

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1252

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$21.0 MILLION

TO THE

REPUBLIC OF ARMENIA
FOR A

THIRD PUBLIC SECTOR MODERNIZATION PROJECT

September 2, 2015

*GGODR
EUROPE AND CENTRAL ASIA*

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS
(Exchange Rate Effective August 21, 2015)

Currency Unit = Armenian Dram (AMD)
AMD 1.00 = USD 0.0021
US\$ 1.00 = AMD 477.70

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAPA	Armenian Academy of Public Administration	ISA	International Standards on Auditing
ADS	Armenia Development Strategy	ISO	International Organization for Standardization
AMD	Armenian Currency	ISSAI	International Standards of Supreme Audit Institutions
APSAS	Armenian Public Sector Accounting Standards	IT	Information Technology
ARLIS	Electronic Legal Database	KPMG	Klynveld Peat Marwick Goerdeler
AS	Armenian Software	LA	Legal Agreement
ASRA	Accrual basis accounting standards	LCS	Least Cost Selection
BPR	Business Process Review	LS	Lump Sum
C	Category	M&E	Monitoring and Evaluation
CD	Country Director	MoF	Ministry of Finance
CHU	Central Harmonization Unit	MOP	Memorandum of President
CJSC	Closed Joint Stock Company	MTBF	Medium-Term Budget Framework
COC	Chamber of Control	MTEF	Medium-Term Expenditure Framework
CPAR	Country Procurement Assessment Report	NCB	National Competitive Bidding
CPS	Country Program Strategy	NCOs	Non-Commercial Organizations
CQS	Consultant Qualification Selection	NGO	Non-Governmental Organization
CSC	Civil Service Council	NPV	Net Present Value
DA	Designated Account	OECD	Organization for Economic Co-operation and Development
DFID	Department for International Development	PB	Program Budgeting
DPO	Development Policy Operation	PBB	Program Based Budgeting
EA	Environmental Assessment	PDO	Project Development Objectives
ECA	Europe and Central Asia	PEFA	Public Expenditure and Financial Accountability
EDMS	Electronic Document Management System	PFM	Public Financial Management
EKENG	e-Governance Infrastructure Implementation Unit	PFMTF	Public Financial Management Trust Fund
ENPI	European Neighborhood and Partnership Instrument	PIFC	Public Internal Financial Control
EU	European Union	PIU	Project Implementation Unit
FAs	Fixed Assets	PM	Project Manager
FBS	Fixed Budget Selection	PMG	Project Management Group
FFPMC	Foreign Financing Project Management Center	POM	Project Operational Manual
FM	Financial Management	PSMP	Public Sector Modernization Project
FMM	Financial Management Manual	PSRC	Public Sector Reform Commission
G2G	Government to Government	QCBS	Quality and Cost Based Selection
GDP	Gross Domestic Product	RFP	Request for Proposal
GFMIS	Government Financial Management Information System	RVP	Regional Vice President
GFSM	Government Finance Statistics Manual	RVP	Regional Vice President
GoA	Government of Armenia	SH	Shopping
GPN	General Procurement Notice	SNCO	State Non Commercial Organization
GPS	Global Positioning System	SOEs	State-Owned Enterprise
HRMIS	Human Resource Management Information System	SPAP	Social Protection Administration Project
IBRD	International Bank for Reconstruction Development	SSS	Single source selection
IC	Individual Consultants	TAMP	Tax Administration Modernization Project
ICB	International Competitive Bidding	ToRs	Term of References
ICR	Implementation Completion Report	ToTs	Training of Trainers
ICT	Information and Communication Technologies	TPQIP	Trade Promotion and Quality Infrastructure Project
ICT	Information and Communication Technology	TTL	Task Team Leader
IDA	International Development Association	US	United States
IDF	Institutional Development Fund	USD	United States Dollar
IFAC	International Federation of Accountants	WB	World Bank
IFC	International Finance Corporation	WBG	World Bank Group
IFRs	Interim Financial Reports	WG	Working Group
INTOSAI	The International Organization of Supreme Audit Institutions		
IPSAS	International Public Sector Accounting Standards		
IRR	Internal Rate of Return		

Regional Vice President:	Cyril E. Muller
Acting Country Director:	Eavan O'Halloran
Senior Global Practice Director:	Mario Marcel Cullel
Practice Manager:	Adrian Fozzard
Task Team Leaders:	Migara De Silva Davit Melikyan

REPUBLIC OF ARMENIA
Third Public Sector Modernization Project

TABLE OF CONTENTS

	Page
I. STRATEGIC CONTEXT	12
A. Country Context.....	12
B. Sectoral and Institutional Context.....	13
C. Higher Level Objectives to Which the Project Contributes.....	16
II. PROJECT DEVELOPMENT OBJECTIVES	17
A. PDO.....	17
B. Project Beneficiaries	17
C. PDO Level Results Indicators.....	18
III. PROJECT DESCRIPTION	19
A. Project Components	19
B. Project Financing	23
C. Series of Projects.....	23
D. Lessons Learned and Reflected in the Project Design.....	24
IV. IMPLEMENTATION	25
A. Institutional and Implementation Arrangements	25
B. Results Monitoring and Evaluation	25
C. Sustainability.....	26
V. KEY RISKS	26
A. Overall Risk Rating and Explanation of Key Risks.....	26
VI. APPRAISAL SUMMARY	27
A. Economic and Financial Analysis.....	27
B. Technical.....	28
C. Financial Management.....	28
D. Procurement	29
E. Social (including Safeguards).....	30
F. Environment (including Safeguards).....	30

G. Other Safeguards Policies Triggered (<i>if required</i>).....	31
H. World Bank Grievance Redress.....	31
Annex 1: Results Framework and Monitoring.....	32
Annex 2: Detailed Project Description	42
Annex 3: Implementation Arrangements.....	58
Annex 4: Implementation Support Plan.....	66
Annex 5: Technical Analyses on PFM Reforms in Armenia	69
Annex 6: Economic and Financial Analysis (in detail)	73
Annex 7: Procurement Plan	76
Annex 8: Organizational Chart of the IT Department of the Armenian Ministry of Finance	81

PAD DATA SHEET*Armenia**Public Sector Modernization Project III (P149913)***PROJECT APPRAISAL DOCUMENT***EUROPE AND CENTRAL ASIA**0000009063*

Report No.: PAD1252

Basic Information					
Project ID P149913	EA Category C - Not Required	Team Leader(s) K. Migara O. De Silva, Davit Melikyan			
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []				
	Financial Intermediaries []				
	Series of Projects []				
Project Implementation Start Date 01-October-2015	Project Implementation End Date 31-December-2020				
Expected Effectiveness Date 01-January-2016	Expected Closing Date 31-December-2020				
Joint IFC No					
Practice Manager/Manager Adrian Fozzard	Senior Global Practice Director Mario Marcel Cullell	Country Director Eavan O'Halloran	Regional Vice President Cyril E. Muller		
Borrower: Republic of Armenia					
Responsible Agency: Office of the Government					
Contact: Telephone No.:	Mr. Davit Harutyunyan 374-10-515703	Title: Email:	Minister-Chief of Government Staff davit.harutyunyan@gov.am		
Project Financing Data(in USD Million)					
[X]	Loan	[]	IDA Grant	[]	Guarantee
[]	Credit	[]	Grant	[]	Other
Total Project Cost:		36.70		Total Bank Financing: 21.00	

Financing Gap	0.00									
Financing Source							Amount			
Borrower (includes counterpart financing)							15.70			
International Bank for Reconstruction and Development							21.00			
Total							36.70			
Expected Disbursements (in USD Million)										
Fiscal Year	2016	2017	2018	2019	2020	2021	0000	0000	0000	0000
Annual	0.40	1.00	2.90	6.70	7.00	3.00	0.00	0.00	0.00	0.00
Cumulative	0.40	1.4	4.30	11.00	18.00	21.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Governance										
Contributing Practice Areas										
Transport & ICT										
Cross Cutting Areas										
[] Climate Change										
[] Fragile, Conflict & Violence										
[] Gender										
[] Jobs										
[] Public Private Partnership										
Sectors / Climate Change										
Sector (Maximum 5 and total % must equal 100)										
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Public Administration, Law, and Justice				Central government administration		55				
Public Administration, Law, and Justice				Public administration- Information and communications		45				
Total						100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.										
Themes										
Theme (Maximum 5 and total % must equal 100)										

Major theme	Theme	%
Public sector governance	Public expenditure, financial management and procurement	50
Public sector governance	e-Government	50
Total		100

Proposed Development Objective(s)

The project development objective (PDO) is to improve quality of the public financial reporting and to improve access to selected enhanced e-government services.

Components

Component Name	Cost (USD Millions)
Public Financial Management Information Systems	19.00
e-Governance Solutions for Improved Service Delivery	14.00
Capacity Building (Technical Assistance) and Small Capacity Building Interventions	1.85
Project Management	1.85

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No [X]
Is approval for any policy waiver sought from the Board?	Yes []	No [X]

Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01			X
Natural Habitats OP/BP 4.04			X
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11			X
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Effectiveness Condition		28-Mar-2016	
Description of Covenant			
The Borrower has adopted the Project Operational Manual in form and substance satisfactory to the Bank.			
Conditions			
Source Of Fund	Name	Type	
Description of Condition			
Team Composition			
Bank Staff			
Name	Role	Title	Unit
K. Migara O. De Silva	Team Leader (ADM Responsible)	Senior Economist	GGODR
Davit Melikyan	Team Leader	Senior Public Sector Specialist	GGODR
Armine Aydinyan	Team Member	Procurement Specialist	GGODR
Hunt La Cascia	Team Member	Senior ICT Procurement Specialist	GGODR
Andres Mac Gaul	Team Member	Senior Procurement Specialist	GGODR

Garik Sergeyan	Financial Management Specialist	Sr. Financial Management Specialist	GGODR
Aleksandre Bibileishvili	Team Member	Finance Analyst	WFALA
Armine Grigoryan	Team Member	Communications Assistant	LLIOS
Artak Azizyan	Team Member	Consultant	GTCDR
Darejan Kapanadze	Safeguards Specialist	Senior Environmental Specialist	GENDR
Dolly Elizabeth Teju	Team Member	Program Assistant	GGODR
Gayane Davtyan	Team Member	Program Assistant	BPSGR
Jose C. Janeiro	Team Member	Senior Finance Officer	WFALA
Rocio Mariela Malpica Valera	Counsel	Senior Counsel	LEGLE
Sandra Sargent	Team Member	Senior Operations Officer	GTIDR
Sarah G. Michael	Safeguards Specialist	Senior Social Development Specialist	GSURR
Seda Pahlavooni	Team Member	e-Government Specialist	GTIDR
Stepan Anatolievich Titov	Team Member	Senior Economist	GGODR
Tigran Kostanyan	Team Member	Economist	GMFDR
Olga Sipka	Team Member	Consultant	GGODR
Zaruhi Tokhmakhian	Team Member	Senior Infrastructure Specialist	GSURR
Tina George	Team Member	Senior Public Sector Specialist	GGODR

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Armenia	Yerevan	Yerevan	X		

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required? Consulting services to be determined

I. STRATEGIC CONTEXT

A. Country Context

1. While Armenia has achieved average GDP growth rates of 3 percent since Independence in 1991 – outpacing most lower-middle income countries – there have been sharp fluctuations in economic performance with periods of rapid growth followed by marked downturns. GDP per capita increased from US \$680 in 2001 to US \$3,340 in 2008. Growth in this period was driven by a construction boom fueled by a government campaign to encourage real estate investments by Armenians living abroad. Large remittance inflows contributed to currency appreciation and a loss of competitiveness leaving the economy vulnerable to external shocks. As the global economy entered a recession external financing of the construction sector dried up. GDP shrank by 14 percent in 2009. Armenia began to recover in 2010 but GDP growth then slowed from 7.2 in 2012 to 3.5 percent in 2013 and slowed further still to 2.6 percent in 2014. Recent years have seen lackluster performance from construction, mining and manufacturing, with agriculture and the services, notably the financial sector and telecommunications, accounting for much of the growth.

2. The economic crisis led to an increase in poverty incidence from 27.6 percent in 2008 to 35.8 percent in 2010 and the economic recovery has brought only modest improvement with poverty incidence at 32 percent in 2013. The crisis has also left the income distribution slightly more unequal than in 2007. Poverty incidence is similar in rural and urban areas and slightly higher for female headed households. Job creation will be critical for future poverty reduction and improvements in shared prosperity given persistently high unemployment and low labor force participation, especially among women. Armenia's job employment-to-population ratio of 53 percent is well below the European average of 60 percent.

3. Armenia's long-term development vision, articulated in the Armenia Development Strategy (ADS), sees Armenia achieving middle-income country status by 2025 with a projected annual per capita income in excess of US\$10,000. This ambitious target is three times higher than its 2012 per capita income and requires GDP growth at 6.4 percent a year. The strategy is built around four pillars: creating jobs; developing human capital; strengthening the social protection system; and modernizing public administration and governance.

4. The ADS advocates ambitious targets for its public administration and governance reforms. Progress is to be monitored using modified World Governance Indicators, benchmarking Armenia's performance against other countries. Priorities identified under the ADS include measures to: tackle corruption and conflict of interest in the public sector; reform and rightsizing the civil service, introduce merit-based systems of recruitment and promotion, increase salaries and incentives to attract and retain more qualified public employees; streamline public sector regulations and curtail the inspection regime, notably through the implementation of a regulatory "guillotine"; modernize the justice system; modernize public finances through custom and tax administration reforms, strengthening the financial inspection/supervision system and public financial management reforms.

5. Alongside the ADS, the Government has developed an Open Government Action Plan for the period 2014-16, presenting commitments aimed at strengthening transparency, accountability and participation as a member of the Open Government Partnership. In April 2014, the

Government presented an E-Governance Strategy which lays out how the use of information and communication technology will support its public sector reform and broader development objectives.

B. Sectoral and Institutional Context

6. The World Bank has provided support for Armenia's public sector reforms over the last decade. The first phase of this assistance, Public Sector Modernization Project (PSMP-I), implemented between 2004 and 2011, supported reforms in policy formulation, local government, civil service, public procurement and internal and external audit. PSMP-I successfully delivered key institutional reforms and the core administrative e-Government applications (Electronic Data Management System -EDMS, Human Resource Management Information System -HRMIS, e-Tendering) as well as capacity building at the Armenian Academy of Public Administration (AAPA) and Ministry of Finance Training Center for civil servants training. PSMP-II, effective 2010 and recently extended to 2017, provides support for functional analysis covering a number of ministries, agencies and government entities, such as the Ministry of Territorial Administration, Passport and Visa Directorate of Police; establishment of an integrity system for public servants using an IT solution to track possible conflicts of interest in the public sector; development of a training needs assessment and a training program for civil servants; and further support for e-Governance through business process simplification and automation of solutions, including pilot activities for citizen-centered services such as e-Police and e-Health.

7. The Government of Armenia has requested the World Bank's further assistance for its public sector reform strategy, focusing on: first, the strengthening of public financial management through support for the development of a financial management information system; second, support for implementation of the Government's e-Governance strategy; and third, continued support for civil service capacity building.

Public Financial Management

8. The Republic of Armenia introduced systematic public financial management reforms early in its transition. A Budget System Law was enacted in 1997 to provide a framework for budget preparation and execution. This was followed by a Treasury Systems Law in 2001 which grants the Treasury authority to manage the execution of the State and Community budgets and their cash flows. A medium term budget/expenditure framework (MTEF) became an integral part of the annual budget process in 2003 following amendment of the Budget law. Following the introduction of MTEF in 2005, subsequent budget reforms prepared for a phased transition to program budgeting.

9. In 2010, the Government approved a Public Financial Management (PFM) Reform Strategy for the period 2010-2020, to be implemented in three stages, the first ending in 2014. The Strategy seeks to strengthen the control framework whilst decentralizing management responsibility for budgeting and planning, budget execution and procurement. An important element of these reforms was the introduction of program budgeting, starting with the 2014 budget. The strategy envisages extensive capacity building for managers and public finance specialists across government. It also proposes the development of a Government Financial Management Information System (GFMIS) that would provide timely access to financial information across

government throughout the budget cycle, linking the program budgeting system with accounting and financial reporting and establishing a rigorous financial control framework.

10. A Public Expenditure and Financial Accountability (PEFA) Assessment of Armenia published in May 2014 takes stock of progress in PFM reforms. PEFA ratings are strong for 16 out of 28 performance indicators and have remained steady or show improvement in relation to the 2008 assessment in the areas of budget credibility, transparency, revenue administration, cash management, internal audit, accounting and reporting and external audit. That said, there are notable weaknesses in the PFM system: aggregate expenditure control is hindered by weaknesses in revenue forecasting and inadequate monitoring of fiscal risks; the budget is still not used for strategic allocation of resources; there are shortcomings in internal control systems for both payroll and non-salary expenditure; and the Government does not yet prepare auditable annual financial statements. The PEFA assessment notes that the introduction of program budgeting should help strengthen strategic resource allocation. The assessment also argues that upgrading the IT system that underpins the current financial management system is the most important challenge and a necessary condition for further progress in PFM reforms.

11. Initial work on the technical and functional specifications for a GFMIS was financed under an Institutional Development Fund (IDF) grant approved in 2002 and was further updated under a subsequent IDF grant approved in 2007. Rather than attempting to develop a complex, fully-integrated system, the Government decided to automate elements of the PFM system such as the treasury, e-tendering, e-payments, and budget formulation following a modular approach. A 2011 Bank-funded assessment of the PFM IT system highlighted some of the weaknesses in the resulting system. These include: poor system integration and automation; poor articulation of modules with the general ledger; and the absence of a double entry accounting system to facilitate timely and accurate annual financial systems. The government has reviewed options for the development of a GFMIS architecture that would address their system weaknesses. Three options have been identified: investment in an off-the-self solution; development of a locally developed system; or a gap-filling option that would improve the functionality of the current systems pending development of a more comprehensive system at a later date (more detailed technical analyses on GFMIS readiness are reflected in Annex 6). The Bank has provided a preparation grant under ECA PFM Trust Fund (PFM-TF) to conduct a comprehensive Business Process Review (BPR) to assess the viability of all these options. The BPR report on GFMIS, submitted to the MoF on March 13, 2015, concludes that given the current needs, a new system would be the preferred option. While the MoF is currently reviewing options before making a decision on the GFMIS system it will adopt, based on the latest communication the Bank team understands that MoF has a strong preference for a locally developed system.

E-Governance

12. The Government of Armenia published an e-Society Concept Paper and action plan in 2010 which laid out a framework for the development of information technologies through the creation of a national broadband backbone, increasing availability of computers, e-literacy initiatives and the development of e-services. Under this e-Society concept, the Government introduced an e-government portal, www.e-gov.am, which brings together the electronic governance tools and databases of the Armenian state agencies and provides access to a variety of e-services such as passports and identification cards with biometric indicators, an e-procurement system, e-police for

payments of penalties and car registration, a tax administration system, a real-estate cadaster system and an electronic business registration system. The Bank-financed PSMP I and II have helped support some of these initiatives.

13. Notwithstanding the progress to date, the Government acknowledges limitations of its e-governance architecture. The number of e-government services on offer and access to these services is still limited, particularly for women and vulnerable groups and those who live in rural communities. For many services, citizens still have to travel long distances, suffer long-waiting times, poor service and corruption. Access to services is particularly difficult for the many Armenian citizens living and working overseas. Citizen Service centers have proliferated but do not work to full capacity and incur considerable operational costs. Many government web sites are of poor quality. Lack of coordination and collaboration across agencies has led to poor integration of systems and limited exchange of data, creating information silos within government. This has hampered the design and implementation of an end-to-end administrative process for delivering digital public services. Often, administrative procedures were transferred from paper-based to electronic systems without rationalizing and streamlining the underlying administrative processes, functions and services.

14. In April 2014, the Government of Armenia approved an e-Governance Strategy which seeks to transform the way in which the public sector operates. The strategy's goal is that, by 2018, the government will become more transparent and responsive and perform better due to intelligent investments in Information Technology (IT) and their widespread use in public agencies. The strategy advocates the principles of open governance, going beyond service provision to providing access to information and promoting participation in decision-making. Public services will be modernized through digitization and business process reengineering. Government operations will be optimized through interoperability, IT asset consolidation and data reuse. Citizens and businesses will be able to access information and electronic services easily through a single government portal. Services will be citizen and business-centered, reflecting citizen and business-user needs and designed to facilitate access and use. This will include access through mobile technologies which have much greater penetration than internet services.

