrgyz Republic); (c) a comparative study examining global experience with implementation of PRSPs (d) a synthesis report bringing together the findings, lessons and recommendations from the other reports.

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## 1. BRIEF OVERVIEW OF THE PRSP PROCESS IN ARMENIA

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### 1.1 Brief Country Background

Prior to independence Armenia's per capita GDP was approximately at the same level as the USSR average. Income distribution was egalitarian with a Gini coefficient below 0.3. In 1989, which also saw the highest pre-independence GDP, poverty incidence was about 20 percent<sup>1</sup> (see Table 1 in Annexes). In the first few years of independence, a wide range of economic and political factors affected Armenia causing a sharp decline in GDP and severe deterioration social conditions. After four years of economic decline and turmoil, growth resumed in 1994 and has continued steadily since then. Ten years of strong growth doubled per capita GDP and by the end of 2003, figures already exceeded the highest pre-transition level recorded in 1989.

However, resumption of growth and the following recovery did not result in significant poverty reduction. The first Household Survey of 1996 revealed 55 percent poverty incidence and in spite of more than 50 percent cumulative economic growth recorded since then, poverty declined by only 5 percentage points staying at 50 percent in 2002. Such a low elasticity of poverty reduction with respect to growth can be explained by deterioration of income distribution. The Gini coefficient of income inequality is currently believed to be twice as high as its pre-transition level.

Due to severe income inequality, only a fraction of the population benefited from the growth of the recent decade, while half of the population remained in the same severe social conditions since the early 90s. Since the growth itself was not sufficient for significant poverty reduction the need for more complex and poverty-reduction oriented policy emerged towards the end of the 90s. Favorable external factors such as the UN Millennium initiative and shift of the World Bank (WB) and International Monetary Funds (IMF) toward pro-poor policies promoted the development of the PRSP in Armenia. The PRSP became the first step in directing national strategies towards poverty reduction objectives.

### 1.2 National Development Planning Framework

The Poverty Reduction Strategic Program (PRSP) differs significantly from previous programs of socio-economic development in Armenia. The main components of National Development Planning Framework (NDPF) in the past were tactical rather than strategic. The current NDPF in Armenia is more comprehensive consisting of the a) Annual Budgets, b) Medium-Term Expenditures Framework (MTEF) and c) PRSP.

In the past, annual budgets were the only planning framework in Armenia. Being based on short-term macroeconomic projections, annual planning had weak links between long-term policy priorities and

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<sup>1</sup> Source: "Social Snapshot and Poverty in Armenia", NSS, Yerevan, 1998

budgetary expenditures. In addition to this, until recently budget process in Armenia was based on “input budgeting” practices.

The introduction of medium-term approach to budgeting was initiated in 2000 with the development of the first Medium Term Expenditures Framework (MTEF). MTEF is a continuous process, which represents a comprehensive framework of “policy formulations – planning – budgeting”. MTEF requires a) assessment of budget resources in a stable macroeconomic environment, b) assessment of the expenditure requirements through the bottom-up approach and c) consistency of required expenditures and available funds. Since 2003, MTEF in its full scope has been regularly included in the budgeting process. However, budgeting practice is not outcome-oriented yet and the situation can be improved by introducing a program budgeting approach.

The PRSP is the next component of NDPF, which is an outcome-oriented framework for poverty reduction in Armenia and it is supposed to lay the basis for the MTEF. The PRSP is a “living” document and will be revised on a biannual basis. Current the PRSP adopted by the Government includes the following priorities: (i) promoting sustainable economic growth through macroeconomic stability and private sector development, (ii) enhancing human development and improving social safety nets, (iii) implementing prudent fiscal policies and reforming the tax system, (iv) improving public infrastructure, and (v) improving core public sector functions.

### **1.3 The Aid Regime**

According to WB classification, Armenia was a low-income country until 2003, enjoying favorable borrowing conditions<sup>2</sup>. The donor community in Armenia is represented by multilateral organizations such as the IMF, International Development Association, International Bank for Reconstruction and Development, International Fund for Agricultural Development, European Bank for Reconstruction and Development, European Community and bilateral donors such as USA, Germany, France and Japan. Armenia went through its transition mainly by following policy prescriptions from the WB and IMF, thus shaping the current regime of international assistance.

In September 1992, Armenia became a member of WB and the first credit program for institutional adjustment was launched in March 1993. In addition to development projects, the WB implemented five Structural Adjustment Credit (SAC) programs for direct budget support. After adoption of the PRSP as the national strategy, WB cooperation shifted from SAC credits to PRSC projects. Currently the finalization of the first PRSC is underway.

Armenia joined the IMF in May 1992. Currently its quota in the Fund equals SDR 92 million. Armenia has implemented three credit programs with the IMF: Stand-by Arrangement, Enhanced

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<sup>2</sup> Since the beginning of 2004 Armenia is in middle-low income group, which is a step forward in that list.

Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) with total amount of borrowing equaling 222 million SDR. In the past decade, the main focus of IMF assistance was macroeconomic stability and structural reforms that resulted in significant progress in private sector development, restructuring the economy, banking system, and improved governance.



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## 2. THE INITIAL PRSP PROCESS AND THE PRSP DOCUMENT

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### 2.1 Start of the PRSP Process

In 1999, Executive Boards of the IMF and the WB approved a new facility - Poverty Reduction Strategy Paper- for the concessional financial assistance programs of the IMF and the WB and encouraged Armenia to develop and implement a PRSP.

In 2000, the Government of Armenia, with the assistance of the international community, initiated the process of preparing an Interim PRSP (I-PRSP). A Steering Committee consisting of Ministers, Members of the National Assembly, representatives of international organizations and NGOs was established by the Resolution of the Prime Minister of Armenia creating favourable conditions for participation of interested stakeholders. The I-PRSP was finalized and adopted by the Government of Armenia in March 2001. It also included a detailed schedule for development of final PRSP by December 2001. However, for the purpose of producing a better-prioritized participatory document, the authorities later too the decision to delay the preparation of the PRSP, focusing on the mechanisms for efficient participatory process with special attention to Civil Society.

A broad participatory process was part of the PRSP preparation. A Steering Committee and Working Group were established to initiate and coordinate the PRSP elaboration process. These bodies were headed by the Minister and the Deputy Minister of Finance and Economy (MoFE) respectively. The Committee reported to the Prime Minister and involved line ministries, committees of the National Assembly, political parties, and non-governmental and donor organizations. The Government also consulted regularly with development partners and donors who were providing technical assistance.

The PRSP Steering Committee decided to invite tenders for merit-based selection of independent experts for development of the PRSP. The Committee also decided to choose organizations for monitoring the environment of development of the PRSP in terms of compliance to transparency and participatory requirements. In October 2001, 83 individual applications and 6 organizational ones were submitted. Two organizations – “Institute of Democracy and Human Rights” NGO, and “Informational and Analytical Center of Economic Reforms” JSC were contracted for monitoring the PRSP process, while 41 independent experts were selected to develop the final PRSP. Most of the individual experts were representatives of NGOs and private sector, which was an important prerequisite for ensuring diversity and impartiality of views presented in the PRSP development process.

Individual experts formed five units in following areas: Poverty Assessment and Analysis, Methodology and Methodological issues, Social Strategy, Economic Strategy, Governance, Participation and Monitoring. The units were responsible for developing policy in these areas, determining priorities, and instituting publicly financed projects. On March 9-11, 2002, the PRSP Steering Committee conducted a seminar to review responsibilities and assignments of expert groups and independent experts in charge

of PRSP development. Participants in the seminar emphasized the importance of establishing mechanisms for cooperation between central government, local governments, as well civil society and donor institutions.

Working groups aimed toward more active participation of all line ministries and regional governments in PRSP process, headed by deputy directors of the agencies, were formed in all ministries and agencies by the Resolution of the Prime Minister on January 30 2002. Consequently, representatives from ministries and communities participated in joint discussions on the draft PRSP with experts, civil society members and donors. The PRSP Steering Committee disseminated the draft PRSP to all communities for comments and recommendations. Almost half of the communities responded by presenting recommendations, which were summarized and further submitted to the Expert Groups. The MTEF for 2003-2005 was developed parallel to the PRSP elaboration.

As a feedback to the first draft of PRSP, a significant number of comments were received that could be summarized in terms of concerns raised in the following categories: (i) the absence of clear priorities, (ii) weak structure of the document due to poor prioritization, (iii) weak financial framework with no consistency checks to budget capacities. Taking into account the deficiencies of the PRSP draft, the PRSP Working Group initiated the process of prioritization, which was supported by the GTZ. To finalize the PRSP draft and provide appropriate costing, a special expert group was created that came up with final draft of PRSP by the beginning of 2003.

## **2.2 Poverty Analysis**

The PRSP candidly discusses the factors that have contributed to high levels of poverty in Armenia and analyzes the role of recent economic and structural policies in reducing poverty. The analysis is based on surveys data, including three household surveys conducted in 1996, 1998 and 2001. Despite the absence of comparable poverty indicators for the last decade, the analysis makes a good attempt at assessing the impact of past policies, adverse shocks in the early 90s and recent trends in economic growth on the level of poverty. The poverty analysis is comprehensive and based on a wide range of indicators, including indicators related to income and income distribution, consumption, social sectors, access to water, nutrition, fertility, and regional issues. The main features of poverty in Armenia are presented below.

