TECHNICAL ASSISTANCE REPORT

ARMENIA

Enhancement of Public Investment Management Practices for Domestic and Externally Financed Projects

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Authoring Department

Fiscal Affairs Department

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Annexes

Abbreviations and Acronyms

AC	Audit Chamber
AFD	Agence Française de Développement/French Development Agency
AMD	Armenian Dram
BSL	Budget System Law
DPM	Deputy Prime Minister
EIRR	Economic Internal Rate of Return
FAD	Fiscal Affairs Department, IMF
FS	Feasibility Study
GFMIS	Government Financial Management Information System
GFSM	Government Finance Statistics Manual (2014)
LM	Line Ministry
MCA	Multi-Criteria Analysis
MI	Ministerial Instruction
MoE	Ministry of Economy
MoF	Ministry of Finance
MTAI	Ministry of Territorial Administration and Infrastructure
MTEF	Medium Term Expenditure Framework
NPV	Net Present Value
PCN	Project Concept Note
PBB	Performance Based Budgeting
PFM	Public Financial Management
PIC	Public Investment Committee
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIU	Project Implementation Unit
PM	Prime Minister
PMO	Prime Minister's Office
TA	Technical Assistance

Preface

At the request of the Ministry of Finance of Armenia (MoF), a team from the IMF's Fiscal Affairs Department (FAD) undertook an in-person mission from May 2 to May 12 in Yerevan, to assist the authorities in identification of the bottlenecks in the execution of the large foreign-funded investment projects. The mission also provided support in developing an action plan to strengthen the public investment management (PIM) institutional framework and practical implementation of planning, budgeting, implementing, and monitoring of large capital projects. The mission team was led by Mr. Ian Hawkesworth (FAD) and included Mr. Pierre Messali (FAD expert).

The mission team met with the Deputy Finance Ministers: Mr. Eduard Hakobyan, Mr. Avag Avanesyan, Mr. Vahan Sirunyan to discuss the key findings and proposed actions. During the mission, the team had extensive meetings and consultations with senior staff in the MoF, including with: Mr. Argam Aramyan, Head of International Cooperation Department, Ms. Ruzanna Gabrielyan, Head of Budget Process Coordination Department, Ms. Marine Meliqyan, Head of Accounting and Service Division of Debt Management Department, , Ms. Tamara Ghalayan, Head of Division of Coordination of Cooperation with Foreign States and International Organizations, and Mr. Suren Minasyan, International Cooperation Department.

From other agencies, the team met with Ms. Ani Ispiryan, Deputy Minister of Economy; Ms. Lilya Sirakanyan, Head of Department of Public Investment Policy of the MoE; Mr. Armen Manukyan, Head of Department of Investment Programs Coordination, Economic Analysis and Monitoring of the Ministry of Territorial Administration and Infrastructure (MTAI); Ms. Gohar Karakhanyan, Head of Monitoring Division, and Mr. Hrayr Harutyunyan, Head of Investment Programs Coordination Division (both, MTAI); Mr. Hayk Khurshudyan, Acting Head of Finance and Economic Department, and Mr. Yervand Elibekyan, Director of Health Projects Implementation Unit (both, Ministry of Health); with representatives of the Audit Chamber, Sustainable Urban Development Investment Program, and Armenian Territorial Development Fund, as well as with the international financial institutions – World Bank, Asian Development Bank, and the French Development Agency (AFD).

The mission team would like to thank the Government of Armenia for their cooperation and their participation in constructive discussions during the mission, and especially Mr. Argam Aramyan for coordinating mission activities and information requests. The mission would also like to thank Mr. Mehdi Raissi, IMF Resident Representative, and Mr. Vahram Janvelyan, IMF Local Economist, for their guidance and administrative support. Finally, the team would like to thank the interpreters Ms. Marietta Sahakyan and Ms. Lilit Simonyan for their excellent translation assistance.

Executive Summary

This report analyzes current public investment practices in Armenia. It begins with an overview of the Public Investment Management (PIM) process covering the historical background and challenges to be tackled. The next sections discuss bottlenecks and solutions for the domestically and foreign financed projects. It is followed by a multiyear Action Plan. It is worth noting that many of the issues overlap for both types of projects and the Action Plan reflects this – in particular with respect to monitoring and evaluation.

Armenia has in recent years undertaken extensive Public Financial Management (PFM) reforms that have strengthened the overall system and the PIM processes. These changes include the introduction of a Medium-Term Expenditure Framework (MTEF) in 2003, the introduction of performance-based budgeting (PBB) in 2017, and a PFM strategy in 2010 – the latest version covering 2019-2023. A PIM decree was adopted in 2021, substantially amended in 2023, which strengthens the framework and broadly aligns with international standards. The decree introduces a unified planning methodology encompassing domestic and foreign finance, stipulates the responsibilities of the main stakeholders, and defines the key steps. The decree does not address the allocation and implementation phases which are governed by the Budget System Law.

Investment performance has in recent years been low and uneven (Figure 1). There has been a steady execution of domestically financed capital expenditure, but large swings in the execution of foreign financed. There are 20 large projects that are off track in terms of implementation delays (Annex 6). This represents almost half of all ongoing projects and almost 70 percent in terms of value of all projects. Authorities and development partners acknowledge this is related to inefficiencies in the PIM process. Reasons include weak capacity with respect to planning, allocation, implementation and monitoring of projects as laid out in the IMF reports in the 2018 Public Investment Management Assessment (PIMA), in 2019 and 2021.

The main stakeholders of the PIM process are the Prime Minister (PM) and his office (PMO), Ministry of Economy (MoE), Ministry of Finance (MoF), and line ministries (LMs). The PM is the chair of the Public Investment Committee (PIC) that also has participation of MoF and MoE. The PIC decides whether projects can proceed through the various phases of planning and ultimately be accepted and ranked within the official project pipeline. MoE is the secretariat of the PIC and the gatekeeper of the planning phase, scrutinizing all proposals prior to PIC decisions. The MoF is responsible for the allocation phase and monitoring of domestically financed projects. The PM is responsible for monitoring of foreign financed projects.

The new PIM process has not yielded any new ordinary projects, as there were no projects ready for inclusion in the budget for 2024. As can be seen in Table 3, 40 Project Concept Notes (PCNs) have been prepared since 2021. 16 of these were submitted and assessed by the PIC which decided that: 10 could proceed to the feasibility study (FS) stage, five were rejected outright and one was approved for immediate implementation (urgent project). This leaves 24 projects still waiting for approval by the PIC. With limited capacity across the board, there is a danger that the process may become congested, especially as implementation of the new Multi-Criteria Analysis (MCA) methodology will be challenging.

There are challenges around definitions of key terms with regards to investment expenditures, projects, programs, and the ability of the IT system to provide relevant data. There is an issue with new projects being classified as ongoing projects, hereby sidestepping the scrutiny of the PIM process. Moreover, budgeting for new projects may not always reflect the PIC approved amounts but can be more optimistic – i.e., lower. This in turn undermines the validity of the MTEF and the usefulness of the Performance Based Budgeting (PBB) elements of the budget.

Project monitoring is split between MoF and PMO and there is not sufficient capacity and information for it to be effective and ensure that projects move forward effectively. Monitoring is not set up to support decision-making for corrective action. The discontinuation of Project Implementation Units (PIUs) has gradually weakened project implementation capacity and puts a greater burden on the country system. It is therefore a welcome development that the MoF is setting up a Monitoring and Evaluation Unit in its Budget Department.

The report makes recommendations for enhancing the PIM process and to assist the Government in meeting two structural benchmarks under the Stand-by Arrangement with the IMF. [1] For domestically financed projects the key recommendations are to ensure consistency of the definition of public investments across laws and regulations, ensure that all new projects use the PIM process by requiring key information regarding all projects, adopt a gradual approach to implementing the new procedures in the 2023 PIM Decree to ensure that the system is not congested and capacity is built, and redesign the institutional framework for project monitoring, For foreign financed projects the key recommendations are to pilot projects in close coordination with one or more development partners to identify possible needed upgrades to the PIM decree and strengthen the existing monitoring framework using the MoF's new Unit. The following table summarizes the key recommendations of this mission.