15. The Strategy is influenced by the experience of other international best practice including Estonia and Estonian e-Governance experts who have been active in advising the Government of Armenia. However, the e-Governance Strategy does acknowledge that there are significant challenges in transferring this experience. Notable amongst these are the shortages of IT technical skills within the public administration, largely due to the uncompetitive public sector salary structure. Substantial investments are needed in Information and Communication technology (ICT) infrastructure, equipment and software development. In order to overcome some of these constraints, the Government has established the "e-Governance Infrastructure Implementation Unit" (EKENG) as a joint-stock company responsible for the technical aspects of the e-Governance strategy. Further work is also needed in the development of an enabling regulatory environment, appropriate national standards and the institutional, organizational, and procedural reforms in public agencies which are needed to enable the reforms and translate e-governance into improvements in public sector performance, transparency and accountability.

Civil Service Capacity Building

16. Measures to professionalize and enhance the performance of the Civil Service have figured prominently in the reform agenda in recent years. Low pay relative to the private sector and stringent entrance requirements make it difficult for public institutions to recruit and retain qualified and experienced staff, especially those from professions and technical fields. The centralized human resources administration system limits managers' role in recruitment, deployment and career progression.

17. PSMP II supported the development of a comprehensive and mandatory job description catalogue specifying administrative and professional requirements and competencies for about fifty occupations in the Civil Service. The job descriptions specify professional requirements and competencies, and reporting relationships which will be the basis for strengthened performance evaluation and screening job applicants. On June 21, 2014, parliament passed amendments to the Law on Civil Service to enhance the flexibility of recruitment, promotion of professional staff, and to discontinue the mandatory periodic attestations. The system of periodic attestation of civil servants will be replaced with the development of a modern performance evaluation system. Development of an effective staff training and professional development program would help strengthen performance, create opportunities for the most competent staff and underline the Government's commitment to merit-based promotion.

C. Higher Level Objectives to Which the Project Contributes

18. The World Bank Group Country Partnership Strategy for FY2014 through FY2017 has two clusters of outcomes: the first, supporting competitiveness and job creation; the second supporting improvements in the efficiency and targeting of social services, focusing on social protection, education and health.

19. The CPS addresses governance and anti-corruption (GAC) in public services as a cross cutting theme. The GAC agenda in Armenia targets three broad areas of engagement: strengthening the anti-corruption framework; improving efficiency of the public administration; and deepening public financial management reforms. The Bank's anti-corruption program seeks to build trust in government and ensure that services are tailored to beneficiaries' needs through support for core anti-corruption bodies, such as the Ethics Commission for High-Ranked Officials and the Chamber of Control, improvements in the procurement regime, and strengthening of social accountability tools, such as mainstreaming of client satisfaction surveys. The Bank's support for public administration reform continues work on the professionalization of the civil service and the implementation of the e-governance agenda, including investments in IT technologies, capacity building and legislative and institutional reforms. The Bank's support for PFM reform seeks to strengthen transparency, accountability, and the effectiveness of public spending with the specific actions identified in a recent 2013 PEFA assessment which was published in April 2014. This project is the main lending instrument in support of the GAC cross-cutting theme and complements the ASA program of the WBG.

20. The CPS notes that the Public Sector Modernization Project III will focus on modernization of public administration through e-governance initiatives and support for PFM reforms, arguing that investments in these areas will reduce opportunities for corruption, improve access to services

and improve efficiency, cost-effectiveness, and sustainability of public services. There are a number of complementary grant-financed projects. These include an IDF grant supporting the introduction of international public sector accounting standards and the more recent ECA PFM Trust Fund-(recipient executed) for PFM reform which has supported, among others, the preparatory work on the design of the GFMIS.

21. The GAC agenda is also supported through the DPO series with policy and institutional reforms covering tax policy and revenue administration reform, civil service reform, anti-corruption and promotion of e-governance. The PSMP and on-going DPO series have been designed in parallel. Under the DPO series the government has adopted the e-governance Strategy and Action Plan and submitted key legislation on data protection and e-security to Parliament. DPO actions also address interoperability and automated information exchange across government databases to facilitate verification of income and asset declarations. The DPO series will continue to support e-governance and PFM reforms.

22. The PSMP series also supports Bank operations in the agriculture, transport, health, social protection and education sectors. Improvements in PFM systems will strengthen resource management at the agency and service delivery point, helping to align resources with sector priorities and strengthen expenditure controls, thereby contributing to improvements in service delivery. Implementation of the e-Governance strategy will also support sector reforms. Prominent amongst these are the on-going e-Health systems under PSMP II. Similarly, the e-Transport system planned under PSMP-III is in-line with the recommendations made by the Bank sector team.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

23. The project development objective (PDO) is to improve quality of the public financial reporting and to improve access to selected, enhanced e-government services.

B. Project Beneficiaries

24. Improved financial reporting is one of the outcomes envisaged during the project and timely implementation of GFMIS, which is one of the components of the project, will facilitate this outcome. The direct beneficiaries of improved financial reporting and GFMIS implementation will include the MoF (almost every unit ranging from budgeting to procurement) and spending entities, which will be able to prepare financial reports with critically important information – such as assets and liabilities, and will also have access to better tools and information for planning and implementing the budget process. Overtime, the implementation of GFMIS could potentially reduce the transaction costs associated with PFM processes leading to improvements in resource allocation, budget planning and execution. A well-functioning GFMIS could provide internal auditors and the Chamber of Control (CoC) relevant information and tools to help control public spending as well as to combat violations/corrupt practices more effectively. Citizens and businesses will benefit from the improved service delivery capacity of public entities as a result of more realistic cost estimates and more transparent and predictable procurement processes.

25. Public entities, citizens, and businesses are among the direct beneficiaries of improved access to e-governance solutions. Public entities will benefit directly from the services of the EKENG, interoperability and institutionalization of e-government systems, G2G (government to government) platforms and select services. Citizens and businesses will benefit from improved access to information and feedback mechanisms and a wider range of on-line public services. Socially vulnerable groups within the country suffer from inefficiencies in public expenditure programs and poor public services (e.g. transportation and traffic regulation, unreliable quality of documenting criminal evidence, etc.). The project will address this issue by introducing a series of e-government services which will provide them better access to them and also an opportunity to provide regular feedback on the timeliness and quality of the services received – with particular attention being paid to the feedback received from women, and those who are in rural communities - thus enhancing both transparency and accountability of the e-government service providers. One intended outcome of the project is to improve public services for vulnerable groups and those in extreme poverty who are often faced with poor access to and quality of key public services.

26. Civil servants and public entities are the direct beneficiaries of the proposed capacity building/training component of the project. Their improved performance will translate into better services to the citizens and businesses who are the indirect beneficiaries from these investments.

C. PDO Level Results Indicators

27. Improvements in the quality of the public financial reporting will be assessed on the basis of the financial reports for two selected pilot sectors. The end-target value is that financial statements are prepared annually, are comparable with the approved budget and include information on revenue, expenditure, financial assets and liabilities, guarantees and long-term obligations. Baseline values are based on the 2014 PEFA Assessment where financial reporting (rated C) includes only information on a cash basis. The pilots will be selected during implementation among priority service delivery sectors.

28. Improvements in access to selected, enhanced e-government services will be assessed using data on e-Consular services. Consular services are particularly relevant in the Armenian context given the large diaspora and the importance of remittances in household incomes. Improvements in e-Consular services will reduce the huge transaction costs in dealing with the Armenian State from abroad. Additional e-Service indicators will be monitored during project implementation.

29. Enhancements in selected e-government services will be assessed for e-Consular services in terms of the reduction of average processing times for passport extensions requested by the Consular Department of the Ministry of Foreign Affairs. This data will be generated from system database complemented through periodic user surveys.

30. Improvements in access to selected, enhanced e-government services will be assessed on the basis of the number of citizenship and civil status certificates and statements on criminal records issued. At present, these certificates and statements are not provided through consular services and the baseline value is zero. Data for this indicator will be generated from system database and through periodic user surveys. The indicator will be disaggregated by gender and income group to ensure attention to the poor and most vulnerable groups of beneficiaries.

III. PROJECT DESCRIPTION

A. Project Components

Component 1: Public Financial Management Information Systems (US \$19.0 million, IBRD US \$7.0 million)

31. This component will assist the Government to improve the efficiency, effectiveness and comprehensiveness of its financial management and accounting through the development of a GFMIS. Two sub-components are envisaged: first, support for development of the GFMIS; and second, support for PFM reforms.

32. **Sub-component 1.1 - Development of the GFMIS.** The development of a GFMIS is needed to support: improvements in the budget process through setting up the state budget plan based on programs; strengthened internal controls; refinements in financial and accounting standards and improvements in the coverage of financial reporting, particularly as regards government assets and liabilities; and improvements in payment and procurement procedures. The proposed GFMIS modules will include, among others, budget planning, budget execution, public procurement, debt management, accounting, budget reporting, and the general ledger. The proposed implementation architecture is a centralized transaction and data processing system which is considered to be the lowest-cost investment and maintenance option. GFMIS will also likely to feature web-based architecture.

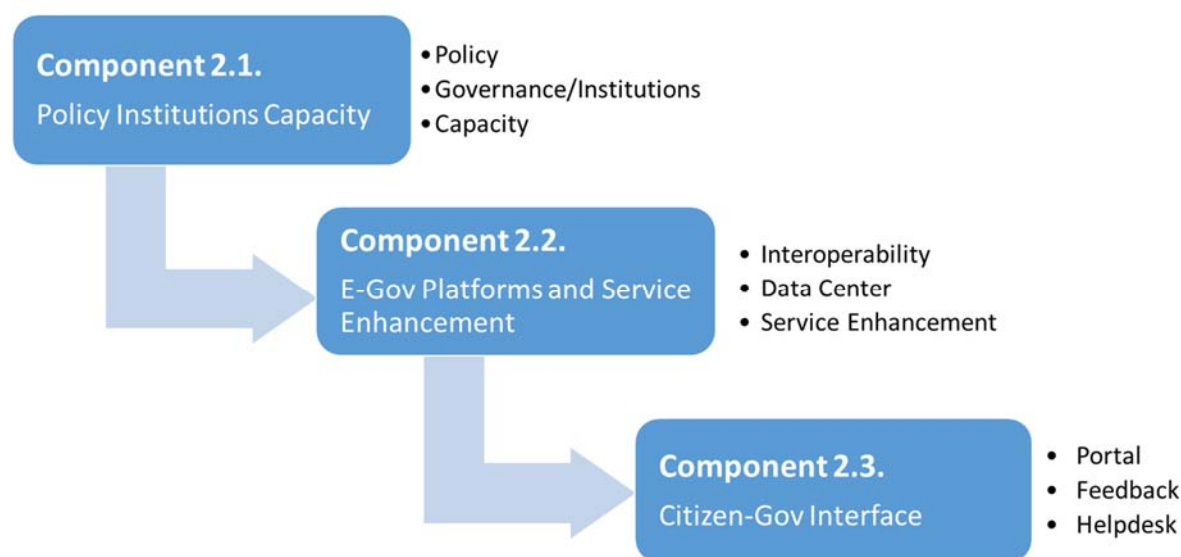
33. According to the assessment of the BPR report submitted to the MoF in May 2015, the development of a GFMIS with all required specifications is expected to cost up to US\$ 15.0 million (without taxes) including all the necessary components such as GFMIS development cost, training, software and licenses, servers and client-side hardware and two year maintenance contract. Therefore, this Component will be financed by the World Bank Loan and by the Borrower's counterpart financing as confirmed by the Armenian Minister of Finance, in his letter date July 29, 2015. The Armenian MoF has requested the Ministry of Finance of the Russian Federation to provide grant financing up to US \$8 million and they are discussing the appropriate arrangements for these purposes. In case the expected Russian financing materializes, these funds will be directed to finance part of this Component's costs.

34. **Sub-component 1.2 - Support for PFM Reforms.** This sub-component will finance technical assistance and advisory services to assist the MoF in implementing reforms. This will include communications and capacity building to support change management where these activities cannot be financed from grants. Timely implementation of the GFMIS will require the authorities to take technical and policy decisions on the design of the various elements of the public financial management on a tight critical path.

Component 2: e-Governance Solutions for Improved Service Delivery (US \$ 14 million, IBRD US \$11.0 million)

35. This component will support the implementation of select government priorities as identified in the Government of Armenia's e-Governance Strategy. It adopts a three pronged approach that will include: first, development of the overall enabling environment by strengthening policy, regulatory frameworks and building institutions and capacity within the government to

undertake introduction of e-governance platforms; second, the introduction of foundational platforms and infrastructure such as interoperability and data center necessary for introduction of e-services government-wide, as well as enhancement of existing e-services and services that already have an existing back end infrastructure as a demonstration effect; and third, creation of government-citizen accountability interface that would allow more effective feedback mechanism between the public servants and their constituents. The proposed approach would establish a sound foundation for further e-governance reforms and e-services to be undertaken by the government as part of the E-Governance Strategy in subsequent years. The systems supported under this component will be developed to ensure sensitivity to the needs of vulnerable groups, women and youth, and consultations with these groups will be part of the development and piloting of the systems.



36. **Sub-component 2.1 e-Governance Policy, Institutions, and Capacity.** This sub-component seeks to put in place the policy environment necessary for introduction of a deeper e-governance reforms and create an institutional capacity within the government needed to undertake introduction of electronic service delivery mechanisms. Proposed interventions will support the initial steps of building a foundation for a whole-of-government approach to data, information, application, infrastructure and support-services sharing. Specifically, this sub-component will finance consultancies to: review and assess the existing ICT policies and legal and regulatory frameworks to identify gaps and ensure the harmonization needed for the whole-of-government approach; prepare new policies and regulatory frameworks if recommended in the initial assessment; develop an institutional set up and business model for sustainable and cost effective management of e-Governance platforms and e-Services; and capacity building aimed at ensuring that there are sufficient technical skills within the government to manage the e-governance platforms and services, these would include change management activities, technical trainings and awareness campaigns.

37. **Sub-component 2.2 e-Governance Platforms and Service Enhancements.** This sub-component seeks to introduce basic platforms and infrastructure to support the e-governance agenda, enhance select existing e-services and automate services that have back end infrastructure

in place. Sub-component 2.2 will finance: the establishment of an interoperability platform; upgrade the government management systems (HRM, EDMS); strengthen datacenter storage capacity; and enhance selected e-services. E-Services selected for enhancement include, amongst others: a digital pre-trial case management system for public prosecution and investigative agencies; a system of declaration of assets of high ranking officials by enabling a fully digital system of submissions; a system for drafting and publication of legal acts; e-Transport modules, for Route Competition and an Interactive Route Map; and an upgrade electronic system for issuing licenses and management of electronic license registry. The systems supported under this sub-component have been selected according to the following criteria: strong ownership by the beneficiary Ministry and commitment to allocate human resources and budgets for maintenance of these systems after project closure; the intervention constitutes enhancement of an existing e-service through addition of a module or a front end interface; the intervention builds on existing back end automation; and pre-existing process re-engineering. E-Services will be developed to ensure sensitivity to the needs of vulnerable groups, in particular women, and youth, and consultations with these groups will be part of the development and piloting of the systems. In order to incorporate this feedback, pilot systems will be tested with focus groups comprising representatives of actual and potential users and vulnerable groups that might otherwise be excluded. Input from focus groups will be used to refine e-Service design with a particular focus on accessibility and ease of use. Data on service users will be gathered from e-Service systems, including basic demographic and service use data, user access and satisfaction surveys and complemented by periodic surveys.

38. Sub-component 2.3: Citizen-Government Interface for Accountability. This sub-component supports the establishment of feedback mechanisms to facilitate citizen and business access to government services, address grievances, and monitor client satisfaction. The feedback mechanisms will be developed based on the design of service quality indicators and performance indicators developed as part of the public sector reforms process. Feedback mechanisms will also be used to undertake consultations on service delivery and performance. The feedback mechanisms developed under this sub-component will be beneficiary-driven and based on a consultation with end-users. Particular attention will be given to the needs of vulnerable users – including the poor, women, youth and the elderly – to ensure that the accountability and participatory mechanisms developed are sensitive to their needs and preferences through a number of measures. They include setting up an advisory group consisting representatives of civil society groups who work with women, youth, elderly, rural communities to meet periodically to provide feedback to the project. These meetings will be convened by the Project Management Group (PMG) at least once a year and within six months of project approval. The PMG will publish a report on citizen feedback and the project and the administration's response. This component will finance: development of a Unified e-Services Portal paired with a horizontally Integrated Feedback Collection and Analyses module to gather information on access to and the quality of services provided; establishment of indicators and feedback mechanism; and electronic and voice Public e-Services and Information Hotline that will facilitate quick responses to citizen's questions and complains 24/7 and to enable operators to provide an on-line solution to make simultaneous calls and facilitate line management actions.

Component 3: Capacity Building and Small Capacity Building Interventions (US\$ 1.85 million, US IBRD \$1.474 million)

39. This component will support the broader public sector modernization and governance reform agenda laid out in the ADS through two sub-components: capacity building and small capacity building interventions.

40. **Sub-component 3.1: Civil Service Capacity Building.** This sub-component seeks to strengthen the capacity of the Civil Service Council (CSC) and AAPA to modernize the training system for public servants and raise the quality of training to international standards. The component supports the transfer of skills in the management of information technology, evidence-based decision making and consultation and citizen engagement. These capacity building activities will support the implementation of e-Governance services and promote a service culture within the public sector. The CSC will guide the design and implementation of capacity building activities through the revision and systemization of the existing civil service training system. The project will seek to build a long term relationship with a few internationally known institutions (such as Lee Kwan Yew School of Public Policy in Singapore). The component will finance: improvements in the AAPA's curriculum to meet long term training needs and for continuous training; development of training capability through training of trainers/instructors (ToTs); short-term (up to 2 month) secondment of faculty members; technical assistance and advisory services for CSC on conducting training needs assessments and for the AAPA on the design and delivery of high quality continuous training for public servants.

41. **Sub-component 3.2: Small Capacity Building Interventions.** This sub-component will assist the Public Sector Reform Commission to identify and provide support to relevant counterparts in its coordination and implementation of the public sector modernization and governance reforms. Technical assistance will support change management dimensions of e-governance reforms in participating institutions and ad hoc needs for small scale capacity building interventions emerging during project implementation. The Public Sector Modernization Project II includes just-in-time technical assistance component. The experience in implementing this component has been extremely positive with advisory service helping to resolve technical and operational problems as they have arisen. This component will also provide an opportunity for a gender review of women/men in public service positions such as how many, on what positions, existing salary gaps if any, etc. A review of what has already been done by other agencies (e.g. UN WOMEN) could be conducted at the outset to establish a baseline.

Component 4: Project Management (US\$ 1.85 million, IBRD US \$1.474 million)

42. This Component covers the cost of specific project management arrangements. These include the costs of the Foreign Financing Project Management Centre (FFPMC), the Project Manager (PM) and the PMG who will report to the Project Director (Minister-Chief of Government Staff) and the Head of Public Sector Reform Commission (PSRC). The PMG will provide technical and administrative support to project implementation, monitoring and reporting, development of the technical requirements/specifications based on the input provided by the project's stakeholders for procurement documents and monitoring of the procurement process, and advisory services to agencies which implement project activities. This component also includes

the activities related with trainings, financial audit, monitoring and evaluation (M&E), possible public awareness campaigns, and gender-related consultations with citizens and civil society.

B. Project Financing

43. The Third Public Sector Modernization Project will be financed by an IBRD Loan and contributions from the Government of Armenia.