- Despite a certain reduction in poverty and inequality during 1996-2001, poverty in Armenia remains widespread, with approximately half the population being poor. The income concentration described by Gini coefficient persists at a value higher than 0.5. Poverty has special features depending on location, seasonal, gender, and age differences – as well as on the size of families, their education level, and vulnerability.

- In general, poverty is higher in urban areas as compared to rural areas. However, detailed analysis reveals that the capital is doing much better compared to most rural places. Moreover, extreme poverty, which is defined by the food poverty line, is mostly concentrated in rural clusters, which have the most unfavorable conditions for agricultural activities, or suffer the consequences of the Nagorno-Karabakh conflict.
- Gender analysis of poverty show that women are more frequently below the poverty line than men, but the risk of poverty for women is not much higher than that for men. The picture is different in case of households headed by women. Such households are much more vulnerable to falling into extreme poverty than other households. This is explained by lower rate of employment among women as compared to men. Hence, the absence of a man as head of the household increases the chances of falling below the poverty threshold.
- Despite the widely held opinion, pensioners (and households with members who are pensioners) are not at a higher risk of falling into poverty than the rest of the population. The basic explanation for this is the fact that despite the insufficiency of pensions in absolute terms, they represent a stable source of income for a predominant share of the elderly. This is the reason why any additional sources of income, even very modest ones, can significantly reduce the vulnerability of the pensioners.
- Analyses show that the poverty level is directly related to the size of a household: the more members in a household the higher its exposure to poverty. There is also a direct correlation between the poverty level and the number of children in a household in Armenia. For poverty in rural areas, there are number of decisive factors such as the size of plots, access to credit and the conditions of the roads leading to the principal markets.

The results of the poverty analysis presented above, enables identification of the following vulnerable groups: i) multi-member households, especially households with many children; ii) the unemployed and employees with low wages (including employees of the education, culture and arts sectors); iii) refugees and post-conflict groups, especially those residing in hostels and temporary shelters; iv) those single pensioners and disabled persons who have no sources of income other than their pensions.

### **2.3 Participation in the Process**

The PRSP development process in Armenia was a serious challenge in terms of collaboration between the authorities, civil society and international organizations. The process was effective in collecting contributions from civil society. It involved consultations within the Government and with members of the National Assembly, non-governmental organizations, academia, the private sector, trade unions, local communities, farmers, and members of the Armenian Diaspora, as well as public opinion surveys, workshops, and wide dissemination in local mass media. The final PRSP also states that

participation in the upcoming implementation, monitoring, and evaluation stages are as important as in the preparation stage.

It is very significant that civil society experts and member of the private sector who assisted in the preparation of the PRSP were selected through a process of open competition. However, the PRSP participatory process was not limited by this approach. In accordance with the tripartite agreement between the Government of Armenia, the WB and the United Nations Development Program (UNDP) a list of measures for PRSP development participatory process was approved, and coordinated and implemented through the creation of the “Social Monitoring and Analysis System” project of UNDP Armenia.

International organizations were very active in PRSP preparation through provision of consulting and financial support to those who coordinated and developed the PRSP. The donor community provided joint comments on the TOR and the drafts of PRSP. Seminars were organized by donor organizations to provide technical assistance to PRSP experts and the Working Group (UNDP, WB, and GTZ). A number of organizations (WB, UNHCR, DFID, CRS, OXFAM GB, AED, and others) provided support in organizing the participatory process.

All written and oral comments and proposals made during the PRSP participation process were submitted to the relevant expert group, responsible for the final consolidation of the document. The PRSP Steering Committee initiated the dissemination of the draft PRSP to all communities of the country for comments and recommendations. Almost half of the communities responded by discussing the document and by coming up with a large number of recommendations, which were summarized and further passed on to Expert Groups.

Quantitative results of the participatory process are the following: more than 100 written recommendations were received. These were mainly incorporated in the draft PRSP. More than 1800 people participated in events organized within the framework of the participatory process. Overall, about 700 recommendations were recorded based on questionnaires completed at the end of discussions. Although it is difficult to produce a numerical assessment of the incorporation of recommendations, it can be stated that about 40 percent of the recommendations received have been included in the PRSP, and about one-third were taken into account partly.

At the same time however, there were also a number of constraints to the participatory process. These constraints include: a lack of faith in the implementation of the PRSP, difficulties of accessing information (small number of copies of the press and their not being affordable for the most poor), non-sufficient level of institutional development of society, lack of knowledge on fundamental democratic values and their alienation in communities; the inactive mid-level governmental structures, the governmental bodies reluctance toward public participation, frustration and disappointment resulting from difficult social conditions, little or no hope for the future resulting from the lack of possibilities to

overcome difficulties, little knowledge on participatory community governance, inadequate skills among some community governments, few or no initiatives from the public.

Although the first draft PRSP was prepared in a sufficiently participatory environment, in order to be adopted by the Government, it needed serious editing and review in the final stage of development. This final stage of review and editing did not provide for sufficient participation. Some of the policy parameters suggested in the final PRSP were not discussed, and, overall, the process of finalization of the PRSP was not as open and participatory as the previous phases of PRSP development. The participatory process also was damaged by the fact that parallel to the PRSP process, the Government initiated the development of the MTEF by a separate expert group, which came up with alternative macroeconomic framework. Since the MTEF has been approved by the Government before the PRSP finalization, the initial macro-framework of PRSP was replaced by that of MTEF, thus damaging otherwise positive framework of participatory process.

## **2.4 Ownership of the Process**

While 1996 Household Survey have revealed drastic deterioration of poverty and inequality indicators in Armenia, the attention of authorities and Civil Society shifted to poverty-reduction priorities only at the end of 90's after introduction of Poverty Reduction and Growth Facility program of IMF. Later, the PRSP initiative was introduced to Armenia as a borrowing instrument. Although being externally driven initiative, active participation of the Government and Civil Society proved that potentially PRSP could become a nationally-owned program.

Political leadership commitments are very important for designing country-owned realistic strategy. The attention and participation of authorities in the PRSP development process proved that the process enjoyed strong political support. PRSP Steering Committee was headed by the Minister of Finance and Economy and consisted of representatives from line ministries dealing with social and poverty issues, standing committees of the Armenian National Assembly, National Statistical Service and leading political parties.

However, it is estimated that communities (local governance) have little degree of ownership of PRSP. Most of the communities do not refer to PRSP as an overarching framework while developing their compulsory mid-term social-economic development programs. As for Civil Society, recent years brought positive trends in CSO's participation and ownership. In case of business community, although number of representative business unions participated in the PRSP process, it is not realistic to pretend that business community fell ownership over the PRSP.

In spite of shortcomings, we believe that the upcoming phases of the PRSP implementation and monitoring, if organized in efficient participatory framework, can significantly strengthen the ownership.

## **2.5 Donor Support for the Process**

The PRSP process shed light on long-standing problems of the recent decade such as donor coordination, weak country ownership of externally financed programs, and fragmentation of governmental programs and institutions caused by multiple, and often inconsistent aid delivery and management procedures. While nearly all donors have agreed in principle to align their programs with PRSP, much remains to be done to achieve this. Among external partners, the WB and IMF have a special responsibility to demonstrate their willingness and ability to support country-driven strategies and strengthen donor coordination.

The WB, IMF, UNDP, Department for International Development (DFID), Government of the Netherlands and Government of Germany provided technical and financial support in various stages of the development of the PRSP. The Government is also indebted to other international organizations, which provided support to the process (The European Union, European Council and USAID) and the governments of many countries involved in the process through contributing professional knowledge and skills of their staff and international experts for improvement of the draft PRSP.

International organizations were very active in the PRSP process through provision of consulting and financial support to those who coordinated and developed the PRSP. The donor community provided joint comments on the TORs of experts and the drafts of the PRSP. Seminars were organized by donor organizations to provide technical assistance to PRSP experts and the Working Group (UNDP, WB, and GTZ). A number of organizations (WB, UNHCR, DFID, CRS, OXFAM GB, AED, and others.) provided support for handling the participatory process. The donor community also emphasized the importance of the participation of civil society.

In terms of funding, the PRSP process was supported mainly by the Dutch Grant for the Poverty Reduction Strategy Project. The extended grant was for the following areas: developing a strategy for the reduction of poverty in Armenia, building national capacity for formulating and implementing a poverty reduction strategy through strengthening relevant governmental and non-governmental institutions, organizing a participatory process for the development of the poverty reduction strategy through public awareness campaign, and establishing constructive dialogue on a strategy to reduce poverty in Armenia between the Government and all interested stakeholders of civil society.

## **2.6 General Assessment of the PRSP Document**

The PRSP provides a sound assessment of the nature and determinants of poverty in Armenia candidly discussing factors that have contributed to high levels of poverty in Armenia and analyzes the role of recent economic and structural policies in reducing poverty. According to the Joint Staff Assessment approved by IMF/IDA Boards in November 2003, "The Government's efforts in preparing the PRSP are highly commendable. However, further work will be required to refine the proposals and

facilitate their implementation. The risks ... constitute a reminder of the need for strong political leadership, ownership of the strategy, and continued efforts to adapt it in light of new developments. At the same time, the PRSP's challenging agenda will require considerable assistance and firmer commitments from Armenia's development partners to finance the strategy".