[1] Structural benchmarks: (i) Develop an action plan to strengthen the PIM institutional framework and processes, by identifying and addressing the bottlenecks to ensure an effective cycle of planning, budgeting, implementing, and monitoring large capital projects; and (ii) conduct a study to identify bottlenecks in the execution of foreign funded projects.

Recommendations

Domestic financed projects		
Action	**Time/Importance**	**Actor**
1. Ensure consistency of the definition of public investments across laws and regulations guiding PIM to eliminate misunderstandings on the implementation of the new PIM decree.	Q4 2023 **High**	MoF, MoE
2. Ensure that the MoF and MoE have sufficient information on new and ongoing investment projects to appropriately implement the PIM Decree. This can be achieved by requiring that all investment projects above 1 billion Armenia Dram (AMD), regardless of funding source, submit a project concept note as part of their budget submission.	Q1 2025 onwards **High**	MoF MoE
3. Adopt a gradual approach to implementing the new planning procedures in the 2023 PIM Decree. This will enable stakeholders to better understand and implement the new requirements.	Q4 2023 **High**	MoE, MoF
4. Redesign the institutional framework for project monitoring to ensure timely and accurate information on project implementation that supports decision-making by stakeholders on non-performing projects.	Q4 2023 onwards **High**	MoF, MoE, DPM
5. Strengthen the availability of information on public investment projects by addressing the fragmentation of data.	Q2 2024 **Medium**	MoF, MoE, LMs
6. Strengthen the capital budgeting process by better integrating PIM with planning and strategic documents, the MTEF, and PBB.	Q3 2024 **Medium**	MoF, MoE, LMs
Externally financed projects		
7. Develop one or two pilot projects in close coordination with one or more development partners to identify possible upgrades to the PIM decree, other regulation, procedures, tools, and processes that can enhance project outcomes.	Q4 2023 **High**	MoF, MoE, DPM
8. Strengthen the existing monitoring framework underpinning the implementation of externally financed projects to better identify delays in implementation and take corrective action.	Q1 2024 **High**	MoF, MoE
9. Identify actions to enhance regulatory and institutional enabling environment for the implementation of complex projects, targeting the specific issues raised.	Q4 2023 **Medium**	MoF, MoE, DPM

I. Overview of the PIM Process

A. Historical Background

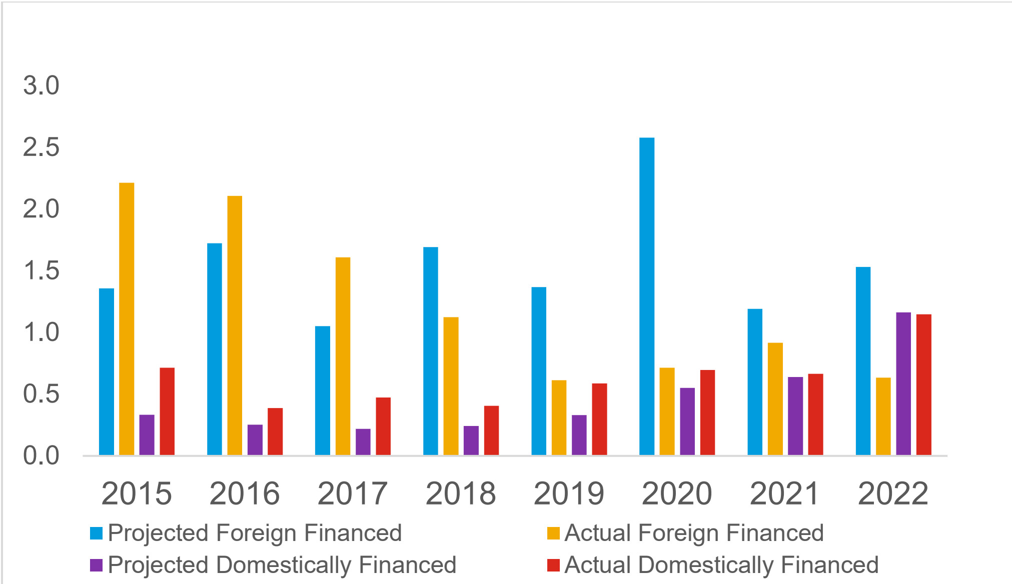
1. **In recent years Armenia has undertaken public financial management (PFM) reforms that have strengthened the overall system and the PIM institutions and processes.** These changes include the introduction of a Medium-Term Expenditure Framework (MTEF) in 2003, the introduction of performance-based budgeting (PBB) in 2017,[2] and adoption of a PFM strategy in 2010 – current version is for 2019-2023. Most recently a PIM decree was adopted in 2021, substantially amended in 2023, which strengthens the PIM framework and broadly aligns it with international standards. The authorities have put the enabling environment in place, now the challenge is to implement and adjust where needed.

2. **Public spending performance in Armenia over the previous years has been impeded by the low and uneven trend of public investment expenditures (Figure 1).** According to the Public Investment Management Assessment (PIMA) in 2018, the profile of public investment alternated between under (before 2015 and 2018 onwards) and over execution (2015-2017). This reflects a steady execution of domestic financed capital expenditure; and large swings in the execution of externally financed. Authorities and development partners acknowledge the trend is related to systemic inefficiencies of the PIM process, rather than to exogenous factors. This affected the national fiscal stance and limited the contribution of investment spending to economic growth and reduction of inequalities.

3. **The over execution of externally financed projects in 2015-2017 was a result of both significant cost overruns and enhanced speed of implementation.** Reasons for this included: conservative projections to ensure spending plans were within allocated fiscal space and fiscal rules; cost overruns of large projects due to additional design and construction works; catch up of delayed works from previous years – e.g., the North-South Highway construction (Tranche 2 financing) was implemented in 2016, resulting in more than 100 percent over-execution; and tenders for construction works moving quicker than scheduled. The slowdown of execution coincided with the disbandment of the PIU units (explained later in the report) and contributes to a reduction in execution over the following years.

[2] Legislative framework was introduced in 2017. It was first applied for fiscal year 2019.

Figure 1. Evolution by Sources of Financing of Capital Expenditures (in percent of GDP)



Source: Ministry of Finance
Note: Defense expenditures excluded

4. **The persistent and widening under execution gap affects a wide array of projects mainly impacting transport, power, and public buildings.** There are 20 large projects that are off track in terms of implementation delays (Annex 6). This represents almost half of all ongoing projects and almost 70 percent in terms of value (USD) of all projects. All but two projects fall under the Ministry of Territorial Administration and Infrastructure (MTAI), which covers several PIU successor units.

5. **The 2018 PIMA identified several key challenges across the PIM cycle, which are echoed by development partners, in particular the WB, ADB, AFD, EBRD.** The PIMA provided a Summary Assessment of the strengths and weaknesses ("Heatmap") of the PIM system (see Annex 3) and the identified gaps to be addressed in this context are listed below:

- *Weak link between planning documents and investment decisions.* This is due to an inconsistency between content and horizon of multiple planning documents, and within project costs and the budget envelope, in particular, the resources in the MTEF;
- *Fragmented and low credibility of framework for investment budget decisions.* Multiyear ceilings for domestically financed projects are not binding and there is a separate decision-making process for externally financed projects;
- *Non-comprehensive information on capital expenditure*. Efforts to consolidate information on capital investment projects in a single database have not been successful and the setup of an IFMIS is behind schedule; and,
- *Weak project management framework*. Ineffective set of rules between key PIM stakeholders for reprioritizing non-performing projects; lack of a centralized structure with the mandate to reprioritize

complex projects when facing implementation problems; limited performance audit, as the Audit Chamber (AC) is mostly concerned with financial audit.