Project Components	Project cost (with taxes)	IBRD Financing (without taxes)	Counterpart Funds (without taxes)	% Financing
1. GFMIS ¹	19.0	7.0	8.0	36.8
2. E-Governance Solutions for Improved Service Delivery	14.0	11.0		78.6
3. Capacity Building and Small Capacity Building Interventions	1.85	1.474		79.7
4. Project Management	1.85	1.474		79.7
Total Costs	36.7	20.948	8.0	57.2
Total Project Costs	36.7	20.948	8.0	57.2
Front-End Fees	-	0.052	-	0.25
Total Financing Required	-	21.0	-	-

C. Series of Projects

44. PSMP III continues the reforms supported under PSMP I and PSMP II (on-going). PSMP-I, implemented between 2004 and 2011, supported institutional reforms in the areas of policy formulation, local government and civil service, together with PFM interventions in the areas of public procurement and external and internal audit. The project also supported capacity building at the AAPA and MoF Training Center for civil servants training.

45. PSMP II initiated efforts to enhance the integrity of public servants by establishing a system to track conflict of interest in public decision-making (reinforcing a related Development Policy Operation -DPO prior action). It also continued institutional reforms through functional analysis of a number of ministries, agencies and government entities. These reforms contributed to rightsizing of some agencies and helped create fiscal space needed for a seventy percent average increase of remuneration for civil servants. PSMP III will not finance retrenchment. Attention has now turned to strengthening the quality and performance of the civil service. Attracting and retaining talent in public service remains a challenge. While the much anticipated cancellation of periodic attestation has taken place, the current performance evaluation system still has to be established as an effective routine and bring about changes in behavior. PSMP III follows up on

¹ This Component will be financed by the Bank Loan and by Borrower's counterpart financing as confirmed by the Minister of Finance of Armenia in his letter to the World Bank on July 29, 2015. As mentioned above, if the Russian Federation's financial support does materialize, proceeds from said contribution will be directed to finance part of this Component costs.

these institutional reforms by focusing on the performance and decision-making culture in the Armenian civil service. PSMP II also initiated e-Government reforms with pilots to roll out citizen-centered services such as e-police and e-Health. This experience has highlighted the need for an overall architecture for the coordination of e-Governance reforms across Government. PSMP III picks up these issues by adopting a whole-of-government approach to e-Governance reform through the application of common standards, data, application and infrastructure sharing and the provision of support-services which pay special attention to the needs of vulnerable groups.

D. Lessons Learned and Reflected in the Project Design

46. The proposed project design draws upon the lessons learned from the experience of the PSMP series, other World Bank-supported public sector management projects, and other donor projects supporting public sector reforms in Armenia, notably those financed by Department for International Development (DfID) of United Kingdom and the European Union (EU).

47. *Political ownership.* High level political ownership has proved critical to the successful implementation of reforms in Armenia, particularly where these reforms have political costs. Political ownership can be achieved by aligning operations with the relevant Government strategies, in this case PFM and e-Governance strategies and Armenia's commitments under the Open Government Partnership 2014-2016 Open Government Action Plan. However, experience has shown that it is equally important to sustain political ownership during implementation. The role of the Minister-Chief of Government Staff and Head of the PSRC as Project Director will be critical in this regard, given the Head of the PSRC's authority to convene, guide, and track reforms across Government.

48. *Policy dialogue.* World Bank support for reforms in Armenia has been effective where it has used a variety of instruments, with policy dialogue complementing technical assistance and investments in capacity building. The World Bank intends to use the same approach in this context, with parallel DPOs supporting reforms in the areas of public financial management and human resource management systems during the course of PSMP III implementation.

49. *Flexibility in design and implementation.* While it is possible to map out the direction, key milestones, and expected results of public sector modernization, it is not possible to anticipate all of the implementation requirements. Flexibility will be particularly important in the selection and implementation of e-Governance reforms. These will require in-depth functional reviews and BPRs. Feedback from these assessments may lead to a reassessment of the relative priority of e-Government systems. Flexible funding for technical assistance can help the authorities adapt project design as more information becomes available and the authorities learn lessons from implementation. Just-in-time interventions under PSMP II have proved particularly effective in helping the authorities resolve implementation problems and capitalize on emerging opportunities.

50. *Beneficiary feedback.* Beneficiary feedback and consultation will ensure that issues related to beneficiary groups are clearly identified and addressed during implementation. This is particularly important during the design and implementation of the e-Governance reforms where vulnerable groups, the poor, and women and girls are among the intended beneficiaries of the project. Meeting their particular needs may require the project to adopt specific targeting strategies, awareness-raising and outreach activities, accommodations within the design of the e-platforms,

and sensitivity training for civil servants delivering reforms. Development of a robust monitoring framework that can track and communicate progress over the life of the project will be important in this respect.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

51. The institutional and implementation arrangements under the Project will remain the same as those for PSMP I and PSMP II projects (latter scheduled to close in January 2017). Day-to-day project implementation will be the responsibility of a PM, who will report to the Project Director (Minister-Chief of Government Staff), and a PMG. PMG will provide technical and administrative support to project implementation, monitoring and reporting, development of the technical requirements/specifications based on the input provided by the project's stakeholders for procurement documents and monitoring of the procurement process, and advisory services to agencies which implement project activities.

52. The FFPMC will be responsible for the fiduciary aspects of the Project and will provide fiduciary services to other Bank-financed projects. These include procurement and financial management (FM) functions including financial planning and budgeting², accounting, financial reporting, arrange external auditing, funds flow, and internal controls. No significant weaknesses were identified at FFPMC which has developed a separate Financial Management Manual (FMM) for the Project.

53. Under the current arrangement, the inter-ministerial PSRC acts as the project's steering committee and includes representatives of the beneficiary ministries and agencies. The Head of the PSRC, who is also the Minister-Chief of Government Staff, will be the Project Director. Given that the project focuses on reforms in two areas, namely PFM and e-governance, the implementation arrangements for project components are as follows: Component 1 will be implemented by the MoF and Component 2 and 3 will be implemented by the PM's Office (Office of the Government).

B. Results Monitoring and Evaluation

54. The PSRC and the PMG will be responsible for the overall monitoring of the project. The PMG will be responsible for providing the PSRC and the World Bank with regular annual M&E reports. Annual reports will be submitted to the PSRC and World Bank by March 1 of the following calendar year and will be based on the Results Framework of the project.

55. In addition to implementation progress, PMG's annual M&E reports will be generating forward looking comprehensive analyses of the new project activities that are expected to commence during the year together with disbursement projections. The updated draft procurement plan will be attached to the report as well. The template of the report will be proposed by the World Bank team.

² FFPMC is responsible for planning and budgeting based on the inputs provided by the project's stakeholders.

56. Data on PDO indicators will be collected through administrative systems. An Integrated Feedback Collection and Analyses module within the Unified e-Services Portal will gather information on the quality of e-Services financed under the project. Additional information will be gathered through periodic surveys. The project proposes to outsource the collection of beneficiary feedback to a non-governmental organization (NGO) or firm with specialist expertise in this field under a contract financed by the project.

C. Sustainability

57. The recipient's ownership of the project is evident both from the progress made under the preceding PSMP I and PSMP II series, as well as the Government's continued commitment to public administration reform. The main components of PSMP III are grounded in the e-Government Strategy approved by the Government in 2014 and 2010 PFM Strategy currently being updated. Both strategies are aligned with the long-term national strategies articulated in the policy papers including the Armenian Development Strategy. The PSMP III builds on the areas where the PSMP I and PSMP II laid the ground for sustainable institutional development.

58. The Ministry of Finance has established a working group (WG) for GFMIS implementation which includes all key stakeholders and representatives from all main departments of the MoF. All stakeholders share the same vision related to the main component of the GFMIS, its architecture, design, and the implementation approach proposed in the BPR reports. The IT department of the MoF has been strengthened by result of the merger of Tax Administration into MoF. The Department includes a change management unit with an experienced team which has undertaken complex IT implementation under the Bank funded Tax Administration Modernization Project (TAMP). The MoF will assess life-time costs in its selection of the option for the GFMIS and provide adequate budget financing to support operation and maintenance.

59. The Government has established EKENG as a State Owned Enterprise (joint stock closed company) to generate a competitive salary structure for technology specialists and overcome thereby facilitate technical skills. The Center is financed on a cost-recovery basis from services provided to Government entities. The cost of operation and maintenance of e-Services is paid from the budget of the Government entities responsible for service provision. The project will only finance e-Services where there is commitment from the responsible Government entity to allocate human resources and budgets for maintenance of these systems after project closure.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

60. *Implementation of the new GFMIS.* The procurement and implementation of a complex GFMIS is often subject to delay. Major risks associated with the implementation of GFMIS relate to: inadequate preparatory work in organizational change and business process reengineering; slow and incomplete development of technical specifications and bidding documents; over-customization of the IT solutions; and weak capacity to manage and implement IT projects. Drawing on the experience of recent GFMIS projects, the following mitigation measures will be implemented: technical specifications, terms of reference, and other inputs for bidding documents required in the first year are been developed after project negotiations; an escrow arrangement will

be used so that source code versions are protected from commercial risks during the design and implementation; commitment of MoF to adequately staff the development team that would manage the GFMIS project; and appointment of independent IT project advisor, hired internationally, with specific experience in implementing comprehensive automation projects in the public sector to assess compliance of the IT solution with system requirements.

61. *Capacity to manage complex e-Governance reforms.* The EKENG's capacity to manage complex e-Governance reforms is as yet untested. This is true of the Center's capacity to work with government agencies in the design of e-services, promote and support business process reengineering and the development of IT solutions. The project will provide support through technical assistance and training to mitigate this risk by assisting the Center fulfill its functions and gradually develop capacity to manage e-Governance reforms. The Center will be able to draw on the capacity generated through work on e-Governance reforms under PSMP I and II.

62. *Reform resistance.* There are significant risks arising from institutional resistance to change and vested interests at various levels. Some of these risks reflect conflicts of interests and lack of incentives for collaboration between institutions. This is true of the relationship between the Center and institutions implementing e-Governance reforms and the CSC and the AAPA regarding the mandate for training civil or public servants. Risks also arise in the resistance of individuals within these institutions, particularly in the MoF and line agencies with regard to the implementation of the GFMIS and with institutions implementing the e-Governance reforms, where automation of processes and greater transparency reduce opportunities for gatekeeping. The project will support change management activities (MoF IT unit already has a change management unit working effectively on other Bank supported Tax project) that will be used to identify and address these risks as part of the reform process.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

63. Implementation of the GFMIS is expected to result in an improvement in the budget planning, budget execution and procurement processes. This is expected to enhance the efficiency and effectiveness of public institutions. Furthermore, the GFMIS will generate cost savings stemming from more effective expenditure controls, public procurement and treasury and cash management. There will be potential improvements in transaction processing and record keeping through automation that can reduce administrative overhead costs. These benefits will, over time, translate into improvements in the efficiency and effectiveness of public spending and public services benefiting both the private sector and citizens although such benefits, are difficult to quantify and value.

64. The implementation of the e-Government services is expected to generate improvements in efficiency and effectiveness for the private sector and citizens. Tangible benefits that are susceptible to measurement include improved access to selected services and reduced transaction costs in accessing these services. Intangible benefits for the private sector and citizens that are more difficult to measure include improvements in transparency, customer satisfaction and greater trust in government. The implementation of e-Government reforms does have up-front investment and system operation and maintenance costs. While it is possible to quantify benefits of some e-Government services, the full benefits and costs can only be assessed once preparation of business

process re-engineering and system design are at an advanced stage. The E-Governance Infrastructure Implementation Center will be responsible for undertaking this analysis under the overall supervision of the PRSC, who will determine whether the business case for e-Government systems and the return on investments is justified.

65. The economic and financial analysis covers the implementation of the GFMIS and two e-Government services – namely e-Consular and e-Transport - for which the data is available. The analysis considers project costs and project benefits accrued to the government and select project benefits accrued to citizens. The project costs involve investment (the World Bank support, government own and other contributions), staff time spent on change management and project implementation, and operation and maintenance costs. In the case of the GFMIS, the analysis takes into account the full cost of the GFMIS investment. The benefits comprise savings from administrative efficiency for the government and reduced transaction costs for accessing e-consular services and public transportation as well as decreased wait time in road traffic for citizens. The economic net present value (NPV) in real terms is positive at 13.7 percent discount rate, and internal rate of return (IRR) is 45 percent. The financial NPV is also positive at 10 percent and 12 percent discount rate, and IRR is 30 percent. A more detailed discussion of the analysis is provided in Annex 6.

B. Technical

66. The financial management information system (GFMIS) will further reinforce on-going public financial management reforms which include the adoption of APSAS (Armenian Public Accounting Standards) based on International Public Sector Accounting Standards (IPSAS) and its gradual roll out; on-going reforms on Program Budgeting to define and adopt sets of financial and non-financial indicators for all programs; and the incorporation of recently adopted unified chart of accounts. The MoF is currently reviewing all available options before making a decision on the GFMIS system it will adopt. It has requested the consultants who prepared the BPR to provide a detailed description of each option and review demonstrations of these options by sending a team of MoF specialists on study tours to countries that have implemented different GFMIS approaches. In order to support implementation, MoF has already put in place a change management team which has previous experience in managing large IT projects (notably the Tax Payer Risk Management system).

67. Implementation of the E-Governance reforms will entail the adoption of IT solutions and systems. EKENG has been established to fulfill a ‘gate keeper’ role, ensuring the application of unified standards and system requirements so as to ensure that investments are feasible and meet technical requirements in terms of cost, inter-operability and maintenance. The project supports capacity building for the E-Governance Infrastructure Implementation Center to help it fulfill these functions effectively.

C. Financial Management

68. PSMP III will follow the same FM arrangements as with the ongoing PSMP II project, with the FFPMC fulfilling the project’s financial management function. The FM arrangements in place at FFPMC were reviewed and assessed as acceptable to the Bank. FFPMC’s FM staff have significant experience in implementing the Bank-financed projects: FFPMC successfully

implements TPQIP (Trade Promotion and Quality Infrastructure Project), PSMP II, TAMP, Social Protection Administration Project II (SPAP II), and E-Society projects and a number of stand-alone TF grants. The accounting software utilized by FFPMC is adequate. The audits of the active Bank-financed projects (and TF grants) implemented by the FFPMC revealed no major issues. Interim Financial Reports (IFRs) on the active projects (and TF grants) were always received on time and in general found to be acceptable to the Bank (with few isolated exceptions).

69. The Project will produce a full set of semi-annual IFRs to be submitted to the Bank within 45 days of the end of each calendar semester, from the first disbursement and throughout the Project life.

70. The FM staff of the FFPMC is well aware of the Bank's disbursement procedures. FFPMC will establish a Designated Account (DA), in USD, specifically for this Project, in the Single Treasury Account of the Ministry of Finance at the Central Bank of Armenia, which is holding almost all DAs for the ongoing Bank-financed projects in Armenia. The Project's DA will be managed by FFPMC. The Government counterpart funding is assessed to be adequate for a number of years. Meanwhile the recent economic slowdown and accompanied sharp depreciation of the local currency, if it persist, may have an adverse impact on the level and timeliness of the government counterpart funding.

71. There are no pending audits for the projects implemented by FFPMC. The auditor issued unmodified (clean) opinions on the financial statements of the active projects implemented by FFPMC, with no critical recommendations in the management letters. The audit of the Project will be conducted by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank and procured by FFPMC, and according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The annual audits of the Project financial statements will be provided to the Bank within six months since the end of each fiscal year, also at the Project closing.

72. The Borrower has agreed to disclose the audit reports for the Project within one month of their receipt from the auditors and acceptance by the Bank by posting the reports on the web-site of FFPMC (www.ffpmc.am) or other official websites of the Borrower. Following the Bank's formal receipt of these reports from the Borrower, the Bank will make them publicly available according to World Bank Policy on Access to Information.

73. Withdrawal Applications under the project will be submitted to the Bank to cover the project expenditures exclusive of tax. The taxes will be paid by the Government. The ToR for the audit of the Project Financial Statement will specifically request the auditor to pay particular attention to whether the amounts claimed to the Bank are exclusive of taxes.

D. Procurement

74. A Country Procurement Assessment Report (CPAR) updated in 2009, concluded that the public procurement environment in Armenia is in the medium- to high-risk category. The country procurement risk for Armenia, based on the country's public procurement legislation, practices,

and overall procurement environment is rated as Substantial and is expected to remain unchanged for this project.

75. Procurement will be carried out by the FFPMC. The fiduciary/procurement risk for the Project is rated as “Moderate” given that: FFPMC has successfully implemented more than thirty projects financed by IDA Credits, IBRD Loans and various grants and has sufficient experience with the World Bank Procurement Guidelines and procedures; FFPMC has extensive experience in implementing Bank-financed projects and has developed sufficient capacities to undertake complex procurement, including IT packages; Procurement Specialists regularly attend trainings organized by the Bank locally, regionally and internationally; a dedicated specialist will be assigned to manage the proposed project; and FFPMC and the PSRC ensure transparent decision making based on disclosed evaluation criteria in bidding documents and Request for proposals (RFP) documents, including ICT packages, as well as ensure the protection of the project implementation from the interferences and pressures of special interest groups to avoid delays.

76. A Procurement Plan covering the first 18 months of project implementation have been prepared by the Borrower and agreed with the Bank. The final version of the Procurement Plan will be disclosed (without cost estimates) and posted on the Bank’s website and www.procurement.am. More details are provided in Annex 3.

E. Social (including Safeguards)

77. No social safeguards are triggered under the Project.

78. The overall social impacts of the Project are expected to be positive. The Project will improve access to information on services and to government services themselves, including for poor, women, and vulnerable groups through its support for mechanisms to enhance accountability and participation of beneficiaries in government services.

79. To mitigate social risks, the project will emphasize participatory decision-making, beneficiary feedback mechanisms and entry points for citizen engagement. The beneficiary feedback will include specific grievance redress mechanisms, designed to support implementation of selected e-Governance reforms. PSMP III will seek to promote gender-inclusive Project benefits and invest in gender-sensitive consultation and communications. A specialist agency will be contracted to help manage stakeholder consultations and gather feedback from service users, the broader public and specific vulnerable groups, gender sensitivity and citizen engagement.

80. PSMP3 will also seek to promote gender-inclusive project benefits, and invest in gender-sensitive consultation and communications. Appropriate M&E evaluation (Annex 1) has been devised to measure gender-related inclusion within project activities.

F. Environment (including Safeguards)

81. The project has been classified as environmental Category C. It will not finance civil works and will not provide any technical assistance with may have tangible indirect environmental impacts. Hence, according to the World Bank’s safeguard policy, the project-financed activities

will not be subject to the environmental assessment. Neither will they be subject to the procedures required by the national environmental legislation.

G. Other Safeguards Policies Triggered (if required)

82. None.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

H. World Bank Grievance Redress

83. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Armenia

Project Name: Public Sector Modernization Project III (P149913)

Results Framework

Project Development Objectives

PDO Statement:

To improve quality of the public financial reporting and to improve access to selected, enhanced e-government services.