According to an independent assessment conducted for the Government of Netherlands, the PRSP, while being a well-organized strategy document, has also some shortcomings. The assessment finds that a) the PRSP presents a thorough and in-depth analysis of causes of poverty in Armenia; b) macroeconomic framework provides basic necessary conditions for poverty reduction such as rapid growth coupled with low inflationary environment; c) the estimates of economic growth are realistic, while the re-distribution of funds through the Government budget is more pro-poor as compared to the current situation; d) despite that, the social safety component of the budget is rather risky, since the total number of beneficiaries seems to be underestimated; e) PRSP has major problems in quantifying the impact of its policies on poverty reduction and therefore final target of poverty reduction (19.7 percent by 2015) is not credible; f) the quality of participatory process can be assessed very satisfactory for the initial stages of PRSP development and much less satisfactory for the final stages when no major policy discussions were held.

The following issues can be highlighted as specific shortcomings in the PRSP:

- There are serious inconsistencies between the macroeconomic framework, income distribution and projected poverty incidence in the PRSP. Projections on income distribution in the PRSP for quintile groups for 2004-2015 are not consistent with the estimated poverty incidence: per capita income of the lowest quintile is much higher than the poverty line
- While PRSP outlines the expenditure policy that can be evaluated as pro-poor, the use of available resources and projections of a significant increase in per capita benefits are not realistic, since they are based on expectations of a sharp reduction in the percentage of beneficiary families and pensioners during 2004-2015.

To summarise, the PRSP is an important step towards the creation of a strategic and participatory framework. Priorities are well defined and policies are based on pro-poor options. The abovementioned quantitative problems, in general, make the poverty reduction projections less realistic and reduce the credibility of the stated PRSP goals. Inconsistencies between the macroeconomic framework and income distribution make the Gini coefficient projections doubtful. Additionally, the PRSP needs quantitative revisions and updates to define clear and credible targets for 2015 as some estimates provide opportunities for more drastic poverty reduction.

### 3. IMPLEMENTATION OF THE PRSP

#### 3.1 Institutional Set-Up and Responsibilities

In general, the institutional setup of the PRSP implementation in Armenia has duplicated the system developed during PRSP elaboration process. It includes a PRSP Steering Committee, the PRSP Working Group and its secretariat. The MoFE was responsible for coordination of the PRSP on behalf of the Government. Representatives of the MoFE also headed the PRSP Steering Committee and the Working Group.

The Steering Committee was dismissed after adoption of the PRSP. The working group will operate until August 2004, when, after consultations with all stakeholders, a new institutional setup will be introduced. The PRSP working group undertakes day-to-day coordination of PRSP implementation activities and ensures the participation of all stakeholders in the process. The major functions of the Working Group are: (i) initiation of a new institutional and organizational structure, (ii) oversight of monitoring strategy and indicators development, (iii) coordination of preparation of Annual PRSP Implementation Report, (iv) preparation of recommendations on PRSP revisions and adjustment, (v) coordinating international cooperation in the PRSP implementation process. A PRSP implementation, coordination and monitoring division has also been created. It monitors the implementation process within Government agencies and ensures coordination of the PRSP process with the MTEF and the Annual Budget.

A look at the 2004-2006 MTEF reveals that budget allocations and directions of the MTEF in general reflect those outlined by the PRSP. PRSP priorities are also reflected in the 2004 Annual Budget to the extent that they are feasible. A close link is established between the MTEF and Annual budgets by the Law on the budgetary system. However, coordination of the PRSP by the MoFE might hamper the PRSP implementation by making the MTEF a higher priority. This risk is being countered by the work of the PRSP Working Group.

It was feasible to achieve compliance of the 2004-2006 MTEF to the PRSP by creating a coordination group for these two programs. It is worth noting that mechanisms to reflect PRSP policies and priorities in future MTEFs have not yet been defined. Presumably, this will be provided by the collaboration of the PRSP Implementation Coordination and Monitoring Division of the MoFE and various units of the same Ministry responsible for the compilation of the Annual Budget.

A PRSP Monitoring system is still under development. According to the time schedule defined by the Government of Armenia, it will be developed by the end of 2004. However, the absence of a monitoring system does not imply that currently monitoring does not function. Various Government agencies implement poverty monitoring. The National Statistical Service regularly undertakes poverty monitoring activities both nationwide and at regional levels. This allows assessment of the poverty



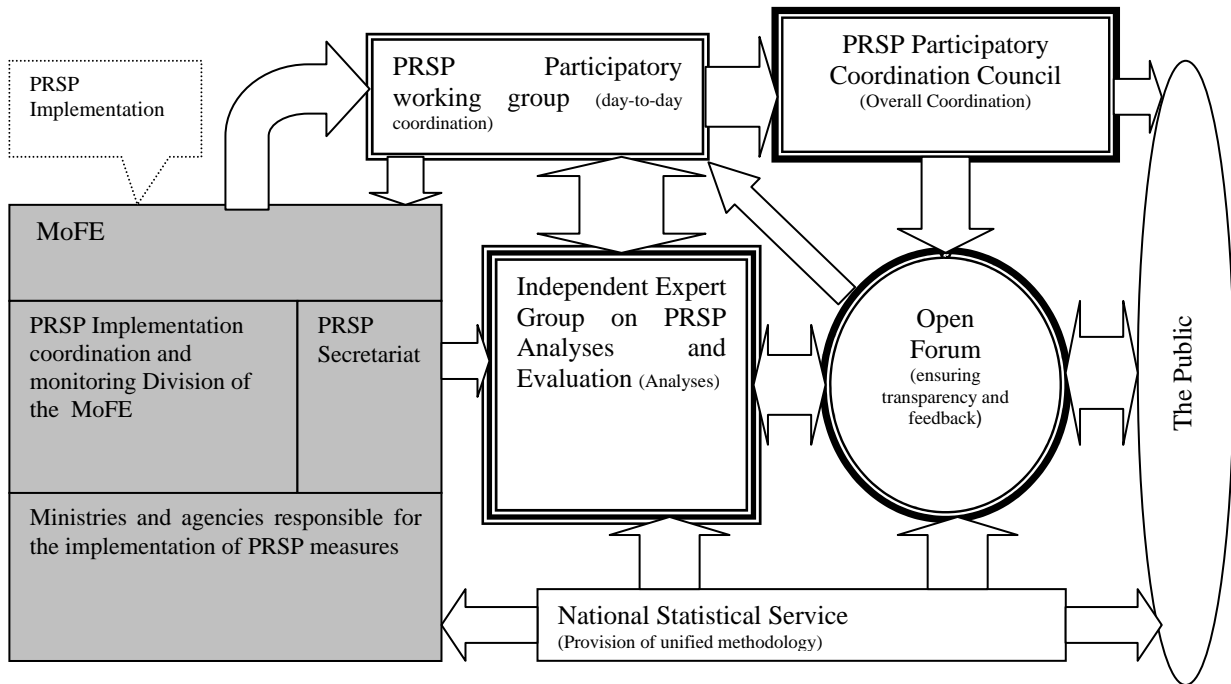
incidence in the country, its depth and acuteness, risk groups and their main characteristics, specific features of poverty in the country and in various regions, etc. The Ministry of Labour and Social Affairs also implements poverty monitoring both, nationwide and on a regional level. It specifically identifies the poor and includes them in the family benefit or other social assistance systems, thus contributing to the improvement of living conditions of the extremely poor in Armenia. The Ministry possesses a large databank of beneficiaries of various public and non-public programs, as well as other relevant data, which is periodically updated. Experts have been appointed in the Marz (regional) authorities to monitor the PRSP measures and target intermediate indicators at Marz level. Technical assistance and training is currently being provided to them by the UNDP.

Assisted by the German GTZ Technical Cooperation Fund and UNDP, the PRSP working group is currently developing a concept paper describing a PRSP implementation monitoring and evaluation system. It is expected that this concept paper will define the PRSP indicators, as well as participants in the monitoring process and their functional relations. This paper will also present recommendations on measures to strengthen the capacities of the participants in the monitoring process, as well as laying out mechanisms for proper representation of Civil Society members in PRSP monitoring.

A subdivision of the PRSP Working Groups has been established to develop the PRSP Monitoring Strategy an expert group of 15 specialists has been established for the development of the system of indicators (the latter is assisted by the UNDP). It is anticipated that by the end of this year the PRSP Implementation Monitoring Strategy will be completed, which will define the comprehensive framework of the monitoring indicators, as well as the future tasks of those responsible for monitoring.

The chart on the next page presents the draft structure of the PRSP Monitoring and Evaluation System currently being discussed by the Working Group. The major new institutions to be included in this process are the Independent Expert group on the PRSP Evaluation and Analyses and the Open Forum on the PRSP implementation issues.

**Figure 1. PRSP Implementation Analyses and Evaluation system**



The PRSP Working Group, under the PRSP Coordination Council, will coordinate day-to-day operations and ensure implementation of decisions taken. The Independent Expert group will be established by the Working Group and will be responsible for the analyses and evaluation of the PRSP implementation. Transparency of the entire process and feedback from the society will be provided through the Open Forum. It will organize conferences and meetings at the Marz level and disseminate information through the PRSP website, which will contain details regarding the ongoing processes and will ensure a channel of receiving views and feedbacks from the society. The Open Forum will also implement sectoral analyses of PRSP implementation impact and conduct surveys on the views of PRSP beneficiaries of the program results.