6. The 2018 PIMA report also provided a set of recommendations grouped around eight main actions and an associated action plan. These general recommendations are summarized in Table 1 below.

Table 1. Summary of Recommendations in the 2018 PIMA Report

Planning
1. Improve the hierarchical structure of investments strategy document to: (i) define consistent planning horizons; (ii) ensure consistency of project information, and (iii) include resource envelop constraints. 2. Develop a unified appraisal methodology to ensure comparability across all major projects regardless of financing sources or implementers.
Allocation
3. Establish the MoF's power to challenge the project cost estimate baselines and require reappraisal of the projects for reprioritization when their budgets are persistently under- or over-executed. 4. Amend the Budget System Law to establish restrictions on in-year adjustments to capital expenditure. 5. Establish a project selection process based on a "gateway" approach, where the central agency has a veto on all major projects at the project concept and appraisal stages, together with a centralized pipeline of projects, which have been ranked and selected.
Implementation
6. Improve the system and capacity for public procurement associated with capital projects. 7. Establish a constraint on in-year changes in project implementation plans and complete the transformation of the Audit Chamber from the Control Chamber.
Cross-Cutting issues
8. Establish in the MoF a dedicated unit covering all domestic and externally financed projects, in order to ensure that projects are consistently appraised and selected prior to funding negotiations and inclusion in the budget.

7. Following up on the 2018 PIMA report, the IMF FAD produced two TA reports in November 2019 and November 2021 to provide further insights, updates, and guidance for the PIM implementation reform. These more recent reports and their technical recommendations are very relevant to address the identified challenges.

The 2019[3] report proposed:

- assigning functions, roles, and responsibilities to the PIM stakeholders (Deputy Prime Minister, MoE, MoF and Line-ministries);
- strengthening the appraisal methodology at preparation and selection stages of projects; and,

[3] Armenia - Developing a Framework for Public Investment Management (PIMA Follow-Up). Dominique Guillaume, Arturo Navarro, John Zohrab, Vahram Janvelyan, Mary Betley – Dec 2019

- setting-up a framework for budgeting and monitoring projects.

The 2021[4] report covered:

- the PIM decree issued in May 2021 (see below) and flagged some inconsistencies in the project's preparation process and its limited scope that does not rule the two critical phases of the PIM cycle (allocation and implementation) after projects have been included in the pipeline; and,

- the potential conflicting results of both the PIM and Program Based Budgeting (PBB) when aligning the budgeting and prioritization of projects by focusing on results (inputs, outputs, and outcomes).

The 2019 and 2021 reports included a series of recommendations. Annexes 4 and 5 take stock of their implementation to date. They are also briefly discussed below.

8. The main reforms adopted relate to:

- the planning phase of capital projects with the adoption of a PIM decree in 2021, amended in early 2023. This decree defines a methodology to appraise and select projects broadly in line with international standards. The decree covers many of the eight recommendations of the PIMA report (in particular, recommendations 2 and 5 in Table 1 above) through giving the MoE a leading role in the PIM process;

- the 2003 amendment of the Budget System Law (BSL) to introduce a Medium-term Expenditure Framework (MTEF) and 2017 amendment to introduce a Program-Based Budget system (PBB); and,

- the adoption of the *PFM Strategy 2019* aimed at strengthening the links between the PIM process (including PPP) and the budget and MTEF. While the ambition is clearly set out in the document, implementation is lagging.

9. The 2023 PIM decree institutionalizes the PIM process further and establishes a Public Investment Committee (PIC) chaired by the Prime Minister. The PIC oversees the preparation of projects through its various stages[5] from the production of a standardized Project Concept Note (PCN) until the inclusion in the project pipeline prior to the budgeting phase (Annex 2). The PIC oversees all new[6] projects, regardless of their form (including PPP) and financing (domestically/externally financed), above a threshold of AMD 1 billion.[7]

10. However, the new process has had a limited impact on the preparation of the capital budget. The 2023 Decree does not cover the allocation and implementation phases of the PIM cycle,[8] which is still governed by the 2017 BSL procedure.[9] There is no legal obligation to include projects

[4] Armenia - Public Investment Management and the Budget Process. John Zorhab and Mary Betley – Nov 2021
[5] The decision process of the PIC is streamlined: it must be either a rejection, or an approval for further stage, or a request for further development.
[6] New projects as opposed to continuation of existing projects (see below).
[7] For the projects prepared in 2024 to be included in the 2025 budget. However, for those prepared in 2023 to be included in the 2024 budget the threshold is temporarily fixed to AMD 3 billion.
[8] As defined by the PIM Handbook issued by the IMF in 2022.
[9] BSL stipulates that funding should first be allocated to on-going projects and any remaining funds can then be spent on new projects.

approved and ranked in the PIC’ s pipeline in the budget. The budgeting process continues to be led by the MoF and the Prime Minister (PM) with little intervention of the MoE. The absence of a legal link – i.e., cross references and a unified approach - between the two regulations is justified by the Government by the fact that both the BSL and the PIM decree rule different procedures: the PIM decree prescribes the technical and financial requirements of a project according to its specific objective while the BSL its budgeting according to global fiscal objectives. While the PIM decree states that LMs must include in their budget requests their projects approved and ranked in the PIC pipeline; the BSL does not prevent projects from being budgeted without prior examination through the PIM process. In addition, there is no new procedure to monitor the execution of projects with a portfolio optimalization focus.

B. Current Issues for PIM Reform Implementation

Institutional roles and responsibilities of PIM stakeholders

11. As in many countries, the main stakeholders in the PIM process are the MoE, the MoF, the (PIC), chaired by the PM, and the LMs. The 2021 PIM decree, amended in 2023, sets out the key steps for the planning phase of the PIM process. It stipulates a unified planning methodology regardless of whether a project is domestically, PPP or foreign financed. It also sets out the responsibilities for the main stakeholders of the process. The decree does not address the allocation or implementation phase except by requiring LMs to include PIC approved projects in their initial budget proposal. The decree is broadly in line with international standards and with many of the recommendations from the PIMA and associated TA, however, there are some regulatory gaps that will be discussed further below. Table 2 provides an overview of the main stakeholder in the process and their roles; Annex 2 provides a graphic overview of the process.

12. The PIC, chaired by the Prime Minister: The Committee is the gatekeeper for the planning phase of the PIM process. It decides on whether a project can move from Project Concept Note (PCN) to feasibility study, appraisal and ultimately be included in the prioritized list of projects, the pipeline. It plays no role in the allocation phase, nor with respect to spending decisions regarding the continuation of ongoing projects. Box 1 below outlines the composition and functions of the PIC in greater detail.

13. The Prime Minister chairs the PIC and is responsible for monitoring the implementation of foreign financed investment projects. This work is essentially a discussion between the PM, LM, and relevant development partner to take stock of progress. It does not have dedicated staff that supports this role.

14. The MoE is the Secretariat of the PIC. It ensures that the documentation submitted to the PIC is of sufficient quality to enable the PIC to decide on whether or not a project should proceed. The MoE is responsible for conducting the MCA[10] used for appraising the projects and submits this analysis to the PIC for the scoring to be validated and the projects to be ranked according to importance.

[10] The MCA is a mix of qualitative (e.g., strategic alignment, climate change) and quantitative (e.g., EIRR) criteria used to score and rank projects.

