1. Country and Sector Background

Armenia is a landlocked country in the South Caucasus region with about 3 million inhabitants. During the early 1990s the country saw post-independence fiscal crises, hyperinflation, and the devastating consequences of an armed conflict with Azerbaijan. The Government of Armenia carried out successful stabilization and structural reforms that led to macroeconomic stability and low inflation. Strong economic fundamentals shielded the economy from the initial effects of the global output slowdown and the financial crisis, but economic vulnerabilities have been accentuated by the financial crisis and global recession, and the situation is deteriorating. The original Lifeline Roads Improvement Project (US$25 million equivalent) was prepared to mitigate the impact of the global financial crisis by rehabilitating 100 kilometers of the Lifeline Road Network and thereby creating temporary employment in road construction. The LRIP was approved by the Board on February 24, 2009, and became effective on April 10, 2009.

Since approval of the original project, economic conditions in Armenia have worsened. The latest macroeconomic and fiscal outlook for 2009/10\(^1\) projects that GDP will decline 9.5–10.0 percent in 2009 and recover about 1 percent in 2010. The construction subsector has been hard hit, with output projected to decline 30 percent and employment 40 percent.\(^2\) Other industrial subsectors, such as mining, are also projected to slow down significantly. Exports declined an

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\(^1\) Agreed among the Government of Armenia, the World Bank, and the International Monetary Fund in May 2009 during preparation of the First Development Policy Operation for Armenia.

estimated 6.3 percent in 2008, with further decline expected in 2009. Foreign Direct Investment is also expected to drop to 4.8 percent of GDP in 2009, down from 7.9 percent in 2008. Effects from the economic slowdown in Russia – where 80 percent of Armenian migrant workers live – are also being felt. Many migrant workers have lost their jobs and returned home, further stressing local labor markets while depriving the rural poor of critical income in the form of remittances.

As a result, an estimated 30 percent of Armenia’s labor force is now unemployed. And the number of the poor is expected to increase 5.2 percent between 2008 and 2010 – pushing 147,000 more people below the poverty line in 2009 and 25,000 more in 2010. The projected poverty incidence is expected to be about 28 percent in 2010, which is higher than the 2006 level of 26.5 percent, implying that the poverty reductions recorded between 2006 and 2008 would be more than fully offset by poverty increases due to the crisis. The increase in the poverty gap would be more pronounced as the already poor become poorer.

Deteriorating road infrastructure networks hamper the rural poor’s ability to cope with the increasing economic difficulties. The poor condition of rural roads – the bulk of which are part of the Lifeline Road Network\(^3\) - result in losses of agricultural produce over 40 percent, with losses as high as 80 percent of the harvest for the worst served communities, because of difficulty getting produce to market.\(^4\) While precise data are not available, poor conditions of rural roads also constrain the rural poor’s basic access to external markets and social services not available locally.

Rehabilitation of rural roads - especially the Lifeline Road Network which provides the only access for many rural poor to social services and livelihood opportunities – would create temporary jobs and partially ameliorate the worsening job market, while reducing transport costs and supporting economic activities. However, considerably reduced revenue has constrained the government’s capacity to implement public works. Revenue collected from January to April 2009 was 15 percent lower than during the same period in 2008, and the projected revenue collection for 2009 indicates a reduction in 24 percent compared with 2008.

2. Objectives

The project development objective is the same as under the original project: to upgrade selected sections of the Lifeline Road Network and to create temporary employment in road construction.

3. Rationale for Bank Involvement

On April 18, 2009, the Armenian Minister of Economy requested additional World Bank financing to expand LRIP implementation to rehabilitate an additional 140 kilometers of the Lifeline Road Network. The Government has already identified some 50 kilometers of road sections that require urgent rehabilitation and for which work could start in September 2009 and be completed within the current construction season. This would create additional jobs during this calendar year, an important goal for the Government. The remaining 90 kilometers would be rehabilitated beginning in 2010 and completed within the calendar year.

\(^3\) The Lifeline Road Network is rural road links that connect rural communities in the country to an interstate road; they comprise some 3,014 kilometers of Armenia’s 7,704 kilometers (39.1 percent) of nonurban roads.

Supporting the proposed activities as Additional Financing would allow the Armenian Government to quickly implement “shovel ready” civil works that create urgently needed temporary jobs within a very short time horizon. Rehabilitation of additional Lifeline Road Network roads would create an estimated 10,000 person-months of labor in rural areas, where job markets are collapsing and unemployment is rising, and would alleviate nonincome poverty by improving basic access to services.