Separate units will be established at various levels of governance to provide comprehensive information to the public on the PRSP measures implementation: these units will also ensure the operation of the monitoring system on a bottom-up basis (compilation of data, preliminary analyses and information flowing).

### 3.2 Political Commitments to PRSP Implementation

By approving the PRSP, the Government of Armenia clearly undertook political commitment to the PRSP. During numerous meetings and discussions, high-ranking officials of the Coalition, which form the current Government, have expressed their strong commitment to PRSP implementation. With the clear intent to pursue the PRSP implementation they suggested that all stakeholders actively participate in PRSP implementation, monitoring and evaluation.

The fact that the Government (formed after general elections in 2003) declared poverty

elimination as its highest priority and stressed the importance of PRSP implementation, is evidence of high-level political commitment to the PRSP. The Government also presented the PRSP to the National Assembly, as a background for 2004-2006 MTEF and the 2004 Annual Budget further signalling its dedication to poverty reduction.

As for other stakeholders, however, there are worries that political commitment is not all-inclusive. Since a majority of the members of the National Assembly form the Government, this body logically shares the Government's commitment to PRSP implementation. Non-coalition parties of the parliament, and parties not represented in the parliament, however, do not show strong commitment to PRSP. Moreover, there are number of reported incidents of questioning the seriousness and credibility of the PRSP. In the case of Local Governments that were not actively involved in the PRSP development and current implementation process, political commitment to PRSP implementation is seriously lacking. This fragmented picture poses problems for an increase of confidence in the PRSP.

In order to increase confidence in PRSP implementation, it is necessary to undertake large-scale information campaigns, ensure participation of various stakeholders in the process and establish a monitoring system providing for effective and efficient participation.

### **3.3 Intra –Government Coordination**

The PRSP Implementation, Coordination and Monitoring Division is responsible for the coordination of PRSP implementation in republican and regional governance bodies. After approval of the PRSP, the Government required various agencies and ministries to present action plans for their relevant sectors that will manage the PRSP implementation and define the medium-term sectoral measures. By the end of 2003, the 2004-2006 PRSP implementation plan was discussed, approved and summarized by the Working Group. On January 22, 2004, Government Decree No100 approved the PRSP action plan for 2004-2006, which consists of 13 PRSP priorities, respective policies and measures, the expected results, responsible units and implementation deadlines.

The same decree assigns the heads of relevant ministries and agencies to report to the MoFE on the pace of PRSP implementation within 15 days after each quarter. This report should also contain information on various parties and stakeholders who expressed an interest in taking part in respective measures and programs. The MoFE is expected to summarize these reports and submit them to the Government, the PRSP Working Group and other stakeholders. An annual report on PRSP implementation is also to be prepared and published.

Since January 2004 is the starting date for PRSP implementation, the first quarterly reports by the line ministries and agencies were submitted to the MoFE in April. Currently, the PRSP Implementation Coordination and Monitoring Division is summarizing these reports. The first reports mainly contain descriptions of preparatory measures for program implementation.

Simultaneously, several ministries and agencies have managed to optimize their internal activities with regard to PRSP implementation. E.g. the Ministry of Labour and Social Affairs appointed experts who are responsible for the monitoring of the PRSP implementation within the ministries. However, there were no similar steps taken in other agencies, which can hamper the efficient implementation of the PRSP and subsequent monitoring.

The sectoral measures that have been developed for ministries and agencies contain certain risks because in many cases they are not sufficiently detailed and policy measures are not stated. In this regard, internal orders and assignment of the ministries and agencies can be a viable solution. A single format for reports is a crucial precondition to provide for comprehensive information on PRSP from the government agencies and ministries. There is no such format presented to line ministries. In fact, the MoFE is currently attempting to develop such a unified reporting format.

Relevant assignments have also been given to the regional bodies. The latter are viewed as co-implementers and line ministries are the principal actors, who are also responsible for the coordination of the activities of regional bodies in their respective fields. Currently, the Government is preparing amendments to the legislation that will define the interrelations between the regional bodies and local governments in this process.

It is anticipated that the monitoring indicators framework for the PRSP will provide for regional and municipal comparisons. In this case, it will be necessary to focus not only on achieving target indicators at the national level, but also at regional and municipal levels. Achievement of regional or local target indicators is only feasible if the PRSP measures are “localized” for these levels. This will also enhance the role of local governments and regional bodies in the PRSP implementation.

### **3.4 Capacities for PRSP Implementation**

The Government mentions local capacities, both human and financial as crucial guarantees for PRSP implementation. From this viewpoint, the Annual Budget for 2004 allocates financial resources necessary for the implementation of 2004 measures of the PRSP. In particular, among the projects planned under the 2004 Annual Budget Law, an increase of allocations for education and health sectors is envisaged, which will result in a considerable rise of salaries of teachers. The allocations for family benefits, pensions and the salaries of employees of the budget sector have been raised. A number of investment programs are underway, including those aimed at improvement of irrigation and drinking water systems, rehabilitation of roads and improvement of the heating systems.

Meanwhile there are still realistic possibilities for a more efficient use of domestic resources. Tax administration needs certain improvements. The principles of inter-sectoral and in-the-sector resource allocation of expenditures need to be improved too, and adapted to PRSP priorities.

The Government is working with international institutions to focus the available external

resources and to make them accessible so that deficits in local financial resources can be filled. The donor community has participated actively in discussions of PRSP projects and has presented their approaches to certain tasks and issues. As their first responses to the programme indicate, it has been evaluated rather positively, which can also be regarded as a guarantee for further cooperation.

However, the steps taken by the Government in coordinating the activities with the donors are unsatisfactory. There is a large potential to be exploited by better targeting of Government activities with respect to coordinating donor projects.

Taking note the fact of an obvious increase of expertise in public administration bodies over the recent years, it should be noted that capacity of local experts and employees of public administration bodies in formulation of policy implementation mechanisms is still limited. Capacity for assessment of potential impact of policy on poverty and social situation is also lacking. Public administration bodies may design and implement systems which do not necessarily have a positive impact on poverty and the social sector; these may even have a negative impact. In several cases sector programmes discussed and approved by the Government are not examined by experts in terms of their potential influence on poverty and the social sector.

Local expertise in undertaking monitoring of PRSP implementation is also limited. However, certain arrangements have been made in this area with donor organizations, and in the near future, after approval of PRSP monitoring strategy, measures aimed at increasing capacities will be taken. These include appropriate training courses for the staff of the agencies in charge of PRSP monitoring and refurbishing of their work places and providing them with modern communication tools. Similar actions will also be taken at regional and community levels. The latter will allow for improvement of data gathering and analysis capacities both in ministries and in the National Statistical Service. Created capacities can be used for monitoring other programs as well.

### **3.5 Consultancy with Other Stakeholders**

After approval of PRSP the Government and the PRSP working group have initiated a broad partnership process in order to establish a participatory monitoring system and consider public confidence in the process and effective supervision of implementation to be crucial.

All interested parties were invited to act as partners in monitoring and evaluation of PRSP implementation and its results, and conclude a partnership agreement on PRSP implementation. Upon availability of the latter, the public participation process will have a more organized nature and will become institutionalized, promoting the establishment of a public partnership institute in Armenia.

On November 26 and December 26, 2003 two conferences of interested parties in the implementation of the PRSP took place. Currently the process of regulation of negotiations and selection of representatives of both parties are underway. With the support of the PRSP working group, the parties

to negotiations have been identified and reflect the interests of the following principal sectors: National Assembly, Government, the Church, trade unions, local governments, employers and businessmen, and NGOs.

Upon the initiative of the Government and PRSP working group, on March 31 and April 2, 2004 a meetings of NGOs interested in the implementation of PRSP took place during which five working groups of NGOs were created for following sectors: 1) groups with special needs; 2) protection of human rights (including education, healthcare, social security and insurance); 3) environmental issues; 4) small and medium-size enterprise; and 5) rural issues). Subsequently, the representatives of these groups were selected.

In the coming days, after a memorandum on the selection of representatives of the stakeholders has been signed by parties and negotiations have begun, development of a PRSP implementation partnership agreement will commence as well. The PRSP implementation partnership agreement will be developed after three months of multi-lateral negotiations. The agreement will specify the mid-term cooperation goals between partners and policy priorities for the coming three years, and will lay out new organizational and structural mechanisms for implementation of the agreement.

To make PRSP goals and policy targets accessible to people in various regions and remote regions, a simplified version of PRSP was developed and published. A web-page was designed and is functional at <http://www.prsp.am>

The importance of the PRSP in terms of collaboration with donors is that the strategy clearly states the Government's intention to help donors adjust the direction of mid-term assistance. Two international organizations have already expressed willingness to shape the mid-term projects based on the PRSP. Representatives of the donor community involved in the working group have a direct opportunity to present their insights when drafting decisions are made during the PRSP process.

### **3.6 Donor Support for PRSP Implementation**

Donor assistance in the course of PRSP implementation is provided in three basic ways:

- assistance to increase of efficiency of the budget process and collection of revenues, and assistance to provision of financial support to the implementation of PRSP projects;
- assistance to enhance sector policy development, priority setting and realization; and
- assistance to development and implementation of PRSP monitoring system and increase of level of public participation to ensure transparency of processes.