Table 2. Roles and Responsibilities in the PIM Process

Phase	Planning					Allocation	Implementation
Activity	Identifying project	Project Concept Note	Feasibility Study	Project Appraisal	List of priorities (pipeline)		
Legal basis	PIM Decree					BSL and PIM Decree	BSL and various regulations
Public Investment Committee	-	Decision (approval, rejection, or request for further development)	Decision (approval or rejection)	Decision on scoring and ranking of projects	Decision to include selected projects in the pipeline		
Prime Minister	Chair of PIC					-	Monitors foreign financed projects
Ministry of Economy	-	Quality check and pre-selection of project to submit to the PIC	Quality check and submit to the PIC	Lead the appraisal based on MCA method	-	-	Some monitoring of projects jointly with MoF and PM
Ministry of Finance	-	Financial and fiscal constraints check	Financial Check	-	-	Project Budgeting	Monitoring of domestic financed projects with MoE
Line Ministry	Lead	Lead	Lead	-	-	Include selected projects in its budget request	Lead

15. **The MoF is the fiscal guardian and is responsible for monitoring the implementation of domestically financed projects.** It undertakes that role as a member of the PIC where it checks the financial estimates and fiscal affordability of the projects. The MoF is responsible for the budgeting phase. The budgeting process is governed by the BSL which does not make explicit reference to the PIM Decree. The MoF is responsible for the monitoring and evaluation of domestically financed projects and as such is in the process of setting up a dedicated unit to support this work in the MoF Budget Department.

16. **The LMs propose the projects and are responsible for developing project documentation to a sufficient level of quality which is scrutinized by the MoE before submission to the PIC.** If projects are included in the official pipeline of vetted projects, a LM must include it in the initial budget submission. However, the budgeting process then becomes a negotiation conducted between the LM and the MoF which may or may not take a project ranking and its estimated costs into consideration. Projects which are ongoing, but require additional budget funding, are also a matter for the LM and the MoF to decide. The LM must submit financial and non-financial implementation reports to the MoF and the PM. The quality of the documents and the level of analysis is currently weak.

17. **The current institutional anchoring of the core PIM process in the MoE, with a strong MoF role, mirrors practice in many well performing countries and should continue.** It is important to recognize that the fact that implementation difficulties arise is not in itself a sign that the institutional architecture is flawed. In the case of Armenia, the way to ensure a strong PIM process is to enhance the capacity in the MoE and its PIC Secretariat, as well as enhance the role of the MoF in the implementation phase. Moving the PIC to the Ministry of Finance would not be a good idea for several reasons including: i) the technical capacity challenges that are currently observed would remain; ii) an institutional reform of this nature would most likely delay PIM implementation by disrupting initial operational guidance and protocols; and, iii) it could undermines the MoF’s role as the fiscal guardian, as it would be under cross-pressures to deliver a large investment program as well as ensuring a sustainable fiscal policy.

18. **The 2023 Decree clearly requires a streamlining of the process for domestically and foreign financed projects.** However, given the newness of the PIM procedures, externally financed projects have not yet been planned and implemented accordingly. Using the new process for the first time for large, complex, and foreign financed projects will be a challenge, but should be a shared objective of the government and development partners. There is currently some uncertainty from the development partners about how their requirements and the PIM process are aligned, which will need to be ironed out as soon as possible.

Box 1. Composition and core functions of the Public Investment Committee as defined by the 2023 PIM Decree

Composition

- The PIC is chaired by the Prime Minister and composed of the Deputy Prime Minister, the Chief of Staff of the PM, the Minister of Economy, and the Minister of Finance.

- The secretariat of the PIC is held by the MoE. The PIC gathers at least three times a year and for extraordinary meetings at the request of the MoE. Qualified persons may be invited to the meeting. In case of equality of votes, the PM has the casting vote. All meetings are held based on an agenda and a minute is issued after each meeting.

Functions

- The PIC is responsible for the preselection stages of new public investment projects (above AMD 3 billion in 2023 and 1 billion from 2024 based on the PIM methodology defined by the PIM decree (see below). It decides on: (i) the Project Concept Note, (ii) the (pre)-feasibility study, (iii) the appraisal (scoring) and prioritization (ranking) of projects prior to their inclusion in the PIC pipeline.
- At each stage, the decision of the PIC must be motivated and takes only three forms: (i) approving: (ii) rejecting (definitely), and (iii) sending back the project for further development.
- The PIC decides on the scoring and ranking of projects on the basis of a multicriteria analysis which includes six criteria of which : (a) five are qualitative (impact of the project on human capital, significance of the project with regard to public service delivery, strategic compliance with official plans, impact on climate change, and risk assessment including climate risks) and (b) one quantitative (the Economic Internal Rate of Return (EIRR) calculated on international standards).
- The EIRR is defined in the PIM decree (General Provisions, para 5) as “a preliminary financial and economic analysis - preliminary systematic assessment of the financial and economic costs and benefits of the draft project, based on available data and/or preliminary research aimed at assessing the financial and economic viability of the draft project, including the economic internal rate of return (EIRR).”
- The scoring of the projects is then made based on a coefficient attributed to each criterion (from 0 to 3), 3 being the best score possible and 0 the lowest. The quantitative criteria on EIRR scored from 1 (from 0.1 percent to 5 percent of the base rate) to 3 (15 percent more than the base rate). The score is 0 if the EIRR is not calculated or less than 0.1 percent than the base rate.
- For the scoring of the EIRR, the base rate is 6 percent for projects on health and education sectors and 9 percent for all projects of other sectors.
- The scale of aggregated scoring of the six criteria based on the scoring rule of each criterion is 17 (highest score) to 3 (lowest score).
- The PIC also decides on the future course of draft projects that should be implemented in PPP format (in practice, after the (pre)-feasibility study stage).
- At each stage of the cycle, proposed projects are reviewed by the MoE and MoF prior to be submitted to the PIC decision. Their review must be documented.
- Once a project is included in the pipeline, the LM in charge of the project must include it in its earliest budget request during the budget preparation process with the MoF.
- The decisions of the PIC are valid for three years; if not budgeted during this period, the project must follow the same procedure again, in particular being resubmitted to a new feasibility study.
- There is no legal obligation for the MoF to consult the PIC during the budgeting discussions with LMs.
- Projects considered by the Government as urgent and/or involving state secrets are not submitted to the PIM procedure defined by the PIM decree. One project has currently been deemed urgent.

Capacity challenges to effective implementation of the PIM process

19. **The new PIM process has not yielded any ordinary new projects so far, as there were no projects ready for inclusion in the budget for 2024.** As can be seen in Table 3 below, 40 PCNs have been prepared since 2021, 16 of which were submitted and assessed by the PIC, which decided that 10 could proceed to the feasibility study (FS) stage, 5 were rejected outright, and 1 was approved for immediate implementation (urgent project[11]). This leaves 24 projects still waiting for approval by the PIC. The MoE has received seven proposed projects that were returned to LMs for further development prior their submission to the PIC. It is also worth noting that the 10 projects approved by the PIC to move to the feasibility study stage are small or medium sized projects, mostly oriented toward the purchase of equipment and do not constitute 'real' infrastructure projects with land acquisition, construction, and complex design. The only exception is a project related to the construction of a new penitentiary.

20. **There is a risk that only a few projects will complete the planning phase and that a growing number of projects will not move forward, creating a backlog and undermining the credibility of the new process.** The challenge would be further enhanced if (i) projects that have avoided the PIM process are required to use it,[12] and (ii) if more complex infrastructure projects enter the process. It is therefore important to put measures in place that might mitigate this danger. As discussed in Section II below, such measures could be to gradually phase in when projects of a certain size would be required to use the PIM process.

