1. Key development issues and rationale for Bank involvement

Armenia is a land-locked country in the South Caucasus region with about three million inhabitants. The early 1990s were marked by post-independence fiscal crises, hyperinflation, and the devastating consequences of an armed conflict with Azerbaijan.

The GOA carried out successful stabilization and structural reforms resulting in economic recovery with macroeconomic stability and low inflation. Therefore, Armenia has strong economic fundamentals going into the crisis. It has the highest policy reform (CPIA) ranking of all IDA countries for the past several years. GDP growth has averaged above 10% per year and poverty has fallen from 55% to 25% over the past decade. Inflation has slowed to well below that in other CIS countries, helped by prudent macro-management and declining fuel, food, and commodity prices. Fiscal deficits and public debt remain quite modest in relation to GDP – among the lowest in the CIS.

Strong economic fundamentals have shielded the economy from the initial effects of the global output slowdown and the financial crisis. However, economic vulnerabilities have been accentuated by the financial crisis and global recession, and the situation is rapidly deteriorating.
Though Armenia entered the crisis from a relatively robust position, the crisis will affect Armenia through three main channels: labor markets (through a decline in remittances), product markets (through a decline in trade), and capital markets (through a decrease in FDI and bank borrowing). Consequently, Armenia will require significant support from the Bank to help withstand the economic shocks in a manner that does not undermine its development agenda and considerable gains in poverty reduction.

In response to the global financial and economic developments, the Bank’s Executive Directors have approved an IDA Financial Crisis response fast-track facility to accelerate the processing of the development policy and investment operations which would be helpful to IDA countries in confronting some of these shocks. Armenia’s eligibility for use of this facility is demonstrated by the significant impact of the financial crisis on its economy being diagnosed by the Bank; country demand for assistance; high performance prior to crises and continued government commitment, and appropriateness of the government policy response.

The GOA has requested additional resources from the Bank for urgent activities, in addition to the normal planned country assistance program. LRIP is part of this requested program. The project will improve road conditions and decrease transport costs for rural communities. This will help reduce their poverty levels. According to the 2004 World Bank ‘Rural Infrastructure in Armenia: Addressing Gaps in Service Delivery’, the poor condition of rural roads resulted in significant losses of produce in 42% of rural communities, with some 24% of communities reporting output losses of 30% or more. In some communities, the losses resulting from the inability to bring crops to market in time amounts to 70 to 80% of total harvest. The rehabilitation of the LRN will therefore help farmers and small businesses in rural areas bring their products to market more easily at lower cost, ameliorating the external shock due to the recent financial crisis.

One of the main rationales for Bank’s involvement is the project’s counter-cyclical effect that would ameliorate the deterioration of rural livelihood by directly creating employment through rehabilitation of about 100 km of Armenia’s Lifeline Road Network. According to local contractors, some 7,200 person-months of labor will be created directly to work on this project. It is customary in Armenia for contractors to hire local villagers near construction sites for manual labor due to their lower cost than importing laborers from elsewhere in Armenia. As one of the criteria in selecting the road segments for rehabilitation is the state of the economy in the area, the usage of local labor will have a direct impact in improving rural livelihood.

The project will also create employment for the production of materials. Gravel and sand are both procured locally through existing commercial operations, and their extraction, processing and transportation will create local jobs. Overall, it is estimated that additional 450 person-months of employment will be created for the production and processing of materials for the approximately 100 km of project roads. Bitumen will be imported and additional employment therefore created for drivers and storage workers. The project will also create mid-term employment by creating local employment opportunity through maintenance. Local contractors normally hire local villagers nearby for routine and some of winter maintenance activities. Therefore, it is clear that the total number of jobs and income created would be beyond the actual labor content of the civil work / rehabilitation activities.
2. Proposed objective(s)
The project development objective is to upgrade selected sections of the lifeline road network and create temporary employment in road construction.

3. Preliminary description
The project has two components:

**Component 1: Rehabilitation of the Lifeline Road Network:** Rehabilitation of approximately 100 km of the lifeline road network. The road sections are located in the seven different Marzes of the country and their lengths vary between 1 and 14 km. The component includes: (i) civil works for road rehabilitation; (ii) consultancy services for the supervision and technical auditing of rehabilitation works; (iii) updating of the original MCA financed 2007 designs and environmental documents to meet the requirements of the project; and, (iv) project implementation expenses including but not limited to funding project audits, incremental operational implementation costs and additional costs for intensified project supervision.

**Component 2: Technical Assistance:** The project will also include technical assistance for strengthening of the Armenia Roads Directorate’s (ARD) capacity. Including but not limited to: (i) a study to review low cost pavement options for Armenia which will explore options for different pavement types and ways to increase labor based activities; (ii) updating of designs for approximately 100 km of LRN roads for a potential future project; (iii) a vehicle for field supervision; and, (iv) related training.