## 4. CHALLENGES TO IMPLEMENTATION

### 4.1 Challenges So Far

#### *4.1.1 Depth of integration of PRSP in budget process:*

The PRSP action plan for 2004 contains 250 measures, about 80 percent of which are projected to be funded by the Annual Budget and various donor organizations. While budget estimates for the remaining 20 percent are not yet completed, financing sources are being identified. This is because the PRSP outlines policies and priorities, while specific actions and projects were identified after the approval of PRSP and 2004 budget.

Nevertheless, financing available for 2004 PRSP actions generally can be evaluated as adequate and was the outcome of the efficient coordination of efforts for PRSP preparation, 2004-2006 MTEF and the Annual Budget Law. However, since this is not supported by institutional mechanisms and is a one-off event and sustaining and developing these practices in the upcoming years is of utmost importance.

A serious omission that can be highlighted is that the MTEF for 2004-2006 and 2004 Annual Budget do not provide comprehensive and clear information on the availability of funds for PRSP measures, which is, of course, the result of the specifics of budget classification. Therefore, other options for providing detailed information on the extent to which PRSP measures are reflected in the abovementioned documents should have been considered.

The process of developing the 2005-2007 MTEF, which is currently underway, revealed the lack of coordination between the bodies in charge for the PRSP coordination and MTEF development especially since the main expenditure indicators of MTEF do not comply with the PRSP. Applications of line ministries for the 2005-2007 MTEF do not stem from the respective sector policies outlined in the PRSP. This is because the MTEF instructions did not fully reflect the sectoral policies and performance criteria defined by the PRSP.

In order to bring the sectoral MTEF applications into compliance with the PRSP, separate units in charge of the PRSP implementation in each ministry should be created, which will ensure the reflection and inclusion of PRSP measures in the preparation of the budget applications.

In addition to capacity constraints within the line ministries, the functions of the PRSP Monitoring and Coordination Unit of the MoFE are not clear with regard to the mechanisms and time frame of its involvement in the discussions of the MTEF and draft Annual Budgets. For example, during 2004-2006 MTEF process, the Unit was involved only in the last phase, when opportunities to correct the situation were quite limited. Here, it is worth noting that the capacity of the Unit to provide for the compliance of MTEF and draft Annual Budget to the PRSP is very limited, which creates additional difficulties in assessing the MTEF.

There is an insufficient awareness in Members of the National Assembly on the PRSP implementation process. Interest and knowledge is limited to the ruling coalition parties. This does not allow the opposition to participate actively in the inclusion of PRSP directions in Government programs.

The PRSP contains several policies that could be possibly implemented by the local governments at the expense of municipal budgets. However, the municipalities, having little information on PRSP implementation process and not being able to visualize their participation in it, are not involved in PRSP implementation. Moreover, Civil Society capacity for policy and budget analyses is also inadequate. This prevents them from actively participating in budget discussions and influencing pro-poor policies.

#### *4.1.2 Sector strategies*

The preparation and implementation of many of PRSP actions requires close collaboration of various government agencies and bodies, which is not yet institutionalized.

The PRSP defines policies, but leaves the responsibility for the development of specific steps and implementation techniques with the respective line Ministry. The latter needs additional time to develop and prepare those steps, therefore, the implementation of the PRSP policies is being delayed. In some cases PRSP does not correspond to the sectoral policies implemented by the Ministries, which in turn requires additional revisions and adjustments through consultations and discussions. This stems from the fact that line Ministries did not fully and efficiently participate in the PRSP development process. This can be noted as serious omission in the PRSP development process and reviews and adjustments in the future need to provide for the adequate participation of respective ministries and agencies.

When developing the PRSP measures, the line Ministries did not pay adequate attention to evaluating the possible impact of those measures on poverty or social issues. This is explained by the limited local capacity for “poverty and social impact assessment” and absence of legislative requirements to do so.

Implementation of various measures at regional and municipal levels is a crucial pre-requisite for efficient PRSP implementation. However, both the PRSP and its action plan are not clearly divided for the regional and municipal levels. This hinders the regional governments and municipalities from seeing their role and participation. On the other hand, local capacities to develop local sub-programs are insufficient both at municipal and regional levels.

Cooperation with other stakeholders in developing sectoral measures and programs is also weak and this limits the opportunities to find best solutions. The Government’s declared willingness to cooperate with stakeholders has not yet been realized.

Successful PRSP implementation will also largely depend on donor assistance and its efficient use. However, in the present situation there are overlaps. Programs are very small and contain huge administrative expenses. These shortcomings also result from limited Governmental efforts to coordinate



the activities of various donors.

#### *4.1.3 Monitoring and feedback arrangements*

A number of tools are applied in Armenia to monitor the PRSP implementation: Annual Household Surveys carried out by the National Statistical Service, Administrative Register which is compiled at different levels of the government, and independent surveys and polls carried out by universities, NGOs and independent experts.

All of these tools have certain shortcomings. Household surveys require more than one year for data elaboration. Currently, the World Bank provides the NSS with technical and methodological assistance, which aims at reducing the time required for the completion of the Household Surveys. Nevertheless, annual frequency limits feedback for the evaluation of the applied policies.

Data compiled by various level of government in the Administrative Register are mostly input and output data and contain very limited information on the outcomes of implemented measures. At the same time, those who are responsible for the implementation and outcomes of measures compile data: this reduces the reliability of the data.

Independent surveys and polls are mostly ad-hoc activities, which are very costly and usually financed by various donors. There are no institutional bases for their implementation and does not provide a reliable basis for monitoring and feedback. Monitoring and evaluation capacity and methodology of independent experts need to be developed, which will also “harmonize” the results of various studies.

The evaluation system of the PRSP implementation also contains several problems. PRSP monitoring and evaluation functions have not been legislatively included in the functions of the government bodies. Units in charge of monitoring are not appointed, and work-plans are not identified. Capacities of line Ministries in factor analyses of PRSP implementation within each sector are insufficient and capacities of multi-factoral inter-sectoral analyses are literally non-existent. At the municipal level, statistical data compilation function that could have been a reliable source for PRSP monitoring indicators is missing.

## **4.2 Potential Future Challenges**

Along with the problems arisen during the PRSP implementation, certain trends have been recorded that can hamper the successful implementation of the PRSP and achievement of target indicators in the future. The deviation between projected macroeconomic indicators under PRSP and their actual levels for 2003 implies that the Government will not be in the position to develop budget programs in line with those indicators that are defined in proportion to the GDP. This has been the result of large discrepancies between the actual and projected real growth. Consequently, previously set targets for the

shares of Social, Health and Education expenditures in the GDP were no longer feasible in the 2004 Annual Budget. In spite of non-compliance in terms of their ratio in GDP, growing trends of these indicators projected by 2004 Budget are still in line with trends outlined by PRSP.

The 2002 Household Survey showed that poverty reduction in rural areas is slower than the country average. This can be explained by the limited possibilities of increasing income in rural areas. Agricultural products are meant mainly for consumption by the households and only a fraction of output (on average 40 percent of agricultural output) is delivered to food market. Since reverse trends needed for rural developments are still to be observed, a suitable policy response must be formulated and reflected in the PRSP policy priorities. Most of the measures undertaken by the Government under PRSP are financed from domestic sources. The PRSP envisaged an annual increase of 0.3 percent (as a share of GDP) in tax revenues, which was not maintained (achieved) for 2003, and will not be achieved for 2004 either. Such discrepancies may become a serious obstacle to PRSP implementation.

Stability in the whole region is the underlying precondition for PRSP implementation. Any destabilization of the situation and reconciliation of military actions will force the Government to cut social expenditure and direct them toward financing the army.

The National Assembly should be necessarily involved in the PRSP implementation process: currently the Members of the National Assembly do not participate. They view the PRSP merely as a Government's program, not one for social and economic development of the country, which can be reviewed after the change of the Government.

#### **4.3 Assistance Needs to Address Key Challenges**

Donor assistance should be continued in the following three formats: technical assistance, sectoral projects and direct assistance to the budget.

##### *4.3.1 Technical Assistance*

Taking into consideration the importance of the assessment of possible policy impacts on poverty and the social situation, assistance needs to be provided to the Government in carrying out sector analyses and research. It is crucial to address capacity issues of local experts (including the civil servants) in social and poverty impact assessment, through training. This will create preconditions for institutionalizing the implementation of poverty and social impact assessments of policies in Armenia.

Although the World Bank provides certain assistance, the NSS should receive more assistance in improving the methodology of household surveys. It also should be assisted in the actual organization and implementation of these surveys. Compilation of statistical data is missing at local government level, which could be a reliable data for PRSP monitoring indicators. In order to introduce this function, the NSS also needs certain technical assistance.

Similarly, monitoring units of various ministries and agencies also need assistance – both technical and professional. This should include trainings, technical empowerment (computer equipment,

etc.) and provision of modern communication devices. Similar steps should be taken at regional and municipal levels. This will allow for significant improvements in capacity for data compilation and preliminary intra-sectoral factor analyses in the ministries, agencies and the National Statistical Service. They can be further used for the monitoring of other programs.