These results are at Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values						
		YR1	YR2	YR3	YR4	YR5	End Target	
Improved quality of annual financial reporting	Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and liabilities, guarantees and	Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and	Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and	Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and	Financial reports for two selected pilot sectors are prepared annually but do not include all information on revenue, expenditure, financial assets and	Financial reports for one selected pilot sector prepared annually and comparable with the approved budget, and include information on revenue,	Financial reports for two selected pilot sectors prepared annually and are comparable with the approved budget, and include information	Financial reports for two selected pilot sectors prepared annually and are comparable with the approved budget, and

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
	long-term obligations	liabilities, guarantees and long-term obligations	liabilities, guarantees and long-term obligations	liabilities, guarantees and long-term obligations	expenditure, financial assets and liabilities, guarantees and long-term obligations	on revenue, expenditure, financial assets and liabilities, guarantees and long-term obligations	include information on revenue, expenditure, financial assets and liabilities, guarantees and long-term obligations
<p>Reduced time for processing a passport extension request by the Consular Department of the Ministry of Foreign Affairs.</p> <p>Clarification on the core indicator: Average processing time for public services (hours). As a supplement to the core indicator the Portal requires information on the <i>total number of transactions for the main public service targeted by the Project</i>. The public service measured by the</p>	500 hours	e-consular system not in place	e-consular system under procurement	350 hours e-consular system under rollout	175 hours	48 hours	48 hours

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
<p>core indicator is a passport extension request. The number of transactions/passport extension requests processed by the Consular Department per year is 16.500. All data for this indicator was provided by the Ministry of Foreign Affairs.)</p> <p>CORE [<i>Public Administration – Information and Communications</i>]</p>							
<p>Increased access to e-consular services for issuing citizenship, civil status certificates and statements on any existing criminal records (data disaggregated by gender)</p>	<p>0 (No e-services in place)</p>	<p>0 Procurement process for the e consular system initiated</p>	<p>0 Procurement completed e consular system being installed</p>	<p>0 e-consular system rollout</p>	<p>5000 Certificates and statements issued</p>	<p>10000 Certificates and statements issued</p>	<p>10000 Certificate s and statements issued</p>

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Intermediate Results Indicators							
Component 1							
Rollout and use for financial reporting (annual financial statements) of newly adopted APSAS (based on IPSAS)	Currently no accounting standards (Armenia is currently using Accounting rules based on former USSR 1987 Decree)	There is APSAS in place to be rolled out in selected Ministries or sectors (tbd)	Rollout will start in selected Ministries or sectors	Rollout will continue in selected Ministries or sectors	Rollout will continue in selected Ministries or sectors	APSAS is fully implemented in two selected pilot sectors and consolidated government financial statements are prepared	
Component 2							
Reduced time for police dispatch in emergency situations (in at least two selected pilot regions/marzes).	15-20 minutes	System to be developed	System to be developed	System under procurement	System in place and time for dispatch reduced to 10 minutes	Under 5 minutes	Under 5 minutes
Reduced time to transmit information/messages relevant for the pre-trial proceedings between prosecutors' offices in different regions.	One week by special express mail (send via post office)	Case Management System (CMS) under procurement	Full rollout of the CMS	CMS in place; transmittal immediate (electronic transmission)	CMS in place transmittal immediate (electronic transmission)	Immediate (electronic transmission)	Immediate (electronic transmission)
Increase in the average number of bids/tenders competing for bus and	Average number of bidders 1.1 (in	System for electronic competition	System for electronic competition	System for electronic competition	System for electronic competition	System for electronic competition	Average number of bidders 1.5

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
minibus interregional routes.	2014 there were 69 bids for 64 routes)	for routes not in place	for routes not in place	for routes under procurement	for routes in place; average number of bidders 1.3.	for routes in place; average number of bidders 1.5	(approximately 50% increase)
Increase the share of total number of cases processed by the Ethics Commission and which will be analyzed based on the risk indicators/Red Flags	0	System under procurement	Rollout and 20% of all cases which were analyzed	50%	70%	100%	100%
Increased gender-disaggregated data is available on the use of e-services which are provided by selected agencies	No gender disaggregated data available in line ministries/agencies which will provide e-services	No gender disaggregated data available in line ministries/agencies which will provide e-services	No gender disaggregated data available in line ministries/agencies which will provide e-services	Gender disaggregated data on e-services is available to ministry of foreign affairs and the Prosecutor's Department	Gender disaggregated data on e-services is available to ministry of foreign affairs; Prosecutor's Department; Ethics Commission; Police	Gender disaggregated data on e-services is available to ministry of foreign affairs; Prosecutor's Department; Ethics Commission; Police	Gender disaggregated data is available for all e-services supported by the project (as applicable)
Reduced time to issue the certificate of civil status by the Consular Department of the	60 days	e-consular system not in place	e-consular system under procurement	30 days e-consular system under rollout	15 days	Under 10 days	Under 10 days (in most cases up to 5 days)

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Ministry of Foreign Affairs							
Increased share of citizens (disaggregated by gender) providing voluntary feedback on specific public services (percentage - data generated from system)	No feedback mechanism in place	4% of all users of specific public services provide voluntary feedback on selected public services (tbd)	8% of all users of specific public services provide voluntary feedback on selected public services	12% of all users of specific public services provide voluntary feedback on selected public services	16% of all users of specific public services provide voluntary feedback on selected public services	20% of all users of specific public services provide voluntary feedback on specific public services	20%
Component 3							
Number of Armenian Academy of Public Administration ToTs through proposed twinning arrangements/collaborations with selected international public schools	0	0 ToTs (Scope of the training program will be developed by AAPA)	0 ToTs (Joint training program will be developed)	20 ToTs trained)	40 ToTs	50 ToTs	50 ToTS

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Improved quality of annual financial reporting	Measured by the improvement in quality of annual financial reports	Annually	Financial Reports	MOF
Average processing time for public services (hours)	<p>Reduced time for processing a passport extension request by the Consular Department of the Ministry of Foreign Affairs</p> <p>As a supplement to the core indicator the Portal requires information on the <i>total number of transactions for the main public service targeted by the Project</i>. The public service measured by the core indicator is a passport extension request. The number of transactions/passport extension requests processed by the Consular Department per year is 16.500. All data for this indicator was provided by the Ministry of Foreign Affairs.</p>	Annual	ICT system implemented under the project	Ministry of Foreign Affairs
Increased access to e-consular services for issuing citizenship, civil status certificates and statements on any existing criminal records (data disaggregated by gender)	Measured in terms of the increased number of people received these services	Annual	ICT systems which will be implemented under the Project	Ministry of Foreign Affairs

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Intermediate Results Indicators				
Rollout and use for financial reporting (annual financial statements) of newly adopted APSAS (based on IPSAS)	Measured by the time between the end of fiscal year and date when financial statement was submitted for external audit.	Annually	Financial/Project Reports	MOF
Reduced time for police dispatch in emergency situations (in at least two selected pilot regions/marzes).	Measured in terms of the reduction in time	Annual	Statistics kept by the Police	Police
Reduced time to transmit information/messages relevant for the pre-trial proceedings between prosecutors' offices in different regions.	Measured in terms of the time taken to send/transmit information related to pre-trial proceedings between prosecutors' offices in different regions	Annual	ICT System implemented by the Project at Prosecutor's Office	Prosecutor's Office
Increase in the average number of bids/tenders competing for bus and minibus interregional routes.	Measured by the increase number of bids/tenders received for minibus interregional routes.	Annual	Statistics provided by the Ministry of Transport	Ministry of Transport
Increase the share of total number of cases processed by the Ethics Commission and which will be analyzed based on	Measured by the increased share of total number of cases processed by EC which will be analyzed further based on the risk indicators/red flags generated by the system	Annual	ICT System implemented by the Project at Ethics Commission	Ethics Commission

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
the risk indicators/Red Flags				
Increased gender-disaggregated data is available on use of e-services provided by these selected agencies	Measured by increased availability of gender-disaggregated data available on use of e-services provided by these agencies	Annual	ICT systems which will be implemented under the Project will collect gender disaggregated data	Prosecutor's Department; Ethics Commission; Police. Ministry of Foreign Affairs. For Ministry of Justice and Ministry of Transport gender disaggregated data will be collected if applicable for a particular service.
Reduced time to issue the certificate of civil status by the Consular Department of the Ministry of Foreign Affairs	Measured by the reduced time to issue civil status certificate by the Consular Department of the Ministry of Foreign Affairs	Annual	ICT systems which will be implemented under the Project	Ministry of Foreign Affairs
Increased share of citizens (disaggregated by gender) providing voluntary feedback on specific public services (percentage - data generated from system)	Measured by the number of citizens providing voluntary feedback (disaggregated by gender)	Annual	ICT systems which will be implemented under the Project and statistics of the specific/selected ministries	Office of the Government
Number of Armenian Academy of Public Administration (AAPA) ToTs through proposed twinning arrangements/collaborati	Measured by the increased number of ToTs prepared through twinning/collaborations with selected international public schools.	Annual	Records of the Armenian Academy of Public Administration (AAPA)	AAPA

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
ons with selected international public schools				

Annex 2: Detailed Project Description

Republic of Armenia: Public Sector Modernization Project III (P149913)

Component 1: Public Financial Management Information Systems (US\$ 19.0 million, IBRD US \$7.0 million)

1. This component will assist the Government improve the efficiency, effectiveness and comprehensiveness of its financial management and accounting through the development of a GFMIS. Two sub-components are envisaged: first, support for development of the GFMIS; and second, support for PFM reforms.

Sub-component 1.1: Development of the GFMIS.

2. Development of a GFMIS is needed to support implementation of on-going Public Financial Management Reform strategy that envisages: improvements in the budget process through setting up the state budget plan based on programs; strengthened internal controls; refinements in financial and accounting standards and improvements in the coverage of financial reporting, particularly as regards government assets and liabilities; and improvements in payment and procurement procedures.

3. Currently, there are 21 different IT modules and toolkits running at MoF to support various PFM or administrative processes. Of these six are directly relevant for the implementation of an integrated GFMIS:

- Budgeting module (LS Budget, running on MsSql database),
- Treasury module (LS Online, running on Oracle database),
- Treasury reports (LS Rep, running on Oracle database),
- Public debt module (Dmfas6.0, running on Oracle database),
- E-procurement/ tendering module (Armepps, running on PostgreSQL database),
- Accounting module (AS-enterprise, running on MsSql database).

4. The Bank has provided a preparation grant under the ECA PFM TF in 2013 to help the authorities define their preferred approach to the GFMIS and develop a more detailed framework for systems development. The recipient-executed grant finances comprehensive BPR of the MoF and its IT system, the preparation of technical and functional requirements, preparation of consultancy ToRs for preparing these requirements, detailed specifications for the system and cost estimates. The intention is to provide the authorities with the information and documentation needed to launch the procurement process for the GFMIS system shortly after project effectiveness.

5. The proposed GFMIS modules will include, among others, budget planning, budget execution, public procurement, debt management, accounting, budget reporting, and the general ledger. The proposed implementation architecture is a centralized transaction and data processing system which is considered to be the lowest-cost investment and maintenance option. GFMIS will also likely to feature web-based architecture.

6. The extent to which the project can fully finance GFMIS development depends on the GFMIS solution that the Government decides to be the most appropriate. Three options are currently under consideration: Option 1, procurement of an off-the-shelf system; Option 2, development of a new IT system; and Option 3, gap-filling based on existing PFM modules.

7. Option 1 is unattractive because of the high investment and maintenance cost of proprietary systems, difficulties in adaptation and high cost of consequent modifications. In addition to the cost, an equally important concern of the Government of Armenia (GoA) is the inaccessibility to all information system source codes as a property of the Armenian MoF. Option 3 is associated with a high risk for failure to meet technical challenges for integrating existing modules written in different programming languages, running on different database servers and missing source codes for some of the existing systems. Option 2, which so far seems to be the GoA's preferred option, would allow implementation of a unified system, avoid duplication of information across databases, and provide a common user management and authorization framework for all modules, and MoF ownership over the source codes and lower maintenance costs. The newly developed system would replace some of the existing systems such as DMFAS (debt management) and ARMEPS because the MoF does not have access to their source codes and pose some limitations. For instance, it will be difficult to implement changes in the DMFAS to conform to the GFMIS data exchange requirements between the modules of GFMIS and DMFAS. Furthermore, since RoA has recently become a member of the Eurasian Economic Union (EEU), some legislative changes that have taken place will require initiating some changes to ARMEPS system which, however, cannot be done because the MoF does not have access to these source codes. Option 2 would allow the MoF, when appropriate, to build on the experience of earlier stand-alone modules.

8. The procurement module of GFMIS will incorporate many features of e-procurement into the GFMIS system. Currently the ARMEPS system provides e-Tendering functionality. In the future, the procurement module of the GFMIS system will provide the new modules which will replace the need for ARMEPS. The modules which will be included are procurement planning, publication of tenders and contract awards, e-tendering, framework agreements, e-reverse auctions, contract management, and procurement reporting and analysis. Additionally the module needs to be well-integrated into the financial management (reporting) in order to provide the information on commitment. This vital commitment information from the procurement module will help the forecasting which is an integral part of the government's financial planning process.

9. According to the assessment of the Business Process Review report submitted to the MoF in May 2015, the development of a GFMIS with all required specifications is expected to cost up to US\$ 15.0 million (without taxes) including all the necessary components such as GFMIS development cost, training, software and licenses, servers and client-side hardware and two year maintenance contract. Therefore, this Component will be financed by the World Bank Loan and by the Borrower's counterpart financing as confirmed by the Armenian Minister of Finance, in his letter date July 29, 2015. The Armenian MoF has requested the Ministry of Finance of the Russian Federation to provide grant financing up to US \$8 million and they are discussing the appropriate arrangements for these purposes. In case the expected Russian financing materializes, these funds will be directed to finance part of this Component's costs.

10. GoA is leaning towards a locally developed system from scratch for several important reasons. First, Armenia currently possesses local IT capacity to a fully integrated system locally

from scratch. The current treasury system was designed locally in mid-1990s which has worked reasonably well for the last two and a half decades. Second, there is a capable team of IT specialists at the MoF who could oversee the overall GFMIS process which includes the design, development, and implementation. The IT team has already designed a complex IT infrastructure for Tax Payer 3 module, implemented under the current Bank funded Tax Administration Modernization Project (TAMP). The team members are paid competitive salaries and are also eligible for bonuses which has led to minimal loss of talent and sustainability.

11. A working group (WG) has already been established for GFMIS implementation which includes all key stakeholders and representatives from all main departments of the MoF. The WG is responsible for addressing both business requirements of the GFMIS as well as the IT related issues. All stakeholders share the same vision related to the main component of the GFMIS, its architecture, design, and the implementation approach proposed in the BPR reports. Two large workshops and several focus group discussions have already been conducted to discuss and agree on the conceptual design and implementation strategy.

12. The legal framework is in place to support the implementation of GFMIS. This consists of a number of laws and other legal acts which were directly derived from the Constitution including laws on “the Budgetary System of the Republic of Armenia”; “Treasury System Law”; “Taxes”; “Procurement”; “Financial Equalization”; “Internal Audit”; “Public Sector Accounting”; and “the Chamber of Controls. In addition there are Government decrees which ensure their enforcement and legal acts. The Government has approved APSAS based on international accounting standards which provide the basis for the transparent government financial reporting.

13. The ICT infrastructure requirements are included in the BPR report which are the primary and secondary data centers, network requirements, server equipment, and the virtualization requirements. The detailed hardware requirements will be provided by the consultant preparing the BPR as part of the final bidding documents. These requirements will be later shared with the supplier selected for the GFMIS implementation who will revise and finalize the specifications during the first stage of GFMIS implementation (preparatory stage).

14. One critical and recurring problem encountered in a number of countries is that milestones, functional requirements, and parameters are changed after the detailed design, causing huge disagreements between the vendor (locally developed or COTS). Therefore, in order to avoid this in the case of Armenia GFMIS, the ICB document and contract will include a clause stating that 3-6 months after contract signing (between the supplier and the purchaser) a detailed systems design document (blueprint) will be developed which will be used for (i) software development; (ii) testing; and (iii) operational acceptance. Changes should ideally be introduced after the operational acceptance through amendments (which may bring extensions and extra cost), following the procedures described in the ICB document. Minor changes can be handled during development and testing, if there is a productive working environment. All changes in project scope prior to operational acceptance would require World Bank no-objection. Covenants will be included in the Bank’s Loan Agreement to support all of the above.

15. The GFMIS project will use single-stage supply and installation of information technology standard bidding documents. Various supply and installation procurement methods were reviewed at appraisal. Since the MoF has decided to develop and integrate all GFMIS modules through

custom developed software, there are several reasons to move forward with the single-stage bidding process. First, the MoF already has a well-defined set of functional requirements and technical specifications. Second, adequate market consultation can be ensured by incorporating some of the two-stage benefits into a single-stage process. Third, it is less time consuming given that on average a two-stage bidding process will take two years.

16. A number of measures will be taken to strengthen the single-stage bidding process. The borrower will invite potential vendors to conduct live demonstrations to demonstrate their products with open and well-advertised invitations. Before publishing the tender, the technical requirements can be published to allow the potential vendors to comment and ask questions. Doing this before the tendering process saves time later at the clarification stage. To ensure that the awarded vendor indeed complies with the technical requirements, the borrower can *ex-post* request the lowest evaluated vendor to provide a live demonstration of the proposed product/solution that will meet a set of predefined criteria. The steps described above will eliminate the need to have demonstrations by all bidders which is a requirement of a first stage of a two stage bidding process.

17. The Information Technology (IT) unit of the MoF has the capacity to support the development of the GFMIS system. The unit has been functioning successfully for the last seven years and focuses on the IT project development cycle with a strong emphasis on the importance of change management. The unit includes business analysts working alongside with technology experts to provide best practice solutions to ICT projects. The IT unit provides the full set of services with regard to development, support, and maintenance of both software and hardware solutions. Therefore, the Bank team's assessment is that MoF has the capacity to provide a strong foundation to support the development and maintenance of the GFMIS system (please see the Organizational Chart in Annex 8).

Sub-component 1.2: Support for PFM Reforms.

18. This sub-component will finance technical assistance/advisory services to assist the Ministry of Finance in implementing reforms. Timely implementation of the GFMIS will require the authorities to take technical and policy decisions on the design of the various elements of the public financial management on a tight critical path. Delays in decision making will have significant delaying effects on the IT system development timeline and system development costs. Timely implementation will also depend on, among other things, a streamlined organizational structure able to design and manage critical implementation milestones. Hence, the proposed technical assistance will also support the MoF to introduce a change management initiative to achieve these objectives. Particular activities will include:

- Advisory services and technical assistance to support the implementation of PFM reforms where these activities are not financed by grants.
- Capacity building for advancing necessary preparations for upstream and downstream aspects of public financial management (budgeting, public accounting and audit),
- Capacity building at MOF training institution/s for equipping public servants with knowledge and skills necessary for roll-out of APSAS and program budgeting.

Component 2: e-Governance Solutions for Improved Service Delivery (US \$14 million, IBRD US \$11.0 million)

19. This component will support the implementation of the selected priority aspects of the Government of Armenia's e-Governance Strategy. Following up on a 2010 e-Society Concept Paper and action plan which laid out a framework for the development of information technologies for the public sector, in April 2014, the Government of Armenia approved an e-Governance Strategy which seeks to transform the way in which the public sector operates. The Government's goal is that, by 2018, it will become more transparent and responsive to citizens and perform better on account of intelligent investments in IT and their widespread use in public agencies. The strategy advocates the principles of open governance, going beyond service provision to providing access to information and promoting participation in decision-making. Government operations will be optimized through introduction of interoperability, IT asset consolidation and data reuse, effective internal government management platforms, supporting infrastructure as well as a sound policy framework and strengthened institutions and capacity of the government. Selected public services will be modernized through digitization and business process re-engineering. Citizens and businesses will be able to access information and electronic services easily through a single government portal. Services will be citizen and business-centered, reflecting citizen and business-user needs and designed to facilitate access and use. This will include access through mobile cellular subscriptions and mobile broadband internet which enjoy a much greater penetration than fixed broadband internet services in the country.

20. The strategy does acknowledge that there are significant challenges. Lack of coordination and collaboration across agencies has led to poor integration of systems and limited exchange of data, creating silos within government. This has hampered the design and implementation of an end-to-end administrative processes for delivering digital public services. Often, administrative procedures were transferred from paper-based to electronic systems without rationalizing and streamlining the underlying administrative processes, functions and services. There are shortages of IT technical skills within the public administration, largely due to the uncompetitive public sector salary structure. Substantial investments are needed in ICT infrastructure, systems, capacity and harmonized policy environment.

21. To overcome constraints such as the lack of technical skills and a competitive salary structure for technology specialists, the Government has established EKENG as a State Owned Enterprise (joint stock closed company). Further work is needed in addressing institutional issues of horizontal coordination across public agencies for integrated and seamless systems and end-to-end citizen-centered administrative processes, the development of a government-wide enterprise architecture framework, with appropriate national common standards for interoperability, technology contract implementation capacity, as well as organizational, managerial and procedural reforms in public agencies which are needed to enable the reforms and translate e-governance into improvements in public sector performance, transparency and accountability.

22. The World Bank has supported the Government of Armenia's e-Society Concept through the E-Society and Innovation for Competitiveness Project, PSMP I and II and the Judicial Reform Projects (JRP) I and II. These projects have financed a number of e-Governance systems including: the Electronic Document Management System (EDMS), Certification Authority and Electronic Signature, Performance Management Module for EDMS, EDMS Archive, Human Resource

Management Center, Municipal Governance Information System, Electronic Procurement System, Interactive Budget, E-licensing, Income and Asset Declaration System, e-Police modules for vehicle registry and driver licensing, e-Health, e-Visa upgrade, TaxPayer3 modules, Case Management System at Courts, a Case Management System at Enforcement Service for Judicial Acts, ARLIS (electronic legal database) and an Electronic payment system.