Table 3. Projects Prepared in 2021−22 under the PIM Decree (all domestically financed)

Stage in Approval Process of PCN		Number of PCN
A.	Prepared since 2021 by LM	40
B.	Of these submitted and assessed by the PIC	16
	Of which:	
C.	Approved for Feasibility Study	10
D.	Rejected	5
E.	Urgent project approved for direct implementation[13]	1
F.	Waiting for initial PIC submission (A-C-D-E)	24
G.	Ordinary projects to be included in the 2024 budget	none[14]

Source: Ministry of Economy (May 2023)

21. **The slow progress in moving projects forward is partly because of an overall lack of capacity among the key PIM stakeholders**. The MoE has experienced high staff turnover within the recently established PIM unit, which remains understaffed. The ongoing and commendable efforts of the current MoE staff have not fully remedied this situation. The LMs' insufficient capacity is also a longstanding issue, as their staff are not used to prepare and manage large and complex projects. These were usually externally financed, and until 2018 were managed by the PIUs. The required training of LMs has begun, but the effort needs to be continued. However, it is important to acknowledge how diligently the MoE is implementing its role. The relatively high number of project proposals filtered out (seven

[11] Art. I.3.15 of the decree on "urgent" projects that can be implemented without further review.
[12] New projects mistakenly classified as on-going projects are currently bypassing the PIM process (see below).
[13] Bus station investment considered as urgent.
[14] Except the urgent project above.

returned by the MoE prior to PIC submission and five rejected by the PIC after submission) shows how serious the scrutiny of projects is.

22. The Multi-Criteria Analysis (MCA) as defined by the PIM decree to appraise projects is challenging to implement. The MCA-based scoring and ranking of projects[15] by the MoE prior to submission to the PIC is a commendable initiative. However, it is challenging to implement in Armenia. The weighing of subjective assumptions for project appraisal can be difficult. Relying on only six criteria for appraising a project, even advanced quantitative measures such as EIRR, may distort the assessment of projects in different sectors.[16] In addition, the ranking of the PIC may be ignored entirely as the Decree does not impact the budgeting decision. Given these challenges, many countries choose to gradually phase in the usage of MCA.

Challenges around the definitions of key terms and IT systems

23. The absence of a coherent legal definition of an investment project in the BSL and PIM decree contributes to the slow progress of the PIM reform. New project proposals are frequently and mistakenly classified by LMs and the MoF as ongoing projects, exempting them from scrutiny under the new PIM process. Although these two categories of projects- ongoing and new- are clearly defined in Government Finance Statistical (GFS) terms, their identification by PIM stakeholders during the preparation phase of the budget is uneven. For example, new contracts for segments of the North-South Corridor were presented as ongoing projects during the 2024 budget preparation process, whilst being in fact new projects according to the PIM decree.

24. Part of the reason for this confusion is also a lack of consistency across legislation as to what constitutes a public investment project as opposed to 'public investment expenditures.' The PBB classification adds to the confusion by treating programs and projects interchangeably or by presenting a project linked to a program as on-going while it may be a new project (new contract, new financing) within an existing program. These practices are rooted in a legacy practice and have arisen from the use of unhelpfully broad definitions in the BSL – not distinguishing between expenditures and projects. The 2023 PIM decree's definition is in line with GFS, but it does not govern the budgeting process which is ruled by the BSL. Adopting a clear definition of a public investment project in the BSL should help enforce the new 2023 PIM Decree. Moreover, the PIM decree does not include "replacement of depreciated asset" in its definition of investment expenditure; this is not in line with GFS. A PIM Decree amendment correcting this is therefore needed. This can be done by simply removing the phrase "or replacing an existing depreciated asset" (see Box 2 below).

[15] Six criteria.

[16] The introduction of the EIRR criteria by the decree at the PCN stage is not in line with international practices which recommend introducing this concept only at the later stage of appraisal, when all the necessary technical and economic data are available. The PCN template, however, could include indicative cost estimates, a qualitative indication of expected benefits and leave room for any additional qualitative or quantitative evidence that is available.

Box 2. Defining Public Investment and Public Investment Project

PIM Decree (2023) Definition

Public investment: the acquisition or significant improvement of a non-financial asset … "and restoration, reconstruction, or expansion of the asset aimed at increasing the productivity of the asset or increasing the period of operation shall be considered significant improvement."

Public investment project: public investment through actions aimed at clearly defined objectives and results within a defined period and specifically structured. The costs that are periodic in nature and are aimed at maintaining the current state of the asset *or replacing an existing depreciated asset* are not subject of this regulation."[17]

Recommended amendment to the PIM decree: in 1. General Provisions – 1 – 3 – 2) remove "…or replacing an existing depreciated asset…"

Budget System Law Definition
Article 1.2., part 3: Expenditures related to capital or non-financial assets mean the expenditures envisioned under the State or community programs which result in the creation/ acquisition of non-financial assets listed in Part 7 herein, or their added value.

N.B. The article 1.2., part 3 above does not provide for a definition of an investment project as done in the PIM decree. In order to remedy this absence, the amendment to the BSL below is proposed:

Recommended amendment to the BSL: to article 1.2., part 3: add *"*Capital expenditures with defined objectives and results within a specific time period and structured by an underlying contract or legal document constitute a capital project.*"*

25. The current information system for capital expenditures is fragmented, hereby undermining the quality and availability of project information. Systems are scattered across the MoE and the MoF, making it difficult to reconcile budget and physical execution data, and information of projects through the different stages of their life cycle (see Box 3). The MoF's system records budget execution for budgeted projects, but the MoE's registers projects not yet budgeted. This leads to two different lists of projects that are not easily reconciled.

[17] The writing *in italic* is not in line with GFSM and should be removed.

Box 3. Existing IT systems for Public Investment Management

MoF System

- Centralized budget execution reporting system linked to the payment system and available on-line.
- Capital expenditures are reported with uneven degree of details depending on their classification (program and project classifications are often conflated; this implies that programs may include several projects and does not allow to report project-related expenses) and their budgeting source (externally financed projects are reported only if budgeted; this means that projects agreed during the year are not reported in the MoF system).
- Poor reporting of non-financial information and no geographic financial information.
- Reporting of externally financed projects is based on data provided by the PIU successor units with their own IT system (information transferred semi-manually to the general central payment system generally through Excel sheets).

MoE System

- Reporting of advancement of projects life-cycle until inclusion in the pipeline (stages of execution and for some projects expenses reporting).
- Reporting of externally financed projects either budgeted or not (MoF system does not report non-budgeted projects) based on PIUs reports.

26. **Insufficient granularity of data at the project level undermines the quality of financial and non-financial information for investment projects.** The main insufficiency is the ill-defined classification of capital projects which are often classified, as noted above, as budget programs at a higher level of aggregation. Therefore, information necessary for appropriate reporting and monitoring of the projects is missing. Moreover, the non-financial information about projects is either poor or missing.

27. **The fragmented IT system undermines the allocation, implementation and monitoring processes for domestic and external financed projects.** The externally financed projects are recorded and reported through the PIU successors' systems connected to the MoF central system. Developing a full-fledged IFMIS with a PIM module able to provide the detailed information will help address these issues for both type of projects, in particular, the recording of expenses and real-time detailed reporting. However, such an IT system will require an upgrade and aligning the budget classification of investment expenditures and projects with GFS and PBB international practices. The results of the on-going PEFA[18] should help the MoF define these new requirements and align the updated IFMIS accordingly.[19] The IFMIS PIM module should also be aligned with normal practice.

Closer integration of PIM, MTEF, and PBB Frameworks is needed

28. **Slow implementation of the new PIM process could undermine the MTEF and PBB frameworks, compromising further reforms and modernization of planning and budgeting systems.** Investment expenditures are crucial for budget preparation and execution under the MTEF and PBB frameworks. However, the current insufficient integration between the preparation process of

[18] PEFA led by the EU and the ADB in 2023.
[19] The MoF has already set up working groups to define the design of the new business process and parameters of the future IFMIS.

investment projects outlined in the PIM decree and the multiyear and program budgeting procedure defined by the BSL undermines the use of the future pipeline of appraised and prioritized projects. The 2019 and 2021 FAD TA reports' findings (see Box 4) remain valid and their recommendations essential to linking the on-going reforms.