**Implementation**

The Ministry of Transport and Communication (MOTC), as owner of the Lifeline Road Network (LRN) and policy making authority, will have the overall responsibility for implementation of the project. The MOTC will delegate the project implementation to the Armenian Roads Directorate (ARD) and the Transport Project Implementation Unit (PIU). An implementation agreement satisfactory to the Bank was signed by all three parties clearly outlining the roles and responsibilities of each party prior to negotiations.

The ARD was established by the Government of Armenia as a State Non-Commercial Organization (SNCO) attached to the MOTC, providing services to the MOTC. It assists the MOTC in the management of interstate and republican roads. The ARD is organized into divisions for: (i) planning and feasibility studies; (ii) procurement; (iii) road construction monitoring; (iv) road maintenance monitoring; and, (v) road safety. The road safety group is also responsible for traffic surveys, analysis and safety audits.

The PIU was established in 2000 as a state institution (legal status) under the legislation of the Republic of Armenia to implement World Bank financed transport projects. The PIU is governed by the Project Management Board (PMB) chaired by the Minister of Transport and Communication and comprised of stakeholder ministries and government agencies. The PIU director reports directly to Minister of Transport and Communication.

The PIU recently implemented the PHRD grant for previously planned World Bank Yerevan Urban Transport Project (YUTP). It is currently implementing PHRD and PPIAF grants for the
Armenian Railway Restructuring project. It is adequately staffed and has the capacity required for the project implementation. The Bank assessments confirm that the current PIU team possesses the management, technical and administrative skills required to ensure effective use of the project funds. The PIU had fully satisfactory performance in procurement, disbursement and financial management.

**Roles and Responsibilities:** The ARD will have the responsibility for the technical aspects of the project implementation, namely preparation and review of technical specifications, terms of reference (TORs), review and approval of road rehabilitation designs, review and evaluation of technical parts of bids, supervision of civil works contracts, review and approval of works’ monthly certificates and requests for variation orders. They will be actively involved in the implementation of TA component.

Reporting to the MOTC, the PIU will have the responsibility for the overall project coordination, reporting, procurement and fiduciary functions. The PIU will also act as a liaison for the project related issues between the Bank and the GOA.

The PIU will be responsible for project monitoring during implementation. This will entail updating of the project monitoring indicators on a regular basis for the duration of the project. The PIU will maintain close monitoring, through the ARD and supervision consultant, of the civil works and consulting services under the project, as well as project financial statements. Follow-up on the gathering of data for the monitoring indicators will be particularly important to ensure a timely completion of the project and flag any delays. The project reports will be prepared by the PIU on quarterly basis and, after review by the ARD and the MOTC, submitted to the Bank’s review. The PIU has adequate capacity to collect the required monitoring indicators since it has experience with Bank financed projects.

**Sustainability**

The project is considered sustainable because of the Government’s commitment to improving the lifeline road network. This is being done not only through donor support, but also with the Government’s own funds. The Government is also committing budget support to the maintenance of roads. Performance based maintenance contracts have been adopted, which offer improved efficiency and cost effectiveness for maintenance. By providing technical assistance to the Government to explore low cost pavement options, the project will assist the ARD to adopt more cost-effective designs.

**Lessons Learned from Past Operations**

**Project designed for immediate implementation.** The objective of an emergency financing is to address urgent needs. An emergency operation that does not disburse its funds quickly defeat its purpose. Therefore some of the criteria used in selecting the road segments to be rehabilitated are whether detailed designs are ready or can be quickly updated and whether the entire investment package can be implemented within this calendar year end. To avoid delay in implementation, the Government has to meet only the usual project effectiveness conditions; other conditions precedent are to be fulfilled prior to negotiations. The project is designed with the view of minimum delays and fast implementation.
**Technical assistance is necessary.** While this is an emergency operation, targeted technical assistance remains a component of the Project because experience has shown that increasing capacity within a country is as essential to development as physical investments. Given the short time frame for project implementation, the technical assistance is focused. There will be a study to review low cost pavement options to explore different pavement types and ways to increase labor based activities study. The results of the study would have long term impact on road rehabilitation’s cost effectiveness and labor utilization.

**Safeguard policies that might apply**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>[X]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
</tbody>
</table>

4. **Tentative financing**

Source:  
BORROWER/RECIPIENT  
International Development Association (IDA)  
Total

<table>
<thead>
<tr>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.40</td>
</tr>
<tr>
<td>25.00</td>
</tr>
<tr>
<td>30.440</td>
</tr>
</tbody>
</table>

5. **Contact point**

Contact: Christopher R. Bennett  
Title: Senior Transport Specialist  
Sustainable Development Department  
Europe and Central Asia Region  
The World Bank Group  
1818 H Street, N.W.  
Washington, D.C. 20433  
Tel: 202 473 0057  
Fax: 202 614 0900  
Email: cbennett2@worldbank.org

*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*