23. PSMP III will introduce two major streams of work under Component 2: sub-component 2.1 will support establishing an Enabling Environment for E-Government through strengthening policy frameworks, institutions and capacity; Component 2.2 will support the development and implementation of e-Governance platforms by introducing interoperability, G2G management system upgrade, and sufficient infrastructure for data storage; it will also support e-service as a demonstration effect.

Sub-component 2.1: e-Governance Policy, Institutions, and Capacity.

24. The objective of sub-component 2.1 is to strengthen policy environment necessary for introduction of a deeper e-governance reforms and create an institutional capacity within the government needed to undertake introduction of electronic service delivery mechanisms. The proposed interventions will support the initial steps of building a foundation for a whole-of-government approach to data, information, applications, infrastructure and support-services sharing. Specifically, this sub-component will finance consultancies to: review and assess the existing ICT policies and legal and regulatory frameworks to identify gaps as well as ensure harmonization needed for the whole-of-government approach; prepare new policies and regulatory frameworks if recommended in the initial assessment; develop an institutional set up and business model for sustainable and cost effective management of e-Governance platforms and e-Services; build capacity and technical skills within the government to manage the e-governance platforms and services, these would include change management activities, technical trainings and awareness campaigns.

25. **Policy aspects** of the Component 2.1 will support review and assessment of the existing ICT policies, strategies and legal and regulatory frameworks to identify gaps and weaknesses as well as harmonization to ensure all of government approach to information and service provision. Based on the findings and recommendations of this assessment, the sub-component will support: strengthening or developing new ICT policies and strategies, including provisions for introduction of interoperability, data reuse, cyber security and data privacy; and strengthening or developing new ICT legislation, regulatory frameworks and technical standards, including but not limited to development of standards for the use of ICT infrastructure (data center), and legislation and regulations to enable the use of electronic services and applications. The project will also provide support the Public Sector Reform Commission in its coordination and implementation of the public sector modernization and governance reforms. This will include support to change management dimension of e-governance reforms in participating institutions and ad hoc needs for small scale capacity building interventions emerging during project implementation.

26. **Establishing institutional foundation** for coordination and management of e-governance agenda across government is of utmost importance. Leadership for the e-governance agenda is currently with the Prime-Minister's Office. In 2009 the government has set up EKENG as a State Owned Enterprise (100% government owned, constituted as a joint-stock company), as a response

to the issue of the shortage of ICT technical skills within the public administration and, in part, due to the uncompetitive public sector salary structure. EKENG currently reports to the Minister-Chief of Government Staff who is also the Chairman of the Board. The Board comprises the Deputy Minister of PM's office, two Department Directors and an Advisor to the Minister. EKENG has a team of thirty of which seventeen are IT personnel - project managers, business analysts, software developers, systems administrators, quality assurance, among others. The salary structure is competitive and market-based that allows for high caliber of technical skills. Salaries are financed through revenues accrued by provisioning services to the government and user charges from citizens. It is envisioned that EKENG will be responsible for the coordination of e-Governance Platforms and e-Services under the project. The project will not finance existing EKENG staff or the costs of staff necessary to maintain platforms and services introduced by the project. The project will provide consultancies necessary for specific technical tasks to support activities financed under the project such as design of system's requirements, preparation of bidding documents, independent quality assurance or other relevant tasks.

27. The Government proposes to further strengthen the capacity of the Office of the Government to oversee and coordinate implementation of the e-Governance Strategy. This is to be achieved through the establishment of Government CIO office and introduction of required policies to support institutions such as Governmental CIOs Committee (assembly chaired by Government CIO) and E-Government and Information Systems National Management Board (assembly chaired by Prime-Minister). Policy-level decisions regarding the application of a set of common standards across government agencies must ideally be decreed by a higher-level strategic policy committee which does not benefit from contracting revenues through various Ministries and Agencies and are thus unencumbered by potential conflicts of interest or profit.

Sub-component 2.2: e-Governance Platforms and Service Enhancements.

28. The objective of sub-component 2.2 is to introduce basic platforms and infrastructure to support e-governance agenda of the Government of Armenia, and enhance select existing e-services as well as automate services that have in place back end infrastructure. Sub-component 2.2 will finance: establishment of an interoperability platform; establishment of a datacenter or upgrade of storage capacity of an existing one; upgrade of government management systems (HRM, EDMS); enhancement of selected e-services and introduction of citizen-government interface portal and feedback mechanisms.

29. Since the early 2000s, the Government of Armenia has pursued a number of investments in ICT to modernize the public sector, some of which were financed under the PSMP I and PSMP II projects. Many of these systems have been built by line agencies according to silo basis. Under PSMP III, the Government intends to develop a whole-of-government approach to **data interoperability**. This will involve the design and implementation of interoperability platform that will allow data integration and interconnection across key line agencies. The objective is to allow citizens, businesses, and government entities to securely exchange data and access information maintained in line agencies' databases. The Government aims to adopt the principle according to which: "*The State shall not request from citizens and businesses any data that are already in its possession*". In principle, the authorities intend to follow the X-Road architecture developed by Estonia. However, alternative approaches will be reviewed by the Government.

30. This subcomponent will also finance the establishment of a **data center** or expand the existing storage capacity. The assessment of existing infrastructure will be undertaken as part of project implementation. This will guide a decision between two alternatives: establishing a new data center or enhancing the storage capacity of existing facilities. Deployment options under review include the creation of an in-house data center, where applications, data and infrastructure of various state authorities will be shared, collected and hosted in a systemized format. The Center will provide maintenance, operations, and information security support 24x7/365 to all applications, data and infrastructure hosted in the center.

31. Upgrading and integrating the existing **internal electronic management systems for public servants** (EDMS, HRMIS, learning management, etc.) is another cross-cutting, whole of government task envisaged under this component. The current Electronic Document Management System (EDMS) which provides the electronic workflow also automates the entire work planning process and staff performance appraisal of public entities. At present, the results of the performance appraisal are not clearly linked with the HRMIS. Therefore the upgraded system will equip the public servants with a far more effective and integrated electronic environment to better streamline internal processes.

32. There are seven indicative **e-Services** listed for enhancement under the Project. The initial list of priority e-Services were defined through a consultative process, including a selected group of civil society representatives and with the key agencies led by the Deputy Prime Minister and the Minister-Chief of Government Staff. Following the initial shortlisting, selection of e-Services was further refined on the basis of the following criteria: a strong business rationale, meeting a defined demand, resolving a business process or service delivery issue with strong economic and financial return on investment; strong ownership by the beneficiary Ministry and commitment to allocate human resources and budgets for maintenance of these systems after project closure; and the intervention has to be of an intermediary nature qualifying for an enhancement of an existing e-service through addition of a module or a front end interface, and/or presence of existing back end automation - with pre-existing or ongoing process re-engineering. The Bank re-assessed and re-evaluated each proposed system for prioritization and implementation readiness on the basis of the selection categories specified above. Each agency's commitment and efficacy to implement the proposed service-delivery application(s) was discussed and the summary is presented in the Table below.

33. During implementation, PMG will facilitate consultations with users in order to ensure that e-Services are responsive to their needs and requirements. Particular attention will be given to the needs of vulnerable groups, women and youth. In order to incorporate this feedback, pilot systems will be tested with focus groups comprising representatives of actual and potential users and vulnerable groups that might otherwise be excluded. Input from focus groups will be used to refine e-Service design with a particular focus on accessibility and ease of use. Data on service users will be gathered from e-Service systems, including basic demographic and service use data, user access and satisfaction surveys and complemented by periodic surveys. This information will be used to monitor system performance and accessibility, distinguishing target groups, and feedback into refinements in system design.

Prioritization Criteria for Selected e-Services

Criteria e-Application (Responsible Agency)	Business Rationale	Financial Returns	Stakeholder Ownership	HR team/ Governan ce	Operating budget post project closure	Pre- existing success conditions	Process Re- engineerin g (BPR)	Gender - Considerations Beneficiaries (M & F)
1. Developing e-transport Modules (Ministry of Transport)	High: Lack of competition for routes; Violation of departure schedules affecting quality	High: Gains from increased competition from service providers	High: Sponsorship and planning by the Ministry for redesigning routes for both quality and economic gains	High: Existing central and regional hubs (e.g. bus stations) will serve as a platform	High: State budget with some income from web-commercials	Medium: Analysis of current service operations and plans	Medium: Will be part of assignment or conducted by the counterpart	High: Share of women using public transportation who will benefit from improved quality of service is bigger.
2. Introduction of a system for drafting and publishing legal acts. (Ministry of Justice)	High: Common standards for legal drafting; e-text identical to approved act	High: Cost savings from significant reduction of hard copies published	High: Owned by GOA and MOJ and in-line with e-Government Strategy	High: "Official Bulletin" team under MOJ has strong capacity	High: State budget with some income from commercials	High: Successful online legal database - ARLIS	Medium: Will be part of assignment or conducted by the counterpart	Medium: Valuable source of legal information enabling scrutiny by civil society organizations
3. e-Consular System (Ministry of Foreign Affairs)	High: Large share of diaspora and poor migrant workers in need of services	High: Time and cost savings for users	High: Commitment reflected in e-government strategy	High: Existing consulates and systems will serve as a basis for operation	High: Covered under State budget and fees	High: Successful pioneering of e-Visa system	Medium: Will be part of assignment or conducted by the counterpart	Medium: The cost of services born by migrant workers reduce the remittances to "female headed" families at home
4. Digital pre-trial case management system. (General Prosecutor Office)	High: Compliance with legal deadlines; integration with court systems; statistics & archiving	High: Time and cost savings on courier services	High: Targets on prosecutorial statistics & archiving are set in 2012-2016 LJR Strategy (and Decree NK 96-A)	High: Foundation is strong for current functions-to be upgraded for future needs	High: Covered under State budget	Medium: Successful automation at courts; Scalable capacity in HR and IT units	High: Potential collaboration with development partners	Medium: 10% current share of female prosecutors tends to grow; favorable environment for their professional growth
5. Vehicle insurance claim and regional operations management centers for police (Police)	High: Reduced traffic jams; simplification of insurance claims; more effective management of police dispatch units	High: Time and cost savings on traffic jams, insurance claims; and police dispatch units	High: Reflected in the action plan of police and e-Government strategy	High: Existing association of insurance companies and specialized dispatch units in police will serve as the basis for operation	High: Covered under State budget and insurance sector	High: The traffic insurance system is now beyond the point of no return; police dispatch system successfully piloted in Yerevan	High: Counterparts have strong capacity to carry out necessary BPRs (Business Process Reviews)	Neutral: Share of woman drivers tends to grow, yet they make about 10%.
6. Enhancement of the system for declaration of assets. (Commission for the Ethics of High Ranking Officials)	High: Data verification; improved risk analyses; user-friendly system	High: Time and cost savings on validation & risk analyses; submission & scanning declarations	Medium: Interoperability barriers removed through 2015 GoA decree #150; regulations on conflict of interest need continued support	Medium: Commissioners have the capacity to operate ICT system; plans establish their own administrative staff	Medium: Covered under State budget (Commission still does not have a separate budget line)	High: Introduction of current system was a success – ensured 100% declaration after a decade of failures	High: Commissioners have strong capacity to conduct necessary BPRs	Medium: According to formal quotas 25% of judges and 15% MP's are females. Spouses and family members are also required to file and are beneficiaries
7. Electronic licensing system (Ministry of Finance)	High: Potential gains in transparency and competition	High: Gains from increased competition	Medium: There may be potential challenges for issuing some type of licenses	Neutral: Future institutional arrangements are uncertain	High: Covered under State budget	Medium: Earlier attempt on automation of licensing had limited success	Neutral: Conducted by the counterpart (difficult given the typology of licenses)	Neutral: To be assessed during implementation

34. ***Digital pre-trial case management system.*** The technical responsible for this activity is provided by the General Prosecutor's Office. The objective is to build a digital pre-trial case management system. A series of Judicial Reform Projects (I & II) financed through IDA credits supported the automation of case management for the Courts. These systems are linked to bailiff systems and facilitate digital services such as online applications and filing of lawsuits. In contrast, the pre-trial investigation process, remains cumbersome and paper-based. There are number of challenges with the current system which includes, among others, the time and process inefficiency; documents related to the investigation are exchanged via slow postal services; and confidentiality of the pre-trial investigation process. To address these challenges, the General Prosecutor's Office intends to develop a digital pre-trial case management system for criminal and corruption-related cases. The system will be accessed independently by authorized officials from the Ministry of Finance, National Security, Police, Military and the Special Investigative Body to prepare cases that will be dispatched to the General Prosecutor's Office for further processing and dispatch to the Courts. Citizens (the defendant or the accused) should also be able to access the system to file complaints and to obtain information and documents pertaining to their case. The accession process could be authenticated through a mobile identification system.

35. ***Enhancement of the system for declaration of assets.*** The technical responsibility of this activity lies with the Commission for the Ethics of High Ranking Officials. The objective is to enhance the system of declaration of assets of high ranking officials. Through PSMP II, the Ethics Commission, which reports to the President, received support to develop an online system for the submission of assets declaration. Currently, the Commission receives both online and paper declarations as well as supporting paper documents. All declarations, paper and electronic, are stored in a database. The Ethics Commission intends to leverage the mobile identification system to receive all submissions electronically. The Commission will also utilize electronic access to datasets from government agencies to conduct the verification of declarations. The Decree No. 150 of February 2015 authorizes automatic access to a number of databases. They include the cadaster, police (registry of vehicles and passports), registry of legal entities, and the civil status registry (both in the Ministry of Justice). However, the current system still lacks automatic data analysis capabilities in order to compare different declarations such as those submitted by the same official (and/or close relatives) in two different years. The declarations system should have an algorithmic functionality for verification so that potential discrepancies could be easily identified. For instance, economic interest related with property may create conflict of interest situations, or expensive gifts, discrepancies in income and expenditure, tax avoidance and other information/risk indicators. The proposed updated system will allow the Commission to significantly improve transparency by ensuring that declarations data is machine-readable. This will allow citizens to review the data which will be publicly available, conduct independent analyses, and bring additional facts and articles to the attention of the Commission.

36. ***Introduction of a system for drafting and publishing legal acts.*** The technical responsibility of this activity lies with the Ministry of Justice. The objective is to facilitate the drafting and publication of legal Acts by applying a common approach and standards. The system will improve the quality and coordination of law-making activities, eliminate redundant and duplicative laws, and improve the process of drafting and publication of legal Acts. In addition it will provide access to a shared environment for authorized officials of relevant entities and

agencies to develop and circulate drafts of legal Acts, collaborate on drafts, coordinate consultations on the drafts to enable methodical and efficient process of revising and publishing. All normative legal Acts will be automatically registered. The system will enable a browse and search functionality. Drafts may be accessed by authorized officials, based on access control lists specified by the owner of the draft. The system will be integrated with word processing for ease of use. A number of templates will be available based on common standards to ensure technical consistency of specific types of legal acts. Guidelines for composing legal acts will be available to assist users. To the extent possible, the system will enable automated verification of draft legal Acts to ensure compliance with techniques for preparing regulations. The system will also enable publishing of the drafts for public/citizen consultations and recommendations. Summary reports of public consultations on draft legal Acts will be available and the Acts may be exported in various document formats. The system will be integrated with the EDMS to import the draft and to circulate drafts.

37. ***Developing e-Transport modules.*** The technical responsibility of this activity lies with the Ministry of Transport. The objective is to develop e-Transport modules that improve efficiency and the quality of transportation services. One of the issues that affects the quality of transportation services for citizens in the city of Yerevan, is that the buses and mini-buses that control certain routes do not depart on time, and wait until all the seats are occupied, etc. While a comprehensive solution will require a transport sector assessment and revision of current routes, in the short term, the Ministry seeks to introduce administrative mechanisms for the competitive distribution of routes, control of contractors (“owners of route”), and to provide access to information to citizens through two proposed e-transport modules.

38. The first proposal is to develop a route competition module. This will introduce a transparent and competitive process for the distribution of contracts to private companies. Technically it is similar to a simple e-tendering module that allows competitive bidding for routes. Given the relatively low fares on certain routes (limited by the Ministry of Transportation) to avoid hardship to low-income citizens, certain routes are not attractive to private operators. The solution is to redesign routes to improve attractiveness and economic feasibility. This will be undertaken by the Ministry of Transport in close coordination with the Bank’s Transport Practice, as a separate exercise (which is out of the scope of this project). PSMP III will finance the design, development, and implementation of an online route competition module.

39. The second proposal is to develop an interactive route map for citizens. The objective of the interactive route map is to improve the quality of access to information on transport services to citizens. In the first phase, it will encompass a user friendly mobile application and web interface with information on public transportation routes, traffic jams, road conditions, drivability and cleaning schedule in the event of adverse weather, and fuel stations. Data on traffic and snow cleaning will be fed into the system by existing responsible units under the Ministry. Citizens will be able to check contractor details for a specific route and provide online feedback on service quality. In the second phase, buses and mini-buses will be equipped with GPS devices to geolocate vehicles in real-time. Geographic coordinates and timestamps from these vehicles will provide improved administrative data for analytics, performance management, and assessment of contractor services (both the “owners of routes” and particular drivers). In a third phase, depending on the political feasibility, GPS devices will be mandatory for all buses and mini-buses (approximately 1,000 vehicles) operating inter-city regional routes across the country.

40. As is the case with the route competition module, the roll-out of the interactive route map to Yerevan intra-city routes - currently serviced by around 300 buses and 800 minibuses - will be subject to successful redesign of routes, metro and bus unified ticketing, rendering the operation of routes economically feasible within the fare price restrictions without exceeding the number of allowed passengers. Updating the relevant transport sector study conducted earlier by the Bank and implementing these recommendations, will be instrumental to prepare for the roll-out of these systems. An additional 1200-1500 GPS devices (possibly also a Unified and On-line Ticketing Module if required) will be procured under the project, subject to the above political decision and revision of routes.

41. ***e-Consular system.*** The technical responsibility of this activity remains with the Ministry of Foreign Affairs and the objective is to develop a number of additional modules to the current e-Consular system, including a consular registration process for travelers and issuing e-visas. The MoFA provides consular services to diaspora Armenians, who outnumber the population living in the country. MoFA does not have diplomatic missions in all countries and this poses a challenge to provide services to diaspora in such locations. An e-Consular system has been developed to provide online services to the diaspora. Armenia has been a pioneer to issue electronic visas, which is one of the existing modules of e-Consular system. The e-Consular system also provides fast-track services such as return certificates for citizens who have lost their passports, minimizing delays due to diplomatic pouch or cross-checks through different systems. Citizens pay for consular services online using the PayPal service which is connected to the e-Consular system. An online consular registration system for travelers, a module currently under development, will be similar to the Smart Traveler systems in the US and in Australia. This application will allow citizens, voluntarily and free-of-charge, to register upcoming travel and locations in the system. Registration will in turn enable automated updates to travelers on the security situation in the countries involved, and will enable the MoFA to identify citizens in the event of an emergency, such as a natural disaster or military action.

42. Under PSMP III, a number of additional modules are planned for the e-Consular system to make services comprehensive over the long term. The first planned module is an end-to-end, online criminal records certification process for diaspora. Diaspora requesting certification will apply online through the e-Consular interface. The e-Consular system will be integrated to the Police database to receive data and certification on diaspora to verify records, based on which the Consulate will issue a certificate to citizens. Another planned module is an online passport services process for diaspora. The business process for passports provision requires the input of multiple agencies, which will be virtualized to exchange information online and to reduce time. However, it must be noted that for a biometric passport, some aspects of the application process will require physical interaction and therefore the process will not be virtual, end-to-end. The aim is that the e-Passport module under the e-Consular system will be integrated to the Police database to access data on diaspora for identification. This module will not be available to citizens residing within Armenia, who will still need to apply for a new passport to the Visa and Passport department under the Police. There will be also additional modules for registration of death/ birth/ marriage/ divorce, issuing e-apostles, accepting various applications to the consulate offices electronically.