4. Description

**Component 1: Rehabilitation of 140km of selected sections of lifeline roads (US$43.93 million, out of which Bank finances US$35.3 million).**

The first component would be rehabilitation of 140 kilometers (29 sections) of Lifeline Road Network roads in seven regions *(marzes)*. This component comprises civil works; construction supervision; design author supervision; technical auditing of rehabilitation works; and project implementation expenses including, but not limited to, funding technical and financial audits, monitoring and evaluation, and incremental operating costs. The acquisition of private land is not anticipated. This component would also finance the “safe villages” pilot program, which would support rural communities in implementing road safety measures recommended by the road safety audit and the National Road Safety Strategy.

**Component 2: Technical assistance (US$1.7 million, out of which Bank finances US$1.3 million).**

This component would finance capacity development in alternative pavement designs (based on the recommendations of the study under the original project), procurement of laboratory and testing equipment and vehicles for supervision, training, and design for future investments. This component would also support the preparation of a road safety audit manual, tailored to the conditions in Armenia, to provide checklists for assessing designs and inspecting project sites throughout different phases of road project development, including assessment of existing roads. The findings of the audit would inform the implementation of the “safe villages” pilot program supported under Component 1.

5. Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>US$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>9.12</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>36.60</td>
</tr>
<tr>
<td>Total</td>
<td>45.72</td>
</tr>
</tbody>
</table>

5 According to Armenian legislation, the original designers will be paid up to 0.6 percent of the construction costs to ensure compliance with the designs and to cover design updates necessitated by field conditions.

6 The “safe villages” pilot program will support the villages selected on a demand-driven basis in installing road safety measures, especially around schools, as required by a road safety audit. To be eligible for funding, villagers must prepare and start implementing their own road safety campaign, and the proposed LRIP-AF would provide necessary support.

7 Developed under Policy and Human Resources Development Fund Grant (TF 057789) for Preparation of Traffic Management and Safety Project, and submitted to the Government for adoption. Public consultation of the draft Strategy was conducted in October 2008.
6. **Implementation**

Activities under the LRIP-AF would be implemented by the same Transport Project Implementation Unit (PIU) and the Armenian Roads Directorate under the Ministry of Transport and Communication that are implementing the LRIP. The PIU implemented another World Bank-financed Transport Project during 2000–04 as well as two Japanese Policy and Human Resources Development Fund Grants. The PIU has sufficient capacity to implement Bank-financed projects and would continue using the financial management systems and procurement and reporting mechanisms of the LRIP. The completion of LRIP-AF activities is expected within one year from the original closing date. The new closing date would be December 31, 2011.

7. **Sustainability**

The project is considered sustainable because of the Government of Armenia’s commitment to improving the Lifeline Road Network using both donor support and the Government’s own funds. The Government has also committed budget support to road maintenance using performance-based contracts, which improves efficiency and cost-effectiveness. By providing technical assistance for the Government to explore low-cost pavement options, the project will help the Armenian Roads Directorate to adopt more cost-effective designs.

8. **Lessons from Past Operations in the Country/Sector**

*Government commitment to the rural connectivity agenda is strong*

The government shows a clear commitment to the rural connectivity agenda. Some 3,014 kilometers of road links that connect rural communities in the country to an interstate road had been identified as the Lifeline Road Network (LRN), and financing has been sought from various donors, including the Millennium Challenge Corporation, the Asian Development Bank, and the World Bank, to rehabilitate the LRN. Most LRN roads are classified as local roads and fall under the responsibility of the regional governments, but after rehabilitation the Government plans to reclassify these roads as Republican Roads, which fall under the responsibility of the Armenian Roads Directorate. Once reclassified, the rehabilitated LRN would receive sufficient funding for maintenance.

*Targeted technical assistance is needed*

Technical support – especially in low-cost pavement options to help rehabilitate more roads cost-effectively and create more jobs – will contribute to the rural connectivity agenda and help alleviate the current economic hardship among the rural poor. Road safety also requires attention. As more Lifeline Road Network roads are rehabilitated, more traffic accidents will occur in the short to medium term because more vehicles will be driving at a faster speed. The proposed Additional Financing will continue to provide a targeted technical assistance in alternative pavement designs and through implementation of the “safe villages” program.

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8 Policy and Human Resources Development Fund Grant TF 057789 for Preparation of Traffic Management and Safety Project (2007-08) and Policy and Human Resources Development Fund Grant TF090313 for Preparation of Railway Restructuring Project (2008-09).
9. Safeguard Policies (Including Public Consultation)

<table>
<thead>
<tr>
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<th>No</th>
</tr>
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<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
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<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
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<td>[X]</td>
</tr>
</tbody>
</table>

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

10. List of Factual Technical Documents


11. Contact point

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