

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF ARMENIA

Joint Staff Assessment of the PRSP Preparation Status Report

Prepared by the Staffs of the International Monetary Fund and the
International Development Association

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1. The Armenian authorities presented to the Executive Boards of the IDA and the IMF in May 2001 the interim Poverty Reduction Strategy Paper (I-PRSP). The Boards agreed that the document provided a sound basis for the formulation of a full, participatory PRSP. At that time, the full PRSP was expected to be finalized by the end of 2001. The authorities' decision to delay the preparation of the PRSP is related to their desire that it be well prioritized and costed and the result of a fully participatory process both within government and with outside stakeholders. Another reason for the delay was the need for an improved database that could benefit from the October 2001 census results. The decision to delay the preparation of the paper was supported by the staffs of the World Bank and the Fund, and the authorities are now well under way with the preparation of a draft PRSP, which is expected to be issued in October 2002.
2. As the PRSP will not be finished within one year of the completion of the I-PRSP, the authorities have issued a Preparation Status Report (henceforth, the report) for presentation to the Boards of the World Bank and IMF. The report outlines the main activities undertaken so far and the next steps to be taken. It is clear that major efforts have been devoted to ensure a consultative process. In particular, in order to ensure the involvement of all stakeholders, the PRSP Steering Committee, which coordinates the PRSP preparation process, includes representatives of the government, standing committees of parliament, various political parties represented in parliament, civil society, and the donor community. Following discussions with the different stakeholders over the last several months, a number of suggestions have been forwarded to the PRSP expert groups. The authorities have also conducted a public awareness campaign on the PRSP preparation process.
3. There has been some progress in poverty diagnostics, targeting, and monitoring. Data from the 2001 census will facilitate improved monitoring of poverty indicators. The 2001 household surveys will also be useful in assessing poverty and evaluating recent trends. Preliminary data from the recent surveys show improvements in selected poverty indicators and a reduction in extreme poverty between 1999 and 2001. While much of the improvement

is related to recent increases in income and employment, the staffs consider that the enhanced government system of poverty benefits has also contributed to this outcome. The full PRSP will specify short-term objectives as well as medium and long-term strategies, priorities, and tools for overcoming poverty. The authorities intend to establish a monitoring and assessment system based on a wide range of socio-economic indicators to be developed on the local, regional, and national levels. The report rightly emphasizes the importance of these indicators to be specific, measurable, feasible, adequate, and time-consistent.

4. The Joint Staff Assessment of the I-PRSP noted the key reform areas identified in the I-PRSP. Progress is being made in most of these areas. Macroeconomic stability has been maintained but budgetary arrears remain high. Steady but slow progress has been made in expenditure management. There has been progress in governance reform but much more remains to be done as highlighted by the recent anti-corruption strategy. There has also been progress in promoting private sector investment, including enhancing the role of the business council and streamlining laws and regulations on foreign investment and trade. Progress in human development policies has also been satisfactory, and there has been an increase in funding to the health sector. Social protection reform is, however, proceeding slowly, including the rationalization of ill-targeted implicit subsidies to public utilities. The government has continued to take measures to improve environment protection, developing a strategy for better water resource management and launching an initiative for sustainable management of natural resources in rural mountainous areas. A continued need of the overall poverty reduction effort is to address the poverty implications of remaining market access impediments for Armenian exporters and severed regional trade linkages, as well as how to develop a strategy to counteract any risks to external financing and debt sustainability. The long-term implications of Armenia's accession to the WTO, including broader taxation of agriculture, will also need to be assessed. Lastly, the PRSP will need to give priority to improving revenue collection, improving the effectiveness and targeting of social spending, and setting up an adequate system for tracking pro-poor spending. At the same time, there is a need for reforming the energy sector and eliminating its claims on the central government budget.

5. The staffs agree that the medium-term expenditure framework (MTEF), to be developed in collaboration with the World Bank, is an important vehicle for strengthening fiscal discipline and rationalizing resources for poverty reduction. Therefore, the staffs urge the authorities to link the MTEF with the full PRSP. The costing exercise of poverty-reducing policies should be integrated into the MTEF process, such that the policy objectives of the PRSP are linked to resource availability and provide a basis for seeking additional donor funds in later years. This would help ensure consistency between poverty reduction strategies and efficient resource allocation, especially for the social sectors. At the same time, these plans will need to be embedded within an appropriate medium-term framework, based on continued macroeconomic stability and fiscal and external-debt sustainability.

6. Despite several areas that need further development, the staffs consider that progress has been made in recent months toward the preparation of the PRSP, and the staffs agree that the areas for further work identified in the report are appropriate. A draft of the full PRSP is expected to be available in October 2002, and the document could be finalized for publication by end-2002. The timetable for completion of the full PRSP appears realistic and appropriate.

7. In sum, the staffs of the World Bank and the IMF consider that progress on the development of the full PRSP, as evidenced by the PRSP Preparation Status Report, is satisfactory and provides a basis for continued access to IDA adjustment lending and Fund concessional financial assistance. The staffs recommend that the Executive Directors of the World Bank and IMF reach the same conclusion.