43. ***Police regional operations management centers.*** This arrangement is to address issues of corruption within the **Police** force and to enhance security. The first proposal is to set up regional operations management centers for police dispatch in two marzes (administrative divisions) at the

provincial level), similar to a center that has been set up in the special administrative region of Yerevan. The second proposal is to develop a just-in-time accident data collection system.

44. According to the first proposal, two regional operations management centers are to be set up, to visually monitor the movement of all police resources in the region (Shirak and Lori). Presently, calls are received through a telephone system. In the future, calls made to the 102 police emergency number will be integrated into a software that displays the map of the region, will allow a human dispatch operator to visually pinpoint the location of the call on a monitor and to record the details in a database. The operator will make a decision on dispatching the closest and most appropriate patrol resources to the scene. Dispatch operators are responsible for ensuring that all information exchanged between patrol and operations are recorded in a database, including the audio recording. Operators are also responsible for communicating information on the operational situation to management in a timely manner. GPS devices will be placed on all police cars in the region to track their location and movements on a map. Calls may be received within the jurisdiction of the marz by territorial divisions of the Police, Police officers, individuals and legal entities. GPS devices will be placed on 50-70 cars per region.

45. The Police have requested separate installations of software in each marz to allow each region to manage resources within their jurisdiction effectively. To avoid duplication and redundancy of infrastructure installation across the two marzers and to save costs, these installations will be set up within the framework of a common data, software applications, and infrastructure center. The system under consideration may also deliberate the merit of an 'automated 9-1-1 system' that can answer dispatch calls, comparing the total cost of ownership of an automated system to the total cost of maintaining human operator services with the aid of a resource tracking software. The establishment of the operations management centers in the marz departments implies a number of organizational, structural, staff and functional changes through the use of ICTs. This will simplify the ways in which some critical/emergency issues will be resolved. It is expected that the centers will increase efficiency utilization of police resources and response times to citizens.

46. According to the second proposal, a just-in-time motor vehicle accident data collection system is to reduce the transaction costs of communication with insurance companies in the event of an accident. The system will provide a platform for exchanging data between citizens, road traffic police, and insurance companies (the latter is not a beneficiary of this project), based on common and international data standards. This includes a mobile applications component that can be downloaded by citizens, police officers, and other stakeholders, at no cost, to capture and upload images and videos of the accident, and to provide evidence for insurance purposes. For small damages, data thus collected will be sent via an automated workflow to the insurance companies for immediate processing and determination of liability and compensation. The application will support electronic communications, including appeal, to minimize the need for face-to-face interaction with the insurance companies. For large damages, the application will prescribe guidelines for capturing images, and will have the ability to automatically verify the suitability of an image. Data will be communicated via workflow to the insurance company representative in accordance with the Bureau RL 1-029 rule. Once the data is approved, the vehicle may be moved from the site. The system is expected to benefit both the citizens and the police.

47. For the above-mentioned system, the development of common standards is important for

collecting data and information from the site of the accident and to record other logistical arrangements and details in connection with the accident. The data should be confirmed by all stakeholders and comply with the corresponding regulations, to be applied to further proceedings. The Police will likely to receive additional assistance from international experts to develop the standards. A government decree will be needed to mandate accurate and systematic data collection by using this platform. Road traffic police force and citizens should be provided with support and training to use and download the software.

48. ***Electronic licensing system.*** This activity will support the upgrade of the current e-Licensing system. This will include, among others, the automation of the simplified procedure of licenses issued on behalf of the Ministry of Finance, management of electronic license registry, and the receipt of reports and notifications, etc. The comprehensive automation of e-licensing process will solve the current backlog of paper licenses. There was a limited success of the earlier effort to automate the licensing and the current reforms are expected to address the existing challenges so that issuing e-licensing process will become efficient and cost effective, not to mention other benefits such as enhanced transparency and accountability. This scope of the e-Licensing system has yet to be defined by the Ministry of Finance. The project will support work on the prioritization of the e-Licenses to be implemented. This prioritization exercise will take into account the results of consultations with service users.

Sub-Component 2.3: Citizen-Government Interface for Accountability.

49. This sub-component supports the establishment of feedback mechanisms to facilitate citizen and business access to government services, address grievances, and monitor client satisfaction. The feedback mechanisms will be developed based on the design of service quality indicators and performance indicators which will also be used to undertake consultations on service delivery and performance. It will be beneficiary-driven and based on a consultation with end-users. Particular attention will be given to the needs of vulnerable users – including especially the poor, women, youth, and the elderly – to ensure that the accountability and participatory mechanisms developed are sensitive to their needs and preferences. The sub-component will draw from the international experience such as Citizens’ Charters in countries such as Malaysia, Belgium, Canada, Australia, Citizens Feedback Monitoring Program (CFMP) in Punjab State of Pakistan, and “Sakala” in the State of Karnataka in India. This sub-component will also finance the establishment of indicators and feedback mechanism and Information Hotline to facilitate on-line solutions to citizen’s questions and complaints 24/7.

50. The main objective is to enhance the direct participation of the citizens in assessing the efficacy and effectiveness of public service delivery and the performance of public servants. Formal arrangement in place for receiving citizens’ feedback will significantly increase the transparency and legitimacy of some of the most critical public services such as health, police, transport, consulate services. This sub-component support an advisory group consisting representatives of civil society groups who work with women, youth, elderly, rural communities to meet periodically to provide feedback to the project. These meetings will be convened by the PMG at least once a year and within six months of project approval. This sub-component will also finance the development of a Unified e-Services Portal paired with a horizontally Integrated Feedback Collection and Analyses module (similar to that of CFMP in Punjab Province, Pakistan) which will gather information on the quality of services provided. Citizen feedback on the quality

of services received via SMS, robo-calls, and internet, will be analyzed by the system and channeled to respective units/agencies for their information/action. PMG will organize training of civil servants working in agencies partnering in the project aimed at increasing sensitivity to citizen feedback, awareness of the needs of vulnerable groups and the use of citizen feedback in the design of e-Services. The electronic tools for collecting citizen feedback will be used also as a channel for public awareness campaigns through the “I Know” banners set at the particular service delivery sections of electronic government portal. A series of banners will be specifically planned for awareness raising on gender issues and rights. Feedback and consultations will encourage constant citizen engagement with the project and is expected to improve the quality of public services provided electronically where the WBG is actively engaged through parallel projects.

Component 3: Capacity Building and Small Capacity Building Interventions (US \$1.85 million, IBRD US \$1.474 million)

51. This component will support the broader public sector modernization and governance reform agenda laid out in the Armenian Development Strategy (ADS) through two sub-components: capacity building; and just-in-time technical assistance.

Sub-component 3.1: Civil Service Capacity Building.

52. This component seeks to strengthen the capacity of the CSC and AAPA to modernize the training system for public servants and raise the quality of training to international standards. The component supports the transfer of skills in information management technology, evidence-based decision making, and public consultation and citizen engagement. These capacity building activities will support the implementation of e-Governance services and promote a service culture within the public sector. The CSC will guide the design and implementation of capacity building activities through the revision and systemization of the existing civil service training system. The project will seek to build a long term relationship with few internationally known institutions (such as Lee Kwan Yew School of Public Policy in Singapore). The company may be contracted based on the SSS method. The capacity building at CSC will introduce a credit system for training civil servants which will be based on the benefits of integration of EDMS, HRMIS, and learning management systems.

53. The sub-component will also focus on the modernization of the training of public sector officials through: improvements in the AAPA’s curriculum to meet long term training needs and for continuous training; development of training capability through training of trainers/instructors (ToTs); short-term (up to 2 month) secondments for AAPA faculty members; development of CSC capacity to conduct training needs assessments based on the performance assessment results and government strategies; and strengthen the capacity of AAPA to deliver high quality and continuous training of public servants.

Sub-component 3.2: Small Capacity Building Interventions.

54. This sub-component will support the PSRC in its coordination and implementation of the public sector reforms. This will, in particular, include support to change management dimension of e-governance reforms institutions and ad-hoc needs for small scale capacity building interventions which will emerge during project implementation. This component will also provide

an opportunity for a gender review of women/men in public service positions such as how many, on what positions, existing salary gaps if any. A review of what has already been done by other agencies (e.g. UN WOMEN) could be conducted at the outset to establish a baseline.

Component 4: Project Management (US \$1.85 million, IBRD US \$1.474 million)

55. This Component covers the cost of specific project management arrangements. These include the costs of the FFPMC and PMG which will report to the Project Director. The PMG will be responsible for coordination, implementation monitoring and reporting, preparation of procurement documentation and monitoring of the procurement process, and providing advisory services to the implementing agencies. Project management group will also include administrative and technical staff on ICT and on operational aspects of the procurement process. This component also include the activities related to financial audit, monitoring survey, and public awareness and consultations to be conducted with citizens and civil society groups. These activities will be outsourced but carried out in close coordination with the PSRC and Project Manager.

Annex 3: Implementation Arrangements

Republic of Armenia: Public Sector Modernization Project III (P149913)

Project administration mechanisms

1. Given the wide span of the reforms proposed under the project targeting various ministries and agencies, the project will be implemented under the leadership of the PSRC, which will serve as the **Project Steering Committee**. The PSRC was established by the decree of the Prime Minister # 544 of September 03, 1999. It is located in the Office of the Government and is headed by the Minister-Chief of Government Staff. PSRC members include senior officials from the President's Office, different ministries and agencies, the CSC, as well as representatives of some NGOs. As the Project Steering Committee, the PSRC will provide the political support and strategic guidance to project activities; approve project implementation and procurement plans, annual budgets, important financial management and procurement documents; ensure that adequate budget provisions for the project are made in the national budget; resolve inter-agency coordination issues; and assist in building support for reforms and overcoming resistance to reform.
2. The Head of the PSRC, who is also the Minister-Chief of Government Staff, will be the Project Director. Given that the project focuses on reforms in two areas, namely PFM and e-governance, the implementation arrangements for project components are as follows: Component 1 will be implemented by the Ministry of Finance and Component 2 and 3 will be implemented by the Office of the Government (PM's Office). The MoF and the Office of the Government will create an internal working group that will coordinate the implementation of project activities.
3. Day-to-day project implementation will be the responsibility of a Project Manager, who will report to the Project Director, and a small PMG. The Project Manager will be hired by the PSRC and will be financed by the project. The Project Manager will be an experienced professional, having the trust of and access to the highest-level of decision-making in the Government. He/she will participate in the meetings of the PSRC. The Office of the Government will provide office space for the PMG and the project will cover its maintenance cost during the project implementation. The PMG will provide administrative support to project implementation, monitoring and reporting, preparation of procurement documentation and monitoring of the procurement process and providing advisory services to the implementing agencies, facilitating the work of the working groups, reviewing consultant outputs, organizing acceptance testing of IT software and hardware.
4. An advisory group consisting representatives of civil society groups who work with women, youth, elderly, rural communities will meet periodically to provide feedback to the project. These meetings will be convened by the PMG at least once a year and within six months of project approval. The advisory group is expected to focus on the activities under Component 2 of the project related to the development of e-Services. The advisory group may also consult on issues related fiscal transparency and access to information in the context of the GFMIS.

Procurement and financial management

5. Fiduciary activities related to the project will be performed by the FFPMC at the MoF, which has experience in managing several World Bank projects. On overall project financial management and procurement issues the FFPMC will report directly to the PSRC. The FFPMC will be responsible for ensuring that procurement of goods and services is done in a timely manner in accordance with World Bank guidelines, managing project funds, maintaining accounts, preparing financial management reports and getting the accounts audited. The FFPMC staff responsible for project implementation will work closely with the Project Manager.

Financial Management

6. The FM arrangements in place at FFPMC were reviewed and assessed as acceptable to the Bank for the Project's implementation. The Project FM assessment undertaken in January 2015 confirmed that, in particular: internal control and filing systems are in place are overall adequate; the FM staff at FFPMC has significant experience in the Bank-financed project; FFPMC utilized adequate accounting software; results from the latest annual audit of projects (and TF grants) implemented by FFPMC were satisfactory; and the IFRs on the active projects (and TF grants) were always received on time and in general found to be acceptable to the Bank. As it was agreed during the assessment, prior to negotiations FFPMC developed the Project's FMM acceptable to the Bank to reflect the FM arrangements, funds flow and controls under the Project.

7. The overall FM risk for the Project is assessed as moderate with the Inherent Risk and Control Risk also assessed as Moderate. The combined overall Fiduciary Risk rating for the Project was discussed with the project procurement specialist, and the Combined Fiduciary Risk Rating for the project was assessed also to be Moderate.

8. FFPMC is capable of preparing relevant budgets. The budget is classified by categories, components, and sources of funds. All changes in procurement plan are agreed in advance with the Bank and with MOF, and only then the changes are incorporated in the annual budget. Once reviewed and endorsed by the MOF, the Project budget is included into the State Budget.

9. The Project's accounting function will be carried out by FFPMC, which utilizes Armenian Software (AS) accounting software, used by a few Armenian PIUs and found to be adequate. The software has advanced, flexible, and convenient report writing tool to generate reports in customized formats. The accounting staff attended training for AS software. For reporting purposes FFPMC follows cash basis IPSAS and applies former local accrual basis accounting standards (ASRA) for accounting. The chart of account used for the ongoing PSMPII project can be adapted to be used for the Project.

10. The internal controls at FFPMC are found to be overall adequate and capable of safeguarding assets, recording transactions, ensuring effectiveness and efficiency of operations and compliance with applicable laws/regulations, and providing reliable and timely information on projects. FFPMC regularly (before each WA is prepared or at least once a quarter) reconciles the projects' accounting records with the WB disbursement data via the Client Connection system.

11. The project Statement of Expenditures (SOEs) are prepared in Excel spreadsheets by the financial manager and reconciled by the chief accountant. The controls over SOE preparation overall are adequate with a few isolated cases of minor inaccuracies observed. The financial

manager reviews the monthly treasury statements and reconciles them to the project accounting records. Stocktaking is performed annually. All fixed assets (FAs) of FFPMC are on the balance sheet of MoF. FFPMC maintains lists of FAs assigned to each employee and FAs registration cards. Sample FAs observed during the mission had stocktaking tags attached (for this purposes FFPMC uses bar-coding type of inventory tags). The backup of all accounting data is made on the server's external hard drives on a daily basis and once a month on CDs.

12. Project management-oriented IFRs will be used for the Project monitoring and supervision. FFPMC has significant experience in IFR preparation, and the IFRs of active projects were always received on time and found to be in general acceptable to the Bank. The format of the IFRs has been confirmed during assessment and includes: Project Sources and Uses of Funds; Uses of Funds by Project Activity; Designated Account (DA) Statements; a Statement of the Financial Position; and a SOE Withdrawal Schedule. FFPMC will be producing a full set of IFRs every calendar semester throughout the life of the Project. These financial reports will be submitted to the Bank within 45 days of the end of each calendar semester.

13. FFPMC's current auditing arrangements are satisfactory to the Bank (there are no pending audits for the projects implemented by FFPMC; the auditor issued unmodified (clean) opinions on the financial statements of the active projects implemented by FFPMC with no critical recommendations in the management letters), and it has thus been agreed that similar audit arrangements will be adopted for the Project. The audit of the Project financial statements will be conducted by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank and procured by the FFPMC, according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

14. The annual audits of the Project financial statements will be provided to the Bank within six months since the end of each fiscal year, also at the Project closing. If the period from the date of effectiveness of the loan to the end of the Borrower's fiscal year is no more than six months, the first audit report may cover financial statements for the period from effectiveness to the end of the second fiscal year. The Borrower has agreed to disclose the audit reports for the Project within one month of their receipt from the auditors and acceptance by the Bank by posting the reports on the web-site of FFPMC (www.ffpmc.am) or other official websites of the Borrower. Following the Bank's formal receipt of these reports from the Borrower, the Bank will make them publicly available according to World Bank Policy on Access to Information. The cost of the audit will be financed from the proceeds of the Project.

Disbursement Arrangements

15. The FM staff of the FFPMC is well aware of the Bank's disbursement procedures. FFPMC will establish a DA, in USD, specifically for this Project, in the Single Treasury Account of the Ministry of Finance at the Central Bank of Armenia, which is holding almost all DAs for ongoing World Bank projects in Armenia. The Project's DA will be managed by FFPMC. The SOE (Statement of Expenditure) based disbursement method will be applied for the Project.

16. Project funds will flow from the Bank, either: via the DA to be maintained in the Treasury, which will be replenished on the basis of SOEs or full documentation; or (ii) on the basis of direct

payment withdrawal applications and/or special commitments, received from the FFPMC. Withdrawal applications documenting funds utilized from the DA will be sent to the Bank at least every three months. The following disbursement methods may be used: Reimbursement, Advance, Direct payment and Special Commitment. The DA ceiling is proposed to be established at USD 1,500,000. Withdrawal Applications under the project will be submitted to the Bank to cover the project expenditures exclusive of tax. The taxes will be paid by the Government. The terms of reference for the audit of the Project Financial Statement will specifically request the auditor to pay particular attention to whether the amounts claimed to the Bank are exclusive of taxes. Detailed instructions on withdrawal of the loan proceeds are provided in the Disbursement Letter. The government funding will be made via the State Treasury through normal budget allocation procedures initiated by the implementing agency in accordance with standard Treasury and Budget execution regulations. Government counterpart funding is assessed to be adequate for a number of years. Meanwhile the recent economic slowdown and accompanied sharp depreciation of the local currency, if persist, may have adverse impact on the level and timeliness of the government counterpart funding.

Procurement

17. The project risk for procurement is deemed “Moderate”. The assessment concluded that the FFPMC procurement staff are familiar with Bank procurement procedures and have acquired the adequate experience and capacity under the previous and currently implemented WB projects. However risks have been identified with respective mitigation, taking into account the circumstances outlined in Section VI – (D) above. The procurement related risks are summarized in the table below:

Summary Risk Assessment

Description of Risk	Rating of Risk	Mitigation Measures	Rating of Residual Risk
The existing procurement specialists within FFPMC are already assigned to manage several foreign-financed projects.	Moderate	Assignment of a dedicated specialist for the proposed project considering the workload of the specialists in the unit	Low
The multi -stakeholders environment the possible interferences and pressures could result to delay of the implementation	Moderate	Ensure (i) project implementation is protected from the interferences and pressures of special interest groups to avoid delays; (ii) transparent decision making based on disclosed evaluation criteria in bidding documents and proposal documents.	Low
Slow and incomplete development of technical specifications and	Substantial	Improve the technical capacity of FFPMC and PMG through training	Moderate

bidding documents			
The technical expertise lies in the relevant stakeholders and FFPMC is only accountable for fiduciary responsibilities. Ineffective splitting implementation responsibilities between technical /managerial and fiduciary staff may lead to delays in implementation.	Substantial	Precise identification /delegation of the responsibilities should be provided in the POM and followed strictly	Moderate

18. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services Under IBRD Loans and IDA Credits and Grants" dated January 2011 and revised as of July, 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised as of July 2014 (Consultant Guidelines) and the provisions stipulated in the Legal Agreement (LA) and POM. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply. The implementation arrangements are described in the Project Operational Manual (POM) which has already been prepared by the Implementing Agency and submitted for the Bank's review and approval.

General Procurement Notice

19. A General Procurement Notice (GPN) was published on August 17, 2015 in UNDB online. Specific Procurement Notices (SPN) and REOI will be published for all ICB procurement and consulting contracts per Guidelines, as the corresponding bidding documents and RFPs become ready and available.

Thresholds for Procurement Methods

20. **Goods (including ITC) and Non-consulting services** shall be procured under contracts awarded on the basis of International Competitive Bidding (ICB). The following methods other than ICB may be used for procurement of Goods (including ITC) and Non-Consulting Services: i.e. National Competitive Bidding (NCB) for contracts estimated less than USD 1 million; Shopping (SH) for contracts estimated to cost USD 100,000 or less; and Direct Contracting (DC).

21. NCB of the borrower may be used for procurement of goods and non-consulting services for the project, provided that the following provisions are complied with:

- a) Entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the government unless they are and can be shown to be legally and financially autonomous and operate under commercial law.
- b) Post-qualification criteria shall only pertain to past contract performance, financial, managerial, and technical capabilities of bidders.