Box 4. Main findings of the 2019 and 2021 IMF/FAD TA reports about PIM integration with MTEF and PBB

MTEF: Investment projects are multiyear expenditures that fit by their very nature into the multiyear budgeting horizon of the MTEF. Inclusion of multiyear projects into the MTEF secures the budgeting of the first and next tranches, as well as current expenditures necessary after they become operational. This entails the use of the PIM process as a core component of the MTEF. However, currently many investment projects are identified and approved on a case-by-case basis and then budgeted under MTEF ceilings determined separately as part of the macro-fiscal framework's approval. This does not ensure that projects are accurately budgeted within a multiyear horizon and that future operating costs of capital projects are systematically included in the MTEF.

PBB: The integration of PIM process and PBB should ensure an appropriate mix of capital and current expenditure that optimizes service delivery in line with performance objectives. Currently such integration is undermined by two issues:

- investment projects are currently defined as sub-programs (called "measures", second classification level), and may conflict with program classification for larger projects that are often classified as programs themselves, deviating from international practices. Good PBB practice is a three-level-based program classification: program, sub-program, and project (activity level). This latter level is missing in Armenia so that projects are mixed with sub-programs;[20] and
- integration of capital expenditures and their subsequent operational expenditures should be done within each program (in parallel with the MTEF) at the project level. This becomes difficult if projects are not properly identified within the program or conflate with it.

Project Execution and Monitoring should be more effective

29. There are implementation monitoring roles allocated to LMs, MoF, PM – this arrangement is fragmented and based on limited information. The MoF's Budget Department monitors domestically financed projects on a quarterly basis based on execution reports from LMs and the MoF IT system, as noted above. The reports compare capital expenditures against planned amounts in the same format as for the budget. However, the reporting of non-financial data (programs and projects performance indicators) is limited. In parallel, the PM's Office monitors externally financed projects, including on their physical performance, with information provided by the LMs and PIU successor units (see Box 5). It also co-ordinates quarterly meetings with development partners to review their portfolios of projects. Some monitoring at the individual and project portfolio levels is undertaken at the LMs. See also Appendix 7 on performance budgeting in France.

[20] A program or sub-program should not be labeled as a project, even if it is a large project. The reason is that a project is temporary, while a program, or sub-program, is expected to be stable as they correspond to a core LM function.

Box 5. Project Implementation Unit reform and successor units in Armenia

Project Implementation Units are a practice used in many developing countries that have an ongoing lending relationship with international financing institutions such as the World Bank Group, and similar concessional lenders. As is common practice internationally for managing development partner financed projects, PIUs, under the authority of LMs, are responsible for ensuring that donor standards and procedures are followed during the implementation of the project.[21] PIUs are funded out of the project loans and their staff are paid at market rate for project management, usually above public sector salaries.

Armenia has actively used PIU's since these institutions began programs in the country in the 1990s. The Government however, disbanded the PIU units in 2018 referencing a concern as to their effectiveness and efficiency. The perception of high operational costs covered by the loan agreement, and the limited knowledge transfer to LMs from PIUs, drove the decision.

The discontinuation of PIUs gradually weakened the Government's project implementation capacity. The PIU at the MoF, which mainly provided support to the other PIUs, was fully disbanded and there is a broad consensus that this left a capacity gap that has impacted LMs and project implementation. In other cases, the PIUs' status was changed to governmentally owned entities, mostly called "foundations", which gave them some autonomy in their organization, operational procedures, and renumeration policy, but presented a challenge for procurement procedures which needed to be run through the LMs hierarchy. The change in PIUs also worsened an already high staff turnover, weakening technical capacity to manage key issues in complex projects, such as engineering, design, contracting, and navigating the approval process with development partners. This has had a broad-based negative impact on the capacity to move projects forward. In addition, there is currently an increasingly cautious administrative culture developing due to the current anti-corruption drive. Non-trivial language barriers for staff at the implementing units has also become an issue in certain places. It is therefore important to undertake a comprehensive upgrade of the skills gap currently impeding implementation. This is further developed in Section III Enhancing the PIM Process for Externally Financed Projects.

30. **Project execution monitoring does not support decision-making for corrective action.** The limited number of nonperforming projects that are reformulated suggests that portfolio reviews are not effective, nor lead to corrective actions. This is primarily a concern for externally financed projects where execution rates are abnormally low, compared to domestically financed projects. There is no regulatory requirement to re-assess the feasibility study when significant changes in project scope or key assumptions are changed. The planned monitoring and evaluation unit in the MoF budgeting department, covering both domestic and externally financed projects, should be able to support both the PM's Office and the MoF with gathering data, analysis and follow up. The unit would also provide integration of the two monitoring tracks.

[21] Main functions of PIUs are the examination, review, and approval of project designs; launching procurement processes and tenders; managing and supervising construction works; monitoring and reporting on projects' implementation and outputs.

II. Enhancing the PIM Process for Domestically Financed Projects

31. This section discusses solutions to the issues raised in the section above with regards to domestically financed projects. It is worth noting, however, that for implementation arrangements, the solutions overlap with needed reforms for the foreign financed projects. Upgrading the PIM process requires structural reforms in the long term. In the meantime, it will be necessary to coordinate and undertake these reforms in parallel with a set of shorter-term solutions to enhance impact now. The objective will be to optimize capacity to enhance the flow of new projects and ensure better integration with the budgeting process (MTEF and PBB).

32. Reforms efforts should focus on where capacity limitations have been identified to be most acute. LMs should continue to receive support on the PCN preparation and feasibility study, especially on drafting the Terms of Reference (ToRs) for commissioning such studies to specialized firms. The MoE will need to build capacity on how to assess and evaluate the quality of feasibility studies because the PIM decree only outlines general definitions for such assessments and does not provide methodology for assessment. It should be noted that the World Bank is supporting the MoE on developing methodology for feasibility studies which is expected to be the basis for a forthcoming ministerial instruction. Given the MoE's staffing challenges, it is important to concentrate the training on persons dedicated to these tasks, possibly in a coaching mode and/or with embedded advisors. The same capacity building effort will be needed for MoE to score the projects using MCA. As experience increases, the decision-making quality and speed of the PIC will improve, and the backlog of projects should be expected to diminish.

A. Short-Term Transitory Solutions

33. Adopting a gradual approach to the implementation of the 2023 PIM decree would allow authorities to avoid a possible backlog in the PIM cycle, while ensuring better quality of project preparation (see Table 5). The 2023 PIM decree sets a project cost of AMD 3 billion[22] as the threshold above which the proposals prepared in 2023 for the 2024 budget must follow the new process, the threshold is lowered to AMD 1 billion for the 2025 budget and beyond. This AMD 1 billion threshold is too low for infrastructure projects, especially under the existing capacity constraints, risking that a backlog of projects will develop. Extending the duration of the current threshold of AMD 3 billion by one year (2024 projects for 2025 budget) would allow additional time to build capacity within MoE and LMs, while still subjecting the larger initiatives to scrutiny. A change in the threshold requires amending the PIM decree (see Tables 4, 5 below).

34. In order to ensure that there is clarity about whether a project is new, and subject to the PIM process, or ongoing, and can skip the PIM process, all projects should be required to develop a concept note to move forward. Currently, projects discussed directly with the MoF as *on-going*

[22] Approximately $2.6 million.

*project*s during the budget process are not required to be supported by a PCN as opposed to those channeled through the PIM process. This prevents the MoF from checking whether alleged *on-going project*s are in fact new projects. Requiring that *all* projects at the beginning of the budgeting stage are presented with a concept note using the PIM Decree's standardized template will enable the MoF to easily identify the real nature of the project.[23] To be consistent with the PIM Decree, the threshold to produce a PCN for *on-going projects* should be fixed at AMD 1 billion. Such a change in the implementation of the PIM process requires amending the PIM decree (see Tables 4, 5 below).