It is also necessary to develop the monitoring skills of other stakeholders – NGOs and independent researchers. They need to be assisted methodologically and financially. This assistance will allow for creation of a single methodological framework for all stakeholders and thus, will provide for data compatibility. NGOs also need assistance in organization and implementation of sectoral analyses. Such analyses will become an independent source for evaluating PRSP implementation process.

#### *4.3.2 Projects Implementation*

Donor community should continue implementing projects that ensure achievement of PRSP measures. Simultaneously, they should assist the government in implementing the monitoring function.

#### *4.3.3 Untied Budgetary Assistance*

One of the most efficient tools in assisting the Government with PRSP implementation is the direct (untied) budgetary assistance which is mainly provided by the World Bank through its Poverty Reduction Assistance Credit and is extended under tight conditionality framework. It aims at (i) supporting the economic growth by increasing the role of the private sector, (ii) making economic growth more pro-poor and (iii) improving affordability of education, health and basic social services by providing additional financial resources.

Such financing facilities reduce incremental operating and administrative costs of various projects of donor organizations and increase efficiency and transparency of the budgetary process. Along with provision of financing donors also provide oversight and monitoring functions, which compels the Government to improve the overall budget process.

## 5. CONCLUSIONS: RECOMMENDATIONS AND LESSONS LEARNED

### 5.1 Lessons Learned

PRSP implementation created favourable conditions for making the Budgets more socially oriented and consistent with long-term priorities. This process needs to be continued and put on an institutional basis using the medium-term expenditure budgeting tools.

Groundwork was laid for a more coordinated, and thus, more efficient, utilization of donor assistance. Donor confidence in the Government's internal mechanisms and methods has increased and the political commitment of the Government to ensure successful implementation of the PRSP is also evident.

Improvements in the elaboration of pro-poor sectoral policies are visible: they need to be institutionalized, however. Requirements on stakeholders' participation in policy development discussions are legislatively enforced. However, adopted decisions do not always reflect the diversity of existing views. In many cases, only ceremonial discussions are being held.

Society requires a PRSP monitoring system and its effective application. The PRSP monitoring system and its institutional set-up had been developed through a participatory process. The Government committed itself to the establishment of the efficient monitoring system, although, as the experience shows, the ideas on paper do not always become reality.

Regional and municipal governments had some limited participation in the PRSP development process; however, their participation in the implementation process is negligible. Meanwhile they, being closer to people, could contribute to the adoption of pro-poor decisions and subsequent implementation of programs.

### 5.2 Recommendations

With regard to the PRSP implementation, it is crucial that it be reflected in the budgetary process. Efficient tools to provide for this are the organization of discussions between bodies responsible for PRSP implementation and MTEF development and their reciprocal participation in activities of both. MTEF application instructions should also contain sectoral policies mentioned in the PRSP and measures of their implementation.

Discussions on Annual Budget and MTEF should provide for more participation, especially, with regard to the decision-making on MTEF target indicators. Here attention should be paid to ensuring participation of the Members of the National Assembly by providing them with information about PRSP policies, priorities and target indicators.

In order to endure efficient implementation of PRSP program measures for 2004 it is important to identify financing sources for them. That can be achieved through efficient collaboration of line Ministries and stakeholder international organizations and will provide for the efficient use of donor assistance.

It is necessary to organize discussions with stakeholders with the aim of identifying a separate format for the provision of funding in the Annual Budget for PRSP measures. This could be presented in a separate Appendix.

A possible solution to better incorporate the results of assessments and research on the possible impacts of designed policies on the social situation and poverty in the policy implementation phase, could be a legislative amendment, which will require the Government to discuss programs only upon submission of the poverty and social impact assessments (PSIA) document attached to each proposal.

In order to ensure continuity of the PRSP monitoring system and improvement of the monitoring function within the government bodies, it is necessary to include relevant clauses in the Charters of the Ministries. The Head of each agency should appoint the groups in charge of monitoring and lay out their annual task schedules.

The Government should maintain the PRSP implementation process as the focus of its Ministries and agencies by appointing units and defining the scope of their responsibilities. This will ensure that the government bodies will pro-actively participate in the PRSP reviews and adjustments.

In order to ensure utilization of local and regional capacities it is necessary to disaggregate PRSP policies to municipal levels. This, however, should be accompanied by capacity strengthening measures in local government bodies.



## ANNEXE 1: DOCUMENTS REVIEWED

- “Poverty Reduction Strategy Paper”, Yerevan, 2003
- “Republic of Armenia: Joint Staff Assessment of the Poverty Reduction Strategy Paper”, Prepared by Staffs of the International Development Association and the International Monetary Fund, November 4, 2003
- “Republic of Armenia: PRSP Preparation Status Report”, September 2, 2002
- “Appreciation of the PRSP-Armenia”, Prepared on behalf of the Dutch Embassy in Tbilisi, December 2003
- “Social Snapshot and Poverty in the Republic of Armenia”, NSS , Statistical analytical report on the basis of the results of the 2002 nationwide sample survey of households
- “Social Snapshot and Poverty in Armenia”, NSS, Yerevan, 1998
- “Republic of Armenia 2004-2006 Medium-Term Public Expenditure Framework”, Yerevan, 2003
- 2004 Annual Budget Law
- List of Measures ensuring the implementation of the PRSP in 2004-2006
- Draft Concept of the PRSP implementation Monitoring and Evaluation System
- Draft Concept Paper on Participatory Decision-making mechanism for the Public in the PRSP Implementation
- “Public Debt of the Republic of Armenia”, Annual Report for 2002, MoFE of RA, Yerevan, 2003

**ANNEXE 2: PERSONS INTERVIEWED**

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<b>8</b>	Vigen Sargsyan	External Affairs, Communications Officer	World Bank, Armenia	524 992	
<b>9</b>	Yiannis Hadziyiannakis	Head of FSP	Food Security Programme in Armenia of EC	523 541, 595 315	fspmof@xter.net

## ANNEXE 3: OVERVIEW OF EU ASSISTANCE TO ARMENIA

### Background

The European Union (EU) recognized independence of Armenia in 1992 and since then, Armenia has opened a Mission to the EU in Brussels and in 1995 European Commission (EC) opened its Delegation to Georgia and Armenia. Delegation has diplomatic status and its role is facilitation of relations between Governments of Georgia and Armenia and the EU institutions as well as negotiation and on-site coordination of the European Community's major cooperation programs. Since November 1999, day-to-day coordination of EU programs in Armenia is implemented by Yerevan Office of the EC Delegation. Although external assistance to Armenia is not coordinated and managed by any single central agency, the Ministry of Finance and Economy is the official counterpart for external donor organizations and undertakes planning, mobilization and monitoring of external financing.

As a partner to the entire Newly Independent States (NIS) region, the EU was one of the first outsiders assisting to Armenia at early years of transition, initially with humanitarian aid and then with high level of technical and financial assistance. Overall external assistance to Armenia, granted through official government channels amounted approximately 3 bln Euro in the period 1991-2002. The EU is the second large donor, which contributed 23.3 percent of this amount. It should be also taken into account that most of the EU assistance comes in form of grants while much of the financial support of other international donors comes in form of loans.

During 1991-2002, the European Community has provided Armenia national grants and loans amounting 318.4 mln Euro and 86 mln Euro respectively. In addition, EU Member States' total contribution during the same period could be estimated at 282 mln Euro, bringing total EU assistance to approximately 686.4 mln Euro.

During the last decade, priority fields for EU – Armenia cooperation obviously varied in the light of the country's changing needs. Between 1991 and 1995, the EU concentrated on the restructuring of state enterprises and the development of private sector, capacity building as well as in providing humanitarian aid, especially during 1993-1995. After 1996 assistance was shifted to support reforms in social, institutional and economic sectors.

Entering into force of the Partnership and Cooperation Agreement (PCA) on the 1<sup>st</sup> July 1999 clearly signaled the beginning of a new era for EU – Armenia relations as the agreement provided the legal framework and will guide the cooperation until 2009.

### Assistance Profile

Armenia has made significant progress towards achieving economic and social transformation by focusing efforts on developing clear, coherent and complete strategies on three key areas that are crucial for the country's transformation:



1. Reduction of poverty and inequality,
2. Improvement of governance by actively fighting corruption,
3. Sustainable economic growth through international trade.

Priorities highlighted in the PRSP guided international development agencies in adjustment of their objectives and projects to medium- and long-term measures of public policy. The EC is particularly flexible in this respect, shifting the focus of its assistance to alleviating the social consequences of the transition and supporting development of regions of Armenia. Some Member States (e.g. France and Sweden) already allocated much of their assistance towards Armenian health and education systems, which are priority sectors of the PRSP.

“Progressive integration into EU models and standards” is another benchmark for resource allocation, and Government of Armenia works hard with the EU to guide the country in this direction.

Over the past two years, EC’s development policy has changed in view of experiences of the last ten years. On 10<sup>th</sup> November 2000, the Council of the EU adopted a statement that re-invigorated and re-focused development policy. The purpose of the statement was to adapt development assistance and strategy based upon the experience and lessons of the past decade. The newly adopted policy arose from the persistence of poverty throughout the developing world and the Council consequently decided that focus must be placed on reduction and eventual eradication of poverty. The key condition for this support from EU is that poverty reduction strategies should clearly and directly aim to: (i) contribute to deepening and strengthening of democracy, (ii) secure peace and prevent conflicts, (iii) provide progressive integration into the world economy, (iv) increase awareness of the social and environmental aspects of sustainable development, (v) contribute gender equity, (vi) public and private sector capacity-building.

The way in which the EU will focus and implement this policy is to shift progressively towards concentrating activities in a limited number of areas. The EU now employs six core tools to promote and implement the policy objectives that it has established. These are the promotion of trade, regional integration and cooperation, macroeconomic support and extending access to social services, transport development, food security and sustainable rural development and institutional capacity.

### **Institutional Framework of the EU Assistance**

Institutionally, EU assistance to Armenia represented by quite a wide range of projects carrying out activity in the fields of education, human rights, strengthening civil society institutions, sustaining economic development. Assistance offered by the EU can be also classified as *national* or *regional* according the level of globalization.

Recent EC development aid to Armenia on national and regional levels has been implemented using the following assistance instruments:

1. TACIS<sup>3</sup> Program,
2. Food Security Program (FSP),
3. Exceptional Financial Assistance,
4. European Commission Humanitarian Aid Office (ECHO),
5. European Initiative for Democracy and Human Rights (EIDHR),
6. European Agricultural Fund for Guidance and Guarantee (FEOGA).

It is worth to mention that FEOGA has given 47.2 mln Euro to Armenia, starting by 34.0 mln Euro food aid in 1995 and counterpart funds (CPF) of 13.2 mln Euro in 1996. These funds have been used together with TACIS assistance to create and support Agricultural Cooperation Bank of Armenia (ACBA), recognized as one of the best banks in Armenia and a major EU assistance success. The program ended in 2002 when the last CPF tranche was disbursed.

TACIS is the main EU financial and technical assistance instrument supporting the implementation of the PCA and the development of EU – Armenia cooperation, providing grant assistance for projects in priority areas that are agreed by both parties. TACIS assistance is allocated through three main channels:

1. National country programs – Small Projects Program, TEMPUS, Policy Advice etc.
2. Regional programs – Transport Corridor Europe – Caucasus – Asia (TRACECA), Interstate Oil and Gas Transport to Europe (INOGATE), Joint Environmental Program (JEP),
3. Nuclear Safety programs – TACIS Nuclear Safety Indicative and Action Programs.

The priority areas for TACIS are: (i) institutional, legal and administrative reforms, (ii) private sector and economic development and (iii) support of infrastructure, energy and transport networks, totaling 7.4 mln Euro in 2002.

These three key fields however are also the focus of other non-TACIS projects of the EC and the Member States:

- ✓ The primary objective of the FSP (second significant EC project in Armenia with an annual budget of nearly 10 mln Euro) is assisting to Government of Armenia in structural macroeconomic adjustment and poverty reduction efforts. The rationale behind the FSP is the fundamental need for long-term approach linking food security to broad development objectives.
- ✓ Important aspect of the Exceptional Financial Assistance has been that the release of EC grants is conditional on the Government fulfilling certain vital requirements in terms of the macroeconomic performance of the country, the privatization process and reforms the investment climate.

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<sup>3</sup> Technical assistance to Commonwealth of Independent States

- ✓ ECHO introduced to NIS region to provide humanitarian assistance in response to natural and man-made disasters.
- ✓ EIDHR's activities complement TACIS initiatives in supporting the development of a stable democracy in Armenia and in the region as a whole. EIDHR assistance is implemented through regional projects and focused mainly on strengthening the role of civil society and other forms of participation.

### **Recent Projects and Future Perspectives**

In 2003 three educational and four environmental TACIS projects have been finished – “Establishing a student career service center at the State Engineering University of Armenia”, “Economic education reform at Agricultural Academy of Armenia” and “Armenian distance learning network”, “Join river management program”, “Support for the implementation of environmental policies and national environmental action programs (NEAPs) in the NIS”, “Grant to the regional environment center for the Caucasus” and “Strengthening environmental information and observation capacity in the NIS”. Total budgets of each group of projects are 760 ths Euro and 8.7 mln Euro respectively. “Supply of an optical cable system for communication and signaling to the railways of Armenia, Azerbaijan and Georgia” project with 15 mln Euro budget also ended in 2003. There are also some other projects, which particular components ended in 2003, but then new ones began (such as AEPLAC).

In term of national projects, the largest proportion of EC funds was directed towards Nuclear Safety programs. Total financing of “On-site Assistance to the Medzamor Nuclear Power Plant and Plant Improvement Projects” and “Assistance to the Armenian Nuclear Regulatory Authority (ANRA)” from the funds of TACIS Nuclear Safety Action Programs for 1996 and 2000 constitutes nearly 8 mln Euro or 46.5 percent of total budget of the national assistance component of the TACIS Action Program 2000. It is worth to mention that besides on-going technical assistance to Nuclear Power Plant and ANRA, TACIS implements also several projects to improve gas transportation and storage infrastructure, as well as to strengthen hydropower capacities as alternatives to nuclear energy.

Another large group of on-going TACIS projects relates to regional cooperation within the frames of INOGATE and TRACECA programs.

There are also a number of revolving projects supporting institutional capacity building:

- ✓ Support to the National Assembly of the RA,
- ✓ AEPLAC phase III,
- ✓ Support for the development of the Armenian Information Technology Sector,
- ✓ Statistical cooperation program VI,
- ✓ Support for the development of an integrated vocational education and training (VET) system,
- ✓ Effective assessment of public expenditure programs and forecasting of macroeconomic framework.

In the medium-term the national strategic framework for EC – Armenia cooperation is the Country Strategy Paper 2002-2006. It revises the previous framework of the EC – Armenia partnership outlined in the National Indicative Program 2000-2003 significantly, and is a response to the Armenian Government’s important changes in future economic and social priorities reflected in the PRSP. The key change is the identification of the “social consequences of transition” because “private sector and economic development” and “development of infrastructure networks” are no longer priority fields of the TACIS National Program, although they will be addressed through TACIS Regional programs in energy and transport sectors. Already six new activities with a planned budget together amounting 10 mln Euro have been outlined to 2003-2004, five of which in the field of energy and transport networks under the TRACECA and INOGATE programs.

**ANNEXE 4: ANALYTICAL FRAMEWORK**

	<i>Potential underlying constraints</i>				
	<b>Institutional Setup</b>	<b>Political Commitment / Ownership</b>	<b>Intra-Governmental Coordination</b>	<b>Capacity</b>	<b>Consultations with other stakeholders</b>
<b>The depth of integration of the PRSP in the budget process</b>	<p>Coordination between bodies responsible for PRSP implementation and MTEF development is weak; MTEF decisions are not compatible with PRSP.</p> <p><i>-Include a representative from PRSP Working group in the discussions of MTEF Supreme Council.</i></p>	<p>The GoA might limit its attention, including towards PRSP financing, after having adopted the PRSP and gaining the consent from the public and the donor community.</p> <p><i>- Prescribe participatory mechanisms in discussions of MTEF target indicators definition</i></p>	<p>The mechanisms of representation of the PRSP Coordination and Monitoring Division of the MFE in MTEF and annual budget examination are not defined yet</p> <p><i>- These mechanisms (including flow of information and functions of each unit in budget examination process) should be clearly defined by the</i></p>	<p>Despite that considerable part of PRSP programs is reflected in the MTEF, however, for some of the programs approved by the GoA financing is not secured: sources of financing are being currently clarified</p> <p><b>- PRSP correction and/or calling for the attention of donor community and other stakeholders to identify financing sources.</b></p>	<p>Cognizance of the Deputies of the National Assembly on PRSP implementation processes is insufficient. It is limited to the coalition members.</p> <p><i>- Emphasize the participation of the Deputies of NA to the process.</i></p>

Instructions for Budget applications by line ministries do not fully reflect economic and program policy measures deriving from the PRSP, as well as relevant performance indicators for them.

*- PRSP instructions for relevant issues need to be included into MTEF instructions*

***Resolution of the MFE***

Local Governments have limited information on PRSP implementation process and do not see ways of their participation in that process.

*- Disaggregate the PRSP policies to local government or communities' union level.*

Capacities of the PRSP Coordination and Monitoring division of the MFE are limited with regard to bringing into compliance the MTEF and Annual budgets.

*- Strengthen the relevant capacities.*

Discussions of PRSP within the frames of MTEF and Annual Budget discussions in the National Assembly are limited.

*- Support the broadening of open discussions of MTEF and Budget Drafts in the NA.*

	<p>Information on the depth of inclusion of the PRSP measures in the Annual budgets and the MTEF is insufficient.</p> <p><i>- Define a part in the respective documents where information of PRSP measures inclusion should be described.</i></p>		<p>There are no separate units in the line ministries responsible for PRSP implementation that could affect the inclusion of the PRSP measures in the Budget applications preparation process.</p> <p><i>- Separate appropriate units.</i></p>	<p>Capacities of the civil society with regard to budget and policy analyses are limited.</p> <p><i>- Implementation of projects to enhance capacities.</i></p>	
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	<i>Potential underlying constraints</i>				
	<b>Institutional Setup</b>	<b>Political Commitment / Ownership</b>	<b>Intra-Governmental Coordination</b>	<b>Capacity</b>	<b>Consultations with other stakeholders</b>
<b>The existence of sector strategies/work plans with clear priorities</b>	<p>Taking into consideration that multi-dimensional nature of poverty, preparation and implementation of many programs requires close collaboration of several line ministries, which is not institutionalized yet</p> <p><i>- Define cross-sectoral policy analyses, leaving in charge for it PRSP coordination and monitoring division of</i></p>	<p>PRSP statements are not consistent with sectoral policies and institutional interests of the respective body</p>	<p>PRSP implementation measures are not clearly defined for regional and local governments: this hampers them from clearly understanding their participation.</p> <p><i>-Disaggregate the PRSP policies to local government or communities' union level.</i></p>	<p>Local capacities to evaluate the social impact of policies proposed and adopted by the GoA (Policy Social Impact Assessment) are limited.</p> <p><i>- Increase donor assistance to this issue</i></p>	<p>Collaboration with other stakeholders in development and implementation of sector policies is still limited, which hampers the opportunities to find the best solution.</p> <p><i>- Define relevant mechanisms to provide for the participation of the civil society in this issue.</i></p>



	<p><i>the MFE</i></p> <p>Sector policies proposed and adopted by the GoA are not subject to testing for the PSIA (Policy Social Impact Assessment)</p> <p><i>- A relevant assessment document should be required by the instructions of budget application.</i></p>			<p>Regional and local government bodies do not have adequate capacities to develop regional sub-programs under the PRSP.</p> <p><i>- Increase the assistance of the Central Government and donor community to this issue.</i></p>	<p>Lack of coordination of efforts of the donor community might result in inefficient use of scarce resources.</p>
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	<i>Potential underlying constraints</i>				
	<b>Institutional Setup</b>	<b>Political Commitment / Ownership</b>	<b>Intra-Governmental Coordination</b>	<b>Capacity</b>	<b>Consultations with other stakeholders</b>

<p><b>Indicators, monitoring and feedback arrangements</b></p>	<p>The functions of relevant line ministries do not juridical reflect PRSP Monitoring Tasks</p> <p><i>- Include the monitoring function and requirement of existence of relevant annual working plans in the charters of ministries.</i></p> <p>Proper mechanisms to ensure feedback are missing.</p>		<p>Absence of units responsible for monitoring and their working plans in line ministries.</p> <p><i>- Monitoring function and requirements to develop annual working plans should be included in the ministries' charters.</i></p> <p>The function of statistical data compilation is missing at local governments' level, which could otherwise become a reliable data source for</p>	<p>The list of the PRSP monitoring indicators includes more than a reasonable number of indicators. This can prevent the capacities of the responsible bodies to collect data and the quality could suffer, eventually.</p> <p><i>- Provision of relevant consulting services.</i></p> <p>The Government and the civil society have limited capacities for full monitoring of the process.</p>	<p>Absence of consensus mechanisms for selection representatives of the society to adopt participatory decisions of the PRSP.</p> <p>Absence of the mechanisms to compile the monitoring and evaluation results, as well as to provide information.</p> <p><i>- Provision of better coordination of the programs implemented by the civil society, creation of the institute of presenting and discussing the</i></p>
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	<p><i>- Include programs stakeholders' analyses requirement into program implementation reporting requirements.</i></p>		<p>PRSP monitoring indicators.</p> <p><i>- Development and introduction of community data passports.</i></p> <p>There is no uniform format for PRSP measures implementation reporting.</p>	<p><i>- Implementation of projects to enhance capacities.</i></p> <p>Capacities of the PRSP Coordination and Monitoring division for analysis and evaluation of the PRSP implementation are limited.</p>	<p><i>results and findings of the mentioned programs.</i></p>
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			<p><i>- The PRSP Coordination and Monitoring division of the MFE should develop instructions for PRSP implementation reporting and disseminate them within line ministries.</i></p>	<p><i>- Implementation of projects to enhance capacities.</i></p>	
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## ANNEX 5: MAP OF ARMENIA



Map No. 3762 Rev. 3 UNITED NATIONS  
January 2004

Department of Peacekeeping Operations  
Cartographic Section

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**ANNEXE 6: TABLES**

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**Table 1: Distribution of households by income groups in the Soviet Republics, 1988**

	Total population (mln people)	Population by income groups, % of total				
		below 75 roubles per capita	75-100 roubles per capita	100-150 roubles per capita	150-200 roubles per capita	above 200 roubles per capita
<b>USSR</b>	<b>285.5</b>	<b>12.6</b>	<b>15.7</b>	<b>33.3</b>	<b>21.2</b>	<b>17.2</b>
Russia	146.8	6.3	13.1	34.0	24.6	22.0
Ukraine	51.3	8.1	16.8	38.5	22.4	14.2
Belarus	10.2	5.0	12.9	36.8	25.8	19.5
Uzbekistan	19.8	44.7	23.9	22.2	6.4	2.8
Kazakhstan	16.6	15.9	19.3	33.7	18.1	13.0
Georgia	5.3	16.3	17.4	31.6	18.1	16.6
Azerbaijan	7.0	33.3	22.2	27.3	10.9	6.3
Lithuania	3.7	3.6	10.7	34.6	27.1	24.0
Moldova	4.2	13.0	19.8	37.3	18.9	11.0
Latvia	2.7	3.2	9.5	31.8	27.2	28.3
Kyrgyz Republic	4.3	37.1	23.1	26.0	9.2	4.6
Tajikistan	5.0	58.6	20.7	15.5	3.8	1.4
Armenia	3.5	18.1	21.5	34.7	16.2	9.5
Turkmenistan	3.5	36.6	23.0	25.8	9.4	5.2
Estonia	1.6	3.9	9.0	28.0	25.5	33.6

*Source: "Social Snapshot and Poverty in Armenia", NSS, Yerevan, 1998*

**Table 2: Dynamics of the Main Indicators of Poverty and Inequality**

	1996	1999	2001	2002
Poor population	54.7	55.05	50.9	49.7
Very poor population	27.7	22.91	16.0	13.1
Poverty gap	21.5	19.0	15.1	13.5
Severity of poverty	11.1	9.0	6.1	5.2
Gini coefficient				
By consolidated incomes	0.653	0.570	0.528	0.449
By current incomes	0.602	0.593	0.535	0.451
By current expenditures	0.444	0.372	0.344	0.325

Source: "Social snapshot and poverty in the Republic of Armenia", Statistical analytical report on the basis of the results of the 2002 nationwide sample survey of households, page 134

**Table 3: Borrowing of the Government of the Republic of Armenia from WB Group, as of 01/01/2003**

	Agreement date	Amount (mln SDR)	Maturity date (years)	Grace period (years)	The end of grace period	Repayment period	Service charge (percent)	Commitment charge (percent)	Interest rate (percent)
International Development Association									
Earthquake Reconstruction Credit	1994	20.1	35	10	2003	2028	0.75	0.5	0
Power Maintenance Credit	1994	9.4	35	10	2005	2029	0.75	0.5	0
Irrigation Rehabilitation Credit	1994	29.4	35	10	2005	2029	0.75	0.5	0

Highway Credit (I)+(II)	1995	10.3+11	35	10	2006	2030	0.75	0.5	0
SAC I	1996	40.4	35	10	2006	2030	0.75	0.5	0
SAC II	1997	43.1	35	10	2008	2032	0.75	0.5	0
SAC III	1998	46.2	35	10	2009	2033	0.75	0.5	0
SAC IV	2001	38.4	40	10	2011	2040	0.75	0.5	0
SATAC I	1996	2.6	35	10	2006	2030	0.75	0.5	0
SATAC II	1997	3.6	35	10	2008	2032	0.75	0.5	0
Rehabilitation Credit	1995	41.5	35	10	2005	2030	0.75	0.5	0
Social Investment Fund I	1995	8.1	35	10	2006	2030	0.75	0.5	0
Social Investment Fund II	2000	14.9	35	10	2010	2034	0.75	0.5	0
Enterprise Development Project	1997	11.6	35	10	2007	2031	0.75	0.5	0
Health financing and Primary Health Credit	1997	7.2	35	10	2008	2032	0.75	0.5	0
Education Training and MGMNT	1998	11.1	35	10	2007	2032	0.75	0.5	0
Municipal Development	1998	22.3	35	10	2008	2032	0.75	0.5	0
Electricity Transmission	1999	15	35	10	2009	2033	0.75	0.5	0
Agricultural	1998	10.7	35	10	2008	2032	0.75	0.5	0



Reform Support									
Title Registration	1998	6	35	10	2009	2033	0.75	0.5	0
Dam Safety	1999	19.7	35	10	2009	2034	0.75	0.5	0
Transport	2000	29.9	35	10	2010	2035	0.75	0.5	0
Judicial Reform	2000	8.6	40	10	2010	2040	0.75	0.5	0
Irrigation Development Credit	2001	19.8	40	10	2011	2041	0.75	0.5	0
Enterprise Incubator Project	2001	3.9	40	10	2012	2041	0.75	0.5	0
Foreign Investment and Export Facilitation Project	2002	0.8	40	10	2012	2042	0.75	0.5	0
Natural Resource Management and Poverty Reduction	2002	6.7	40	10	2012	2042	0.75	0.5	0
International Bank for Reconstruction and Development									
Institution Building Loan	1993	12	20	5	1998	2013	0	0.75	LIBOR + 0.8%

*Source: Public Debt of the Republic of Armenia. Annual Report: 2002, MoFE of RA, Yerevan, 2003*