- c) Joint venture partners shall be jointly and severally liable for their obligations.
- d) Estimated contract prices shall not be advertised.
- e) No bids shall be rejected at the bid opening. The opening procedures shall comply with conditions of paragraph 2.45 of the Procurement Guidelines
- f) No bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.61–2.64 of the Procurement Guidelines are met.
- g) All bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria.

22. **Consultant Services and Training.** Consultancy services to be provided by consulting firms shall be procured through Quality and Cost Based Selection (QCBS) method. Other methods such as Fixed Budget Selection (FBS), Consultant Qualification Selection (CQS), Least Cost Selection (LCS), and Single Source Selection (SSS) shall be made available through legal agreement irrespective of the amount. Individual Consultants (IC) will be selected in accordance with Section V of the Consultancy Guidelines. For assignments estimated to cost US\$ 300,000 and less, the shortlist may comprise only of national firms according to the paragraph 2.7 of the Consultant Guidelines. However, if foreign firms express interest, they shall be considered.

23. **Operating expenditures.** Operating expenditures are not subject to the Procurement and Consultant Guidelines. The procurement under this category may follow the national procedures. Nevertheless, in case of selection/appointment of the managerial and key staff of both FFPMC and PMG, the Borrower shall provide the Bank team with the ToR and the qualification assessment report of the selected candidate for review and no-objection, prior to offering the contract to him/her. Operating cost will not include salaries of civil servants.

Post Review Ratio

24. Contracts not subject to Bank's prior review will be post reviewed by the Bank's supervision missions and/or during regular post reviews by PAS on sampling basis, that is, one out of every five contracts. Post-review ratio is 20 percent.

Filing and Record Keeping

25. FFPMC will be responsible for adequate filing and record keeping. The Center has experience in this activity from other Bank-financed projects.

Anti- Corruption Measures

26. The borrower shall ensure that the project, including procurement, is carried out in compliance with the current version of the Bank's Anti-Corruption Guidelines. All bidding documents, including contracts, used under the Project shall include the latest version of the provisions on fraud and corruption. All members of the evaluation committees shall sign a disclaimer on absence of conflict of interest and confidentiality for each evaluation process.

27. **Procurement plan.** For each contract to be financed under the project, the selection method, the estimated cost, prior review requirement, and time frame have been agreed between the borrower and the Bank and presented in the procurement plan (see: Annex 7).

28. In case of a slice and package arrangement, the prior review threshold is determined based on the aggregate value of individual contracts to be awarded under such arrangement. The TOR of consulting assignments (individual and firm) and technical specifications of ICT packages are subject to prior agreement with the TTL. All cancellation of selection process and/or re-invitation shall be subject to Bank’s prior review. All the contracts whose cost estimation was below the Bank’s prior review threshold are subject to prior review if the financial offer of the selected firm exceeds such threshold at the proposals evaluation stage. Irrespective of the thresholds the selection of all consultants (firm and individuals) hired for legal work or for procurement activities as well as the individual hired for long-term technical assistance or advisory services for duration of the Project (or most of it) are subject to prior review.

29. The Procurement Plan will be updated at least semiannually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan its updates or modifications, shall be subject to the Bank’s prior review and no objection before implementation. The final version of the Procurement Plan will be disclosed (without of cost estimation) and posted on the Bank’s external website in accordance with paragraph 1.18 of Procurement Guidelines and paragraph 1.25 of the Consultants Guidelines and on free accessed [website www.procurement.am](http://www.procurement.am).

30. **Prior Review Threshold: Procurement** decisions subject to prior review by the Bank as stated in Appendix 1 to the Procurement and Consultant Guidelines.

Procurement Method USD		Prior Review Threshold USD
1	ICB (Goods) packages	All contracts
	IT system and non-consulting services	> 1,000,000 and first contract irrespective of estimation
2.	NCB (Goods) packages >USD 100,000 and < 1,000,000	First contract
3.	Shopping (Goods) packages ≤ 100,000	First contract
4.	Direct contracting (Goods)	> 50,000

	Selection Method	Prior Review Threshold USD
1.	Competitive Methods (Firms)	>500,000 and first contract irrespective of estimation
2.	Single Source	> 5,000
3.	Individual	> 100,000

31. **Any Other Special Procurement Arrangements:** The PSMP III project will use Armenian e-Procurement System (ARMEPS) for all Shopping procurement methods as it provides continuity between the previous PSMP I and II projects. As part of the PSMP I, the MOF, which was supported functionally by the Procurement Support Center (PSC), has continued to improve transparency in public procurement processes by adopting international standards. The Law on State Procurement was enacted in 2011 and provides a good legal framework for second generation reforms, including the introduction of e-procurement. The unified e-procurement system was launched in 2012 and a user manual was developed to ensure effective functioning. The current system has reduced the volume of paperwork and has increased transparency. As a result, in April 2014, the Bank agreed to use the government's e-procurement system for projects financed by the Bank for procurement methods of Shopping and National Competitive Bidding (NCB).

Environmental and Social (including safeguards)

32. Environmental and social screening of the project resulted in its classification as a Category C operation. The project will not support any physical works and neither will it provide such technical assistance that may carry tangible indirect environmental impacts. Based on the World Bank's safeguard policy, the project activities do not require environmental assessment and they are not subject to clearance according to the national environmental legislation.

Annex 4: Implementation Support Plan

Republic of Armenia: Public Sector Modernization Project III (P149913)

Strategy and Approach for Implementation Support

1. The Bank will provide project implementation support for mitigation of implementation risks stemming from political economy of the reform and lessons learned from PSMPI and PSMPII. The assessment of the relevant implementation risks has been assessed and presented using SORT framework. The key features of the implementation strategy are reflected below.

2. *Policy Dialogue.* The project seeks to improve efficiency and effectiveness in the public sector through the development of a Government Financial Management Information System and the selected e-Services. Some reform resistance may be anticipated where the project limits the scope for gatekeeping, corrupt practices and conflict of interests in public administration. The project tackles resistance through technical solutions – improved security, interoperability and integration of the relevant electronic government systems – and change management. However, there may also be opportunities to reinforce reforms through policy dialogue in the context of the proposed program of Development Policy Operations. The Bank teams will coordinate closely within the project teams.

3. *Technical and Change Management Support.* The client has invested significant time and effort in preparation for implementation of the project. The first component of the project, supporting implementation of GFMIS, is backed up by several rounds of functional reviews and development of technical specifications, as well as capable change management team and sound arrangement at the ICT unit of the MOF. The remaining substantive project components, supporting electronic governance reforms and capacity building for training of civil servants, build on the previous work under the Bank support and the lessons learned over the last decade. The Bank team will provide day to day support on planning and implementation of project activities and related change management interventions. The quality assurance for the technical design will be ensured through review of the procurement and substantive aspects of project activities. Where needed, the Bank team will bring international change management expertise in project implementation support during supervision missions.

4. *Result Monitoring.* Regular supervision missions will assist the Government in tracking progress towards achievement of the project objectives and advise on adjustments in project design. The everyday monitoring activities will be conducted under the leadership of the Project Manager.

5. *Procurement.* The implementation support by the Bank will include: procurement relevant training for the PMG; detailed guidance on the Bank's Procurement Guidelines; review of procurement documents; and) monitoring procurement progress against the Procurement Plan. Periodic site visits for physical inspection and post reviews will be carried on selected contracts subject to post review.

6. *Financial Management.* As part of its project implementation support and supervision missions, the Bank will conduct risk-based financial management implementation support and supervisions within a year from the Project effectiveness, and then at appropriate intervals. During

project implementation the Bank will supervise the Project’s financial management arrangements in the following ways: review the project’s semi-annual IFRs as well as the Project’s annual audited financial statements and auditor’s management letters and remedial actions recommended in the auditor’s management letters; and during the Bank’s on-site missions, review the following key areas: (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement arrangements and financial flows, including counterpart funds, as applicable; and (iv) any incidences of corrupt practices involving project resources. As required, a Bank-accredited Financial Management Specialist will participate in the implementation support and supervision process.

7. The team will maintain continuity of the dialogue with Government counterparts on technical and policy aspects of project implementation. The Bank will ensure two implementation support missions annually. Field based team will ensure uninterrupted implementation support between the formal missions.

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	Resource Estimate	Partner Role
<i>First twelve months</i>	Establishing Steering Committee and Technical Working Groups; Selection of key consultancies on e-government, strategic planning, civil service/AAPA capacity building initiatives, phased implementation of GFMIS, e-governance reforms (including strategic plan and roadmap for e-governance initiatives), Needs Assessment for Civil/Public Service and capacity building initiative in collaboration with AAPA, upgrading MoF IT systems and infrastructure.	Senior Economist - TTL; Senior Public Sector Specialist- co-TTL; Procurement Specialist; FM Specialist, Fiduciary review; Specialist/Consultant on GFMIS; e-governance specialist.	US\$ 200,000	Participation in implementation support missions
<i>12-55 months</i>	Phased implementation of GFMIS and e-gov initiatives, civil/public service capacity building, upgrading MoF IT systems and infrastructure.	Senior Economist - TTL; Senior Public Sector Specialist- co-TTL; Procurement Specialist; FM Specialist, Fiduciary review;	US\$ 150,000 per year	Participation in implementation support missions

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
		Specialist/Consultant on GFMIS; e-gov specialist.		
56-60 month	Completion of project activities Data collection and preparation of the ICR.	Senior Economist - TTL; Senior Public Sector Specialist- co-TTL; Procurement Specialist; FM Specialist, Fiduciary review; Specialist/Consultant on GFMIS; e-gov specialist.	US\$ 120,000	Participation in implementation support missions

Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks per year</i>	<i>Number of Trips</i>	<i>Comments</i>
TTL Project Management and Support	20 weeks	2 missions per year	HQ based
Co-TTL Project Management and Support	20 weeks	None	Field based
GFMIS Specialist	5 weeks	2 cost-shared missions per year	International
IT Specialist	4 weeks	2 cost-shared missions per year	HQ based
Procurement Specialist	4 weeks	None	Field based
e-Governance Specialist	6 weeks	2 missions per year	International
FM Specialist	3 weeks	None	Field based
Social Specialist	1.5 weeks	None	HQ based

Partners

<i>Name</i>	<i>Institution/Country</i>	<i>Role</i>
European Union	European Union	Parallel financing of activities in areas of Performance Budgeting/PFM reform Strategy and e-Governance.
GIZ	Germany	Parallel financing of activities in internal control, external audit, performance budgeting and parliamentary oversight.

Annex 5: Technical Analyses on PFM Reforms in Armenia

Republic of Armenia: Public Sector Modernization Project III (P149913)

1. The Republic of Armenia introduced systematic public financial management (PFM) reforms early in its transition. The Budget System Law passed in 1997 has been amended several times and serves as an organic budget law. The budget classification was upgraded in 2005 based on the Government Finance Statistics Manual 2001 (GFSM 2001) and since 2008 meets GFSM 2001 requirements for the central government. The Treasury was established in 1996 and in 2001 a Treasury Systems Law was enacted institutionalizing the treasury single account, budget execution and cash flow management procedures and practices. In 2002 a Medium Term Expenditure Framework (MTEF) was introduced and subsequently institutionalized by amending the Budget System Law in 2003. Through these reforms, the policy orientation of the budget process was strengthened to better align with ADS for 2014-2025 which lays out the country's policy priorities. Program budgeting (PB) reforms began in 2004. Early progress was made after the development and approval of the first PB methodological guidelines by piloting it in several ministries (Healthcare, Social Security, Education and Science, Culture), where the budgets in those ministries included PB format as an annex in the quarterly allocations of the annual state budget. Some progress has also been made in the development of non-financial quantitative indicators for policy measures in several budget programs. A Law on Accounting by Public Sector Organizations was approved in June 2014 and a new Chart of Accounts consistent with the law was approved in April 2015.

2. In 2008 the Government of Armenia (GoA) conducted a comprehensive Public Expenditure and Financial Accountability (PEFA) self-assessment. Based on this assessment, Strategy for Reforming Public Finance Management System (PFM Strategy) was prepared and approved on October 28, 2010 (Government Protocol Decree №42). The PFM Strategy laid out the scope and sequencing of reforms to be implemented from 2010-2020. Action Plan for Stage 1 of the reforms covering 2010-2014 included the implementation time schedule and performance indicators. In August 2015 the Ministry of Finance circulated the final draft of the revised Strategy and Action Plan for 2015-2020 to its external partners for comments. The PFM Strategy addresses the following key areas: macro-forecasting; revenue policy; strategic planning; MTEF and budget preparation; treasury system; debt management; public sector accounting; public procurement; internal public financial control and internal audit; corporate accounting and auditing; financial management and control of state owned organizations; financial management of local self-governance bodies; and the development of the supporting GFMIS. In addition, the document defines the coordination and monitoring arrangements across the Government and within the MoF, with special emphasis on the roles of MOF collegium, PFM working groups and the Secretariat. A number of the reforms specified in the PFM Strategy are described in greater detail in several supporting sub-strategies and legal documents: the Strategy on Implementation of Accrual Basis IPSAS (2010); the Public Internal Financial Control Strategy (2010); Public Debt Strategy (2010); MoF operational plan for 2012-2018 for PB reforms (2009); and Transition towards Armenian Public Sector Accounting Standards (APSAS - proxy for IPSAS) to be implemented in 2016-2018.

3. The objective of these reforms is to increase the efficiency of public expenditure management which will, among others, lead to: improved delivery of public services and quality

of expenditure policies; strengthened fiscal discipline to ensure macroeconomic stability and predictability of the budget system; establish more clear links between the funds and associated policy priorities, efficient, effective, and economic use of funds to enhance value for money, and greater accountability in public spending. The core vision of the reforms is “*Centralized regulation-decentralized management*”. In order to accomplish this goal, PFM reforms should facilitate the establishment of a management culture that will ensure centralized regulation of PFM procedures while simultaneously granting more powers to managers and an increased accountability for their use of resources.

4. The PFM Strategy of 2010 defined three successive reform stages: Stage 1 covered the period of 2010-2014 and was supposed to complete the work on changes in the basic systems (MTEF, treasury, debt management, public sector accounting, public procurement) and control mechanisms (internal control and audit) while gradually transitioning from the centralized administration to a decentralized and results-based program management; Stage 2 envisages actions towards achieving increased managerial accountability; and Stage 3 places an increased emphasis on the efficiency and effectiveness of allocating and utilizing public resources.

5. Business processes were reviewed in all areas of the PFM system to ensure that the PFM system is interconnected and complementary and that appropriate managerial accountability and control systems are in place. The financial management system and a unified information management system (GFMIS) will be developed to automate PFM processes at different levels. Staff technical capacity, and especially of those working in spending units for PFM system will also be strengthened through on-going training and skill development.

6. The GoA decided to upgrade 2008 PEFA assessment with EU support to take stock of progress in PFM reforms. The PEFA repeat self-assessment was published in May 2014. The report indicates that PEFA ratings are strong for 16 out of 28 performance indicators. Compared to 2008 PEFA, they have remained steady or show improvements and include the following areas: budget credibility, transparency, revenue administration, cash management, internal audit, accounting and reporting, and external audit. Treasury software, which was developed and upgraded by a local vendor, works reasonably well and continues to be improved.

7. That said, there are notable weaknesses in the PFM system. Aggregate expenditure control is hindered by weaknesses in revenue forecasting and inadequate monitoring of fiscal risks. The budget is still not fully used for strategic allocation of resources, largely due to centralization of decision-making. There are shortcomings in internal control systems for both payroll and non-salary expenditures. Government is unable to prepare auditable financial statements. The 2014 PEFA assessment also argues that upgrading the IT system that underpins the current PFM system is the most important challenge and remains a necessary condition for further progress in PFM reforms.

8. The World Bank actively supported the implementation of the PFM Strategy through a wide range of activities. These include: a Sub-national PEFA Assessment of Yerevan City which was completed in October 2013 and development of a Yerevan City PFM System Reform Strategy (supported by SAFE TF); reforms of the internal audit including the development of legislation, standards, and methodology together with staff training and implementation of best practice ECA audit management software (supported by two IDFs); reforms of the public sector accounting

(supported by two IDF grants) with APSAS, chart of accounts, strategy, and draft law on public sector accounting developed; and design of budget organization level APSAS-based accounting software.

9. GoA and MOF with EU support have prepared a draft status update of Stage 1 of PFM Strategy Implementation and a detailed Action Plan for Stages 2 and 3. The Action Plan is based on PEFA 2014 findings and includes on-going support for PFM reforms from key donors. The most important projects are listed below.

10. **EU Twinning³ Project.** *Strengthening the regulatory and institutional framework of Public Internal Financial Control (PIFC) and supporting the Central Harmonization Unit in its role of operationalizing the new systems in the Republic of Armenia.* The project, with a budget of about one million Euros, was launched in September 2014. The aim of the project is to assist the Central Harmonization Unit (CHU) within the MoF to implement PIFC operations based on best EU practice. The project will support the introduction of comprehensive public internal financial control system by enforcing the implementation and development of the reforms of public internal financial control system, including its three main components; financial management and control based on managerial reporting; internal audit providing due assurance at all management levels; and central harmonization unit that defines standards to ensure the regulation of relations in terms of public internal financial control. The CHU will support the implementation of financial management control systems and establish an effective and an efficient network of professional Internal Audit Services (Units). The duration of the Project is 24 months and is implemented by the Swedish National Financial Management Authority.

11. **EU-GIZ joint Project on Armenian External Control System.** The objective of the EU funded €1,060,000 grant is to strengthen the independence, effectiveness, and transparency of the Armenian External Control System. By September 2016 the project is expected to undertake a standardized assessment that provides detailed information for future evidence-based reform planning; develop capacity and methodology to conduct INTOSAI Standards compliant audits; and align the regulatory framework and practices of the external control system with INTOSAI Standards and European good practice. In cooperation with GIZ the Chamber of Control has established a special working group to carry out performance audits. The working group will introduce ISSAI 3000-3100 (performance audit) standards. A pilot performance audit is to be launched in 2015.

12. **Parliamentary Oversight.** With GIZ's support, the framework for establishing an independent budget office within Parliament is in place and became effective on January 1, 2015. The legislative framework for introducing Programme Based Budgeting (PBB) was adopted by Parliament. The GIZ support to the Budget Committee will focus on establishing the budget office and developing its capacities. Political independence and continuity of service are two fundamental elements that are essential for GIZ support in order to ensure the sustainability and analytical capacities available to all fractions and committees in the Parliament. Areas of capacity development will include the deliberations on the financial quarterly reports of Government and the audit reports of the Chamber of Control.

³ European Neighborhood and Partnership Instrument (ENPI)

13. **Budget Reform.** In the field of budget reform, MOF with GIZ's support made important steps towards the introduction of PBB. The important first phase of introducing PBB has been completed. The legal framework has been adapted and a PBB methodology as well as a first set of programme passports and financial indicators have been developed. The second phase requires the full rollout to all line ministries. While the budget is currently presented to Parliament on line-item and programme basis, the complete shift to PBB is envisaged in 2018. However, major challenges remain. An important task will be the coordination amongst relevant public finance institutions during the third phase of PBB implementation in an inclusive, well-sequenced manner.

14. **Public Internal Financial Control.** The support of GIZ to MOF on PIFC will comprise four areas. They comprise the development of a comprehensive qualification system for internal auditors, including training materials, and training on the use of the IT-software, on compliance, and system audit; advisory services on the establishment of the financial management control function in cooperation with the envisaged EU-Twinning project and a risk management system and enhanced managerial accountability; adaptation of the Public Internal Financial Control (PIFC) function in line with the new requirements of PBB; and strengthen regional cooperation and exchange of experience to support the implementation of the Memorandum of Understanding signed with the Georgian internal audit colleagues.

15. **EU Budget support.** Currently EU has two ongoing Budget support operations with prior actions related to the governance reforms in PFM (external audit, accounting, PIFC, debt management and public procurement), Transparency (data protection, e-governance and travel document security) and Trade (Customs). In 2014 the PFM related prior actions included the definition and adoption of Armenian Public Sector Accounting Principles accompanied by a time-bound strategy of implementation; adoption of Standards on Internal Audit in the public sector of Armenia in line with article 13 of the Law on Internal Audit (No. 17-A of 22nd of December 2010) and with recognized international practice; reorganization of the Public Debt Management Department in the MoF in line with the 2011-2013 Public Debt Strategy (Ministerial Order 150/a, 2010) and adoption of the new structure and charter; and approval of order for procurement appeals and training curriculum for procurement officers including members of Appeals Body Council programs for development of necessary capabilities. For 2015, prior actions include the development of a mechanism according to recognized international practice for the training and qualification of public procurement specialists across all Armenian institutions covered by the Public Procurement Law.

Annex 6: Economic and Financial Analysis (in detail)

Republic of Armenia: Public Sector Modernization Project III (P149913)

1. Economic analysis of the project considers direct benefits and costs associated with the changes in economic welfare arising from the project. The reforms proposed under PSMP-3 are expected to generate numerous economic benefits, mainly in the form of additional efficiency gains. However, quantifying many of these benefits depends on the availability and reliability of data. This analysis provides estimates of benefits and costs using data obtained from the Ministry of Finance, Statistical Office and other agencies of the Government of Armenia (GoA).

2. The main direct benefits of PSMP-3 include: savings from administrative efficiency for the government; reduced transaction costs for citizens in accessing public services; and reduced compliance costs for the private sector in obtaining services. The implementation of the GFMIS will generate, among others, cost savings stemming from more effective expenditure controls, public procurement, and treasury and cash management. There will be potential improvements in transaction processing and record keeping through automation that can reduce administrative overhead costs. The implementation of the e-Government services is expected to generate efficiency gains for the private sector and citizens. Tangible benefits that are susceptible to measurement include improved access to selected services and reduced transaction and compliance costs in obtaining these services. While the implementation of the e-Government system is expected to generate a wide range of e-services, the estimation of economic benefits is focused on the two e-services, namely e-Consular and e-Transport services. The lack of data for the remaining e-services at this stage precludes the estimation of their economic benefits.

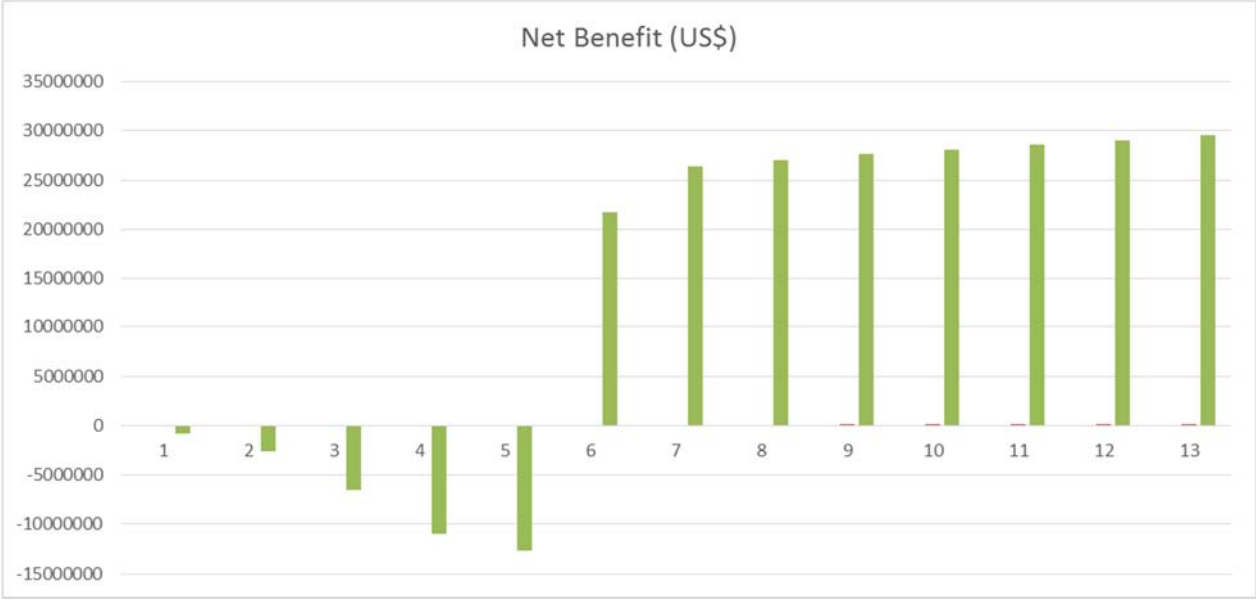
3. There are significant additional economic benefits which are difficult to quantify and value. In particular, benefits of the GFMIS will, over time, translate into improvements in the efficiency and effectiveness of public spending and public services benefiting both the private sector and citizens. The e-Government system will also generate intangible benefits for citizens and private firms. These include improvements in transparency, customer satisfaction and greater trust in government.

4. In the economic analysis, economic costs involve resources that will be invested in the project, including all sources of financing, and expenses that will be incurred to operate and maintain the GFMIS and e-Government system. Such costs will encompass value of an investment, government staff time associated with the implementation of the project and change management, and operation and maintenance costs of the GFMIS and e-Government system. The introduction of excessive technology will entail financial burden for the government. Therefore, Unified Management Center is established to play a key 'gate keeper' role by ensuring application of unified standards/requirements towards the operation of both state and community electronic management systems and oversee their maintenance. For the GFMIS investment, the analysis takes into account the total amount of investment of the World Bank will provide US\$ 7 million and the remainder will be covered by counterpart funds.

5. The economic analysis suggests that the project generated net benefits and a high return on investment. The net present value (NPV) in real terms is US\$ 51.7 million at 13.7 percent discount rate and the internal rate of return (IRR) is 45 percent. As noted above, this analysis considers the project costs and benefits accruing for the government and project benefits accruing for citizens

from the implementation of the two e-Government services, such as e-Consular and e-Transport services for which data is available. The estimated benefits comprise savings from administrative efficiency for the government and reduced transaction costs for accessing consular services and public transportation as well as reduced wait time in road traffic for citizens. Figure 1 projects net economic benefits. A more detailed discussion of this analysis is provided below.

Figure 1. Net Benefit (US\$) from PSMP-3



Key Assumptions

- (a) The time horizon covers 13 years, including five years for the project implementation and eight years for a lifespan of IT systems.
- (b) The implementation of e-Transport will lead to reduced transaction costs for citizens in accessing public transportation as well as citizens’ wait time in the road traffic. The analysis considers the most traffic congested region—the city of Yerevan—and assumes that 50 percent of population between age of 17-65 uses transportation during working days (220 working days per annum). The expected daily time saving for citizens is 5 minutes. An average monthly wage in Armenia, used to calculate the monetary benefit from time saving, is AMD 171,052 in 2014, and an annual real growth rate for the monthly wage is 2 percent. This benefit will accrue starting from year 6.
- (c) The e-Consular system will result in reduced transaction costs for citizens in obtaining consular services. According to the information provided by the GoA, each year consular offices issue 20,000 non-criminal record certificates, 10,000 civil status records and 5,000 new passports for Armenian citizens living outside of Armenia. In addition, the consular offices extend validity for 10,000 passports annually. 60 percent of all these transactions take place in Russia, and the rest in the USA and Europe. The costs for citizens, including transportation and lodging costs, can be fairly substantial if they need to travel to a different city or region in a foreign country to access consular services. For a citizen,

these costs can be about 100 US\$ per transaction in USA and EU and reach as high as US\$ 500 or more in the Russian Federation. Assuming that citizens will remit 12 percent of savings from using the e-Consular services to Armenia, the expected increase in remittances is US\$ 1.8 million in year 6, and it is expected to grow in real terms by 1 percent from year 7.

- (d) The implementation of the GFMIS is also expected to result in significant benefits. Assuming annual savings from the administrative efficiency are 0.3 percent of total budget expenditure, the estimated benefit is US\$10.2 million in year 6 and it will grow in real terms by 1 percent from year 7. Based on the GoA's Medium Term Expenditure Framework, total budget expenditure will be AMD 1.59 trillion in 2017. It will grow in real terms by 3 percent annually. The efficiency gains stemming from the GFMIs will accrue from year 6. The saved amount of public resources could be potentially used for debt service or reduction of the budget deficit.
- (e) Costs associated with the project implementation include staff time which is equivalent to 4 FTEs per month in 15 government entities. An average monthly FTE in government is US\$ 500 in 2015, and it will grow in real terms by 2 percent annually. The costs will accrue in each year of the project implementation.
- (f) Costs associated with change management comprise staff time of 5 FTEs per month in the varying number of government entities, depending on a year of the implementation and rollout of the IT systems. The average monthly FTE in government is US\$ 500 in 2015, and it will grow in real terms by 2 percent annually. The costs will accrue from year 2 through year 8.
- (g) Costs for the operation and maintenance of the IT systems, including a helpdesk, are equivalent to 10 percent of total value of investment in these systems (US\$ 15 million). The costs will accrue from year 3 of the project and will be US\$ 1.5 million. The real growth rate of these costs is 2 percent annually.
- (h) The discount rate for the economic analysis is a weighted average T-bill rate as of Aug-2014 which is 13.7 percent.
- (i) The exchange rate is AMD 475 to US\$ as of April 29, 2015.
- (j) The annual inflation rate in Armenia is 3.5 percent, and the annual inflation rate in the USA is 2 percent.

6. The financial analysis for the government suggests that the NPV in real terms is US\$ 16.3 million at 10 percent discount rate, and IRR is 30 percent. The NPV in real terms decreases to US\$ 13 million at 12 percent discount rate.

Annex 7: Procurement Plan

Republic of Armenia: Public Sector Modernization Project III (P149913)

Bank's approval Date of the procurement Plan August 21, 2015.

Date of General Procurement Notice (GPN): August 17, 2015

Period covered by this procurement plan: first 18 months after project effectiveness

Goods and non-consulting services / Selection of Consultants.

Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement and Selection and Employment of Consultants:

Procurement Method USD		Prior Review Threshold USD
1	ICB (Goods) packages	All contracts
	IT system and non-consulting services	> 1,000,000 and first contract irrespective of estimation
2.	NCB (Goods) packages > 100,000 and < 1,000,000	First contract
3.	Shopping (Goods) packages ≤ 100,000	First contract
4.	Direct contracting (Goods)	> 50,000

	Selection Method	Prior Review Threshold USD
1.	Competitive Methods (Firms)	>500,000 and first contract irrespective of estimation
2.	Single Source	> 5,000
3.	Individual	> 100,000

Prequalification. N/A

Proposed Procedures for CDD Components (as per paragraph. 3.17 of the Guidelines): N/A

Reference to (if any) Project Operational/Procurement Manual (POM): The final version of the POM, dated August 4, 2015, has already been submitted for Bank’s review.

Any Other Special Procurement Arrangements: The PSMP III project will use Armenian e-Procurement System (ARMEPS) for all Shopping procurement methods as it provides continuity between the previous PSMP I and II projects. As part of the PSMP I, the MOF, which was supported functionally by the Procurement Support Center (PSC), has continued to improve transparency in public procurement processes by adopting international standards. The Law on State Procurement was enacted in 2011 and provides a good legal framework for second generation reforms, including the introduction of e-procurement. The unified e-procurement system was launched in 2012 and a user manual was developed to ensure effective functioning. The current system has reduced the volume of paperwork and has increased transparency. As a result, in April 2014, the Bank agreed to use the government's e-procurement system for projects financed by the Bank for procurement methods of Shopping and National Competitive Bidding.

Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost \$300,000 or less per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Summary of the Procurement Packages planned during the first 18 months after project effectiveness:

Ref. No.	Description	Type	Estimated Cost (US\$, Million) (Tax Inclusive Amount)	Number of Packages	Procurement Method	Domestic Preference (Yes/No)	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
Component 1: Public Financial Management Information Systems									
Subcomponent 1.1.: Development of the GFMIS									
1.1	Supply and Installation of Government Finance Management Information System (GFMIS)	ICT		1	ICB	No	September, 2016	Prior	SBD for IS1STG
Sub-component 1.2: Support for PFM reforms									
1.2.1	TA on Accounting and Audit	CS		1	CQS	No	March 2016	Post	RFP
1.2.2	TA on Budgeting	CS		1	CQS	No	June 2016	Post	RFP

Ref. No.	Description	Type	Estimated Cost (US\$, Million) (Tax Inclusive Amount)	Number of Packages	Procurement Method	Domestic Preference (Yes/No)	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
1.2.3	Capacity Building for PFM training	CS		1	CQS	No	November 2016	Post	RFP
TOTAL Component 1									
Component 2: e - Governance Solution for Improved Service Delivery									
Sub-component 2.1: e - governance policy, institutions, and Capacity									
2.1.1	Strengthening Policy and Institutional setup of e governance management	CS		1	CQS	No	September 2017	Post	RFP
Sub component 2.2: e – governance platforms and service enhancements									
2.2.1 Interoperability									
2.2.1	Integration, Interoperability, Connectivity of Systems (X-Road or Centralized) and Security Standards	ICT		1	ICB	No	October 2016	Post	SBD for IS1STG
2.2.2 Data Center									
2.2.2	Procurement of equipment for Data and Back-up Center	ICT		1	ICB	No	January 2016	Prior	SBD
2.2.3 Internal electronic management systems for public servants									
2.2.3	Supply and Installation of Upgrade and consolidation of G2G systems for public administration (EDMS, HRM, etc.)	ICT		1	ICB	No	March 2016	Prior	SBD for IS1STG
2.2.4 Digital pre-trial case management system									
2.2.4	Supply and Installation of e-Criminal case management system for investigative entities	ICT		1	ICB	No	September 2016	Prior	SBD for IS1STG
2.2.5 Enhancement of the system for declaration of assets									
2.2.5	Upgrade of I&A Declaration System	CS		1	CQS	No	April 2018	Post	SSRFP
2.2.6 Introduction of a system for drafting and publishing legal acts									
2.2.6	Supply and Installation of System for electronic normative legal acts	ICT		1	ICB	No	April 2016	Prior	SBD for IS1STG
2.2.7. Developing e-transport modules									

Ref. No.	Description	Type	Estimated Cost (US\$, Million) (Tax Inclusive Amount)	Number of Packages	Procurement Method	Domestic Preference (Yes/No)	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
2.2.7 (a)	Electronic Competition for Bus and Mini-bus Routes	CS		1	CQS	No	May 2018	Post	RFP
2.2.7 (b)	Supply and Installation of Interactive Map and Management System for Public Transportation	ICT		1	ICB	No	January , 2016	Post	SBD for IS1STG
2.2.7 (c)	Procurement of GPS location and ticketing devices for buses and mini-buses (2 lots for regions and Yerevan)	ICT		2	SH	No	November 2016	Post/Prior	ITQ
2.2.8 e-consular system									
2.2.8 (a)	Procurement of Hardware for MFA	G		1	NCB	No	February 2017	Prior	SBD for NCB
2.2.8 (b)	e-Consulate System (modules)	CS		1	QCBS	No	May 2016	Prior	RFP
2.2.9 e Police									
2.2.9(a)	Supply and Installation of Pilot operational management systems for police (in regions)	ICT		1	ICB	No	May 2018	Post	SBD for IS1STG
2.2.9(b)	Supply and Installation of Traffic Accident Insurance Documentation and Claiming Module	ICT		1	ICB	No	May 2017	Post	SBD for IS1STG
2.2.10. e-Licensing									
2.2.10	Supply and Installation of e-Licensing System	ICT		1	ICB	No	October 2018	Post	SBD for IS1STG
Sub-component 2.3: Citizen-government interface for accountability									
2.3	Supply and Installation of Unified portal for e-government, Mobile ID, call center and citizen feedback analysis	ICT		1	ICB	No	September 2016	Prior	SBD for IS1STG
TOTAL Component 2									
Component 3 Capacity Building and Small Capacity Building Interventions									
Sub-component 3.1: Civil Service capacity building									
3.1.1	Revision of CS Training System	CS		1	CQS	No	November 2017	Post	RFP
3.1.2	Capacity Building at AAPA for Continues Training for CS (partnership with international public policy school such as LKY)	CS		1	SSS	No	September 2016	Prior	RFP
Sub-component 3.2: Small capacity building interventions									

Ref. No.	Description	Type	Estimated Cost (US\$, Million) (Tax Inclusive Amount)	Number of Packages	Procurement Method	Domestic Preference (Yes/No)	Envisaged Start of Procurement Process	Review by Bank (Prior/Post)	Comments
3.2	Ad-hoc needs for small capacity building interventions	TBD		Multiple	TBD	TBD	TBD	TBD	
TOTAL Component 3									
Component 4: Project Management									
4.1	PMG and PIU Staff and Maintenance	OC							
4.2.	Financial Audit	OC							
4.3.	M&E for the project (including gender related consultations with citizens and civil society)	OC							
4.4.	Training for FFPMC and PMG staff	OC							
4.5	Training and study tours for project stakeholders	OC/CS							
TOTAL Component 4									

SBD for IS1STG – SBD Supply and Installation of Information Systems Single-Stage Bidding (latest edition)

SBD - NCB - SBD Procurement of Goods -NCB (latest edition)

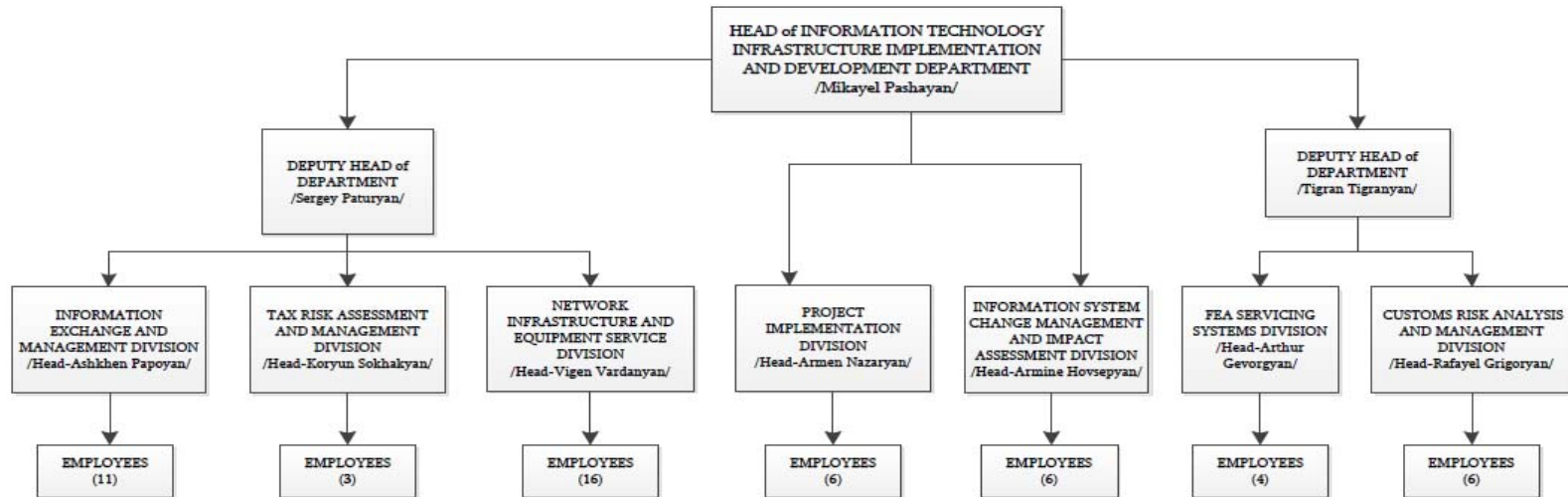
RFP - Standard Request for Proposals (latest edition)

ITQ – Invitation to Quotes (latest edition)

TBD- the procurement/selection method and other data will be determined during the Project implementation on the basis of the TOR/Technical description

Annex 8: Organizational Chart of the IT Department of the Armenian Ministry of Finance

STAFF OF INFORMATION TECHNOLOGY INFRASTRUCTURE IMPLEMENTATION AND DEVELOPMENT DEPARTMENT OF MOF



GFMS SUPPORT TEAM OF INFORMATION TECHNOLOGY INFRASTRUCTURE IMPLEMENTATION AND DEVELOPMENT DEPARTMENT OF MOF