35. **Striking a good balance when using the MCA between projects of different type, size and sector takes time to develop and have required pilot-based implementation in many countries.** To obtain the necessary experience on how to use the MCA methodology, it may be useful to undertake a few pilot cases. The Government could consider requiring three LMs to use MCA methodology at full scale, making it be optional for the remaining LMs. At the end of the pilot period, an informed decision can be taken about whether an adjustment in the methodology is required. This would somewhat mitigate the risk of general push back against the new PIM process. Such a change in the implementation of the MCA requires amending the PIM decree (see Tables 4, 5 below).

Table 4. Summary of Proposed Amendments the 2017 BSL and the 2023 PIM Decree for Consistent and Gradual Implementation

Text	Proposed Amendment	Comments
2023 PIM decree	Article 2 "… Furthermore, draft projects worth AMD 3 billion and above are subject to inclusion in the 2024 and 2025 budgets, while the provisions of this decree shall be applicable to draft projects worth AMD 1 billion and above for inclusion in the 2026 budget and further."	This amendment will extend the threshold of AMD 3 billion under which projects are exempt from the new PIM process stated by the 2023 PIM decree. Therefore, this threshold will continue to be implemented in 2024 (for the 2025 budget). In 2025, the threshold will be lowered to AMD 1 billion. This will allow a more gradual implementation of the new process and will avoid additional bottlenecks.
2023 PIM decree	New article 2 bis "Draft projects referred to in article 2 include on-going projects that shall be sent prior to their budgeting to the MoE and the MoF with the supporting template required in Annex 3[24] to this decree. This provision will apply	The PCN supporting the budget request will help identify both categories of projects and submit all new projects (often presented as continuation of previous new projects) to the new PIM process.

[23] Section 1 "Summary Information (including procurement)," Section 2 "Objective and Rationale," and Section 3 "Financial Information" include information that allows the reader to distinguish between new projects and on-going projects—in particular, the procurement information that covers legal documents and contracts.
[24] Project Concept Note template.

	starting in 2025 for on-going projects worth of AMD 1 billion or more."	
2023PIM decree	"New article 50 bis: Articles 46 to 50 will be implemented on a pilot basis in three Line Ministries designated by ministerial instruction from 2024 to 2026 and will be optional for the other Line Ministries."	This amendment will allow to pilot the implementation of the MCA in three line ministries to accommodate learning by doing and evaluate the process prior to full-scale implementation.

Table 5. Timeline for Gradual Implementation of the PIM Decree

Proposed Amendments of PIM decree	2023	2024	2025	2026	2027
Extending the 2023 AMD 3 bn threshold to 2024 for *new* projects	3bn	3bn	1bn	1bn	1bn
PCN required when proposing *on-going* projects above AMD 1 bn threshold	no	no	yes	yes	yes
Piloting the MCA implementation	Full Scale[25]	Pilot	Pilot	Pilot	Full Scale

B. Medium- to Long-Term Structural Solutions

Integrating PIM and budgeting

36. Medium to long-term structural solutions should follow the 2018 PIMA, the 2019 and 2022 PIM reports' recommendations, and take into account the limited experience and capacity at this stage of reform. The current program budget classification that hinders a consistent identification of capital projects within programs should be revised. A comprehensive program classification reform would be complex and lengthy reform. As an intermediate step, the 2021 FAD TA report recommended a simple and temporary solution consisting of a special ad hoc numerical coding for each individual project from a pre-established sequential list. Such a system would also have the advantage of not preempting the choices of the coming IFMIs-related budget classification. This recommendation has not yet been implemented. One issue appears to be a technical constraint of the budget IT system (2-digits, i.e., going beyond 99 projects) that prevents the integration of the ad hoc list of projects. On the other hand, the Treasury IT system at the MoF is designed to accept 4-digit information and officials from the MoF where positive as to this possibility.

[25] But, until now, no project has reached the stage of appraisal and MCA.

37. The current budgeting process prevents a comprehensive integration of PIM and budgeting. The 2019 FAD TA report provided detailed recommendations on how to better integrate PIM, PBB and MTEF in line with international practices. The main principle is to reflect the estimated multiyear cost of projects in MTEF and annual budget, including relevant operating costs. Strengthening the integration of the PIM process within PBB and MTEF increases effectiveness of both reforms, with integration the PBB will go from a presentational framework to an active planning and budgeting framework. Furthermore, by using accurate cost estimates, the MTEF will become a more realistic and constraining budget tool.

38. Integrating the PIM and MTEF processes requires adopting multiyear ceiling-setting that reflects the estimated cost of projects in the MTEF, including relevant operating costs. It is essential that MTEF ceilings include accurate estimates costs of on-going projects[26] and approved new projects. To achieve this the budgeting of projects needs to be done on the best possible assessment of costs contained in a project pipeline database for easy use. The future operating costs need also be included. The PCN template requires that the project's investment and current costs are included which will be helpful if the input is valid and used. There is a need to make sure that the project cost approved by the PIC are also budgeted by the MoF, it is not currently a given. All adjustments would need to be documented and explicitly approved by the MoF.

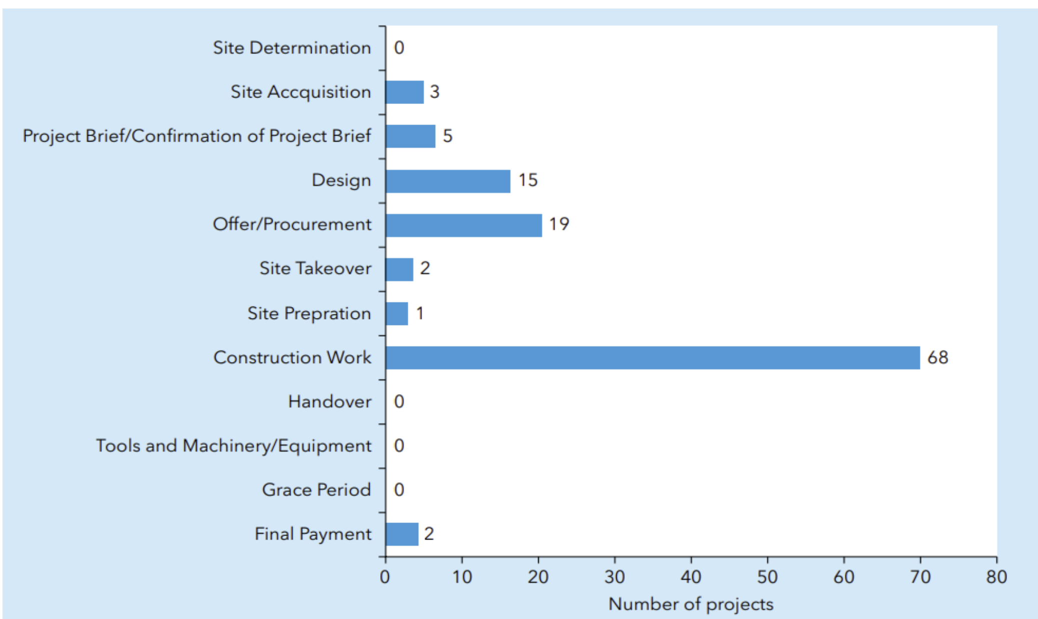
Project monitoring and evaluation

39. The monitoring of project execution should be more oriented towards problem solving. The new MoF unit should develop a monitoring framework and tools in close collaboration with the Prime Minister's Office (PMO) tasked responsible for foreign financed projects (see also Section III.A, Box 5, Box 6, Box 8, Annex 8 and 9). It would be helpful for the entire PIM system if the new unit became the monitoring and evaluation unit for all investment projects, irrespective of financing source. It should also harmonize standards across the public sector and provide hands-on support to LM implementing units, mirroring the original role of the MoF's now disbanded PIU. It should support the PMO in expanding its role from monitoring external projects to also providing support if bottlenecks are encountered - becoming a one-stop-shop for solving problems that require a high-level political push.

[26] Assuming that the definition of on-going project is rightly identified in the BSL as opposed to the new projects (initiatives), it is an elementary international practice that funding the following tranches of projects initiated the previous years and still active is ensured by priority. The rest of available funding (remaining fiscal space) is used for financing new projects.

Box 6. Capital Project Monitoring in Malaysia

The Malaysia Project Monitoring System II (SPP II) aims at an effective monitoring of all projects. The system generates monitoring reports on a regular basis (weekly, monthly, yearly) that are used to have a condensed view regarding progress and status of all projects. The objective of the system is to monitor the financial and physical progress and status of all projects irrespective of their funding. It focuses on identifying project risks monthly. This empowers project managers and central agencies to act quickly when problems are identified in projects. The system measures the projects through the California Expenditure Curve (S-curve) principle, which indicates percentage of time lapsed versus percentage of money spent and generates an early warning on project issues and risks. The system also contains vital project information such as the Geographic Information System Module that enables the users of the system to have a clear view of the physical location of the project. This information is also of vital importance to monitor progress by region. The SPPII system generates a problem identification report that identifies all categories of issues that were not managed well during the year and that resulted in cost overruns as well as time overruns. The purpose of the problem identification report is to compile a lessons-learned matrix. Reports are simple to interpret and understand and can be interpreted by technical and financial personnel and by politicians. There is no wasted information to clutter the system. The figure below shows the status of projects lagging expected schedule, classified by stage of the project's life cycle.



Source: Malaysia PIMA 2017, IMF, FAD.

40. Implementing proactive monitoring should start with a stock take and review of investment projects, irrespective of their financing. This review should select a reasonable set of projects with a view to identify the *systemic risks* that arose at the execution stage and draw a typology of these risks according to a number of criteria to be determined (sector, financing, design, procurement, etc.). In order to strengthen the review function, it would be helpful to develop criteria for when a project's feasibility study should be reviewed by the PIC or Government given significant changes in the specifics of the project and/or the project's assumptions.[27] The results of the review could serve as a guide to improve the design of the projects but mostly to increase preventive and proactive management.

41. Proactive project monitoring should go in parallel with further improvements of the PIM information system IFMIS, including a PIM module. A proper information system should support decision making by providing relevant information to stakeholders in time to take actions. The MoF, as the owner of the Information system, should then play a more active monitoring function in finding corrective measures for non-performing projects. The development of a published early warning dashboard would be a good initiative (see in the following Section III).

42. The ex-post review of investment spending by the Audit Chamber should be strengthened and upgraded. The AC work program is in large part focused on financial audit and to a much lesser extent on performance (value-for-money) audit. The AC could also launch a general review on public investment spending, including relevant procedures and organizations as it is done in many countries with the INTOSAI support. So far, no review of public investment has been included in the annual audit plan of the institution.

C. Recommendations

Recommendation 1

Ensure consistency of the definition of public investments across laws and regulations guiding PIM to eliminate misunderstandings on the implementation of the new decree. The authorities should amend the BSL and PIM Decree as indicated in Box 3 above, see also Annex 1 for details.

Recommendation 2

Ensure that MoF and MoE have sufficient information on new and ongoing investment projects to appropriately implement the PIM Decree. This can be achieved by requiring that all investment projects above AMD 1 billion in LMs' budget requests, regardless of funding source, submit a project concept note. The provision should take place in 2025. The PIM Decree should be amended as indicated in Table 4, measure 2, see also Annex 1 for details.

Recommendation 3

Adopt a gradual approach to implementing the new procedures of the 2023 PIM Decree, in particular the MCA methodology. This requires amending the PIM decree as indicated in Table 4, measures 1 and 3 and developing a capacity enhancement program; see also Annex 1 for details.

Recommendation 4

Redesign the institutional framework for project monitoring to ensure timely and accurate information on project implementation that supports decision-making by stakeholders on non-performing projects (see Annex 8,9). This entails: (i) establish a project monitoring unit at the Budget Department (MoF) as part of

[27] It is not obvious where such a regulatory requirement should be inserted, as the PIM Decree does presently not cover the implementation phase.

its ongoing functional reorganization; (ii) launch a stock take on a sample of low performing projects (including externally financed) above AMD 3 billion; (iii) develop a pro-active projects monitoring framework; (iv) update the PIM Decree with criteria for when a project's feasibility study should be reviewed by the PIC; (v) extend the scope of audit of the Audit Chamber for investment projects. See Annex 1 for details.

Recommendation 5

Strengthen the information availability on public investment projects by addressing the fragmentation of data and ensuring consistency and coherence between PIM and PBB. This includes (i) the implementation of a PIM module with the future IFMIS and (ii) develop a temporary PBB codification to better identify projects. See also Annex 1 for details.

Recommendation 6

Strengthen the capital investments budgeting process by better integrating PIM with planning and strategic documents, the MTEF, PBB and the budget process during 2025. This refers to the recommendations IV.1.a. of the 2019 FAD TA report and 3.3 and 3.6 of the 2021 FAD TA report mentioned above. See also Annex 1 for details.

III. Enhancing the PIM Process for Externally Financed Projects

43. Under-execution of externally financed public investment is mainly driven by limited implementation capacity, not by limited financing or the need to hit fiscal targets as in 2017.[28] The government has identified concerns in the overall project management institutional setup including weaknesses in strategic planning, slow decision-making by project-sponsoring agencies, frequent changes in project management staff, frequent delays in tender procedures, and low implementation capacity. Changing macro assumptions that impact input costs, slow communication between government and development partners and a slow decision-making process, undermines disbursements of donor funds. Recently, implementation has also been affected by currency fluctuations decreasing the amount of project financing available on projects under construction. This situation is further compounded by the force majeure events of the Covid pandemic and the war in Nagorno-Karabakh. Donors and other stakeholders have also highlighted capacity loss on the government side in terms of working with donors stemming from the discontinuation of the PIUs (see Box 5), a lack of sufficient project preparation, an administrative culture increasingly characterized by caution, excessive administrative burdens ("red tape") impeding implementation, insufficient central capacity to monitor and push LMs to implement.

44. Enhancing execution of externally funded projects is a priority given that external resources support a significant share of total public investment. In the 2018 and 2022 budgets, external resources funded approximately 90 and 60 percent, respectively, of the total capital budget. The PIM reform initiatives discussed above should also support better execution of externally financed projects. Additional actions to enhance the externally financed projects are discussed below.

A. Reforms for Overcoming Current Bottlenecks

45. Complexities of working with donor resources needs to be better integrated into the PIM project cycle in Armenia. Projects relying on donor funding are normally large, expensive, complex, and multiyear in scope, requiring technical knowledge and budgeting that is currently lagging in certain cases. Additionally, these projects will need to adhere to both the country's and development partners' procedures – e.g., procurement, project adjustments – which adds complexity. For example, limited knowledge on project safeguards adds to the complexity of both preparation and implementation, impeding progress. A mundane but important gap is the current lack of sufficient proficiency in the English language in the PIU successor units. As discussed in more detail in Box 5, the discontinuation of PIUs has weakened the Government's project implementation capacity.

46. Lack of implementation capacity can mean that suboptimal solutions are pursued, and projects may not be properly developed. One example of that could be that a PIU successor unit rejects a structuring of a project in a certain way, because it is considered too difficult. While overly complex projects can indeed be a bad idea, there is a balance to be struck if the proposed contract structuring is a straightforward industry standard that experienced professionals would be able to

[28] IMF Note, 2017.

understand and operate within. At the same time, a weaker implementation unit might mean that despite heavy donor partner involvement, projects may not be prepared well enough. Project preparation from initial concept, over feasibility study, design, to structuring of the contract, tendering and award is a complex matter. Whilst development partners have expertise, procedures, and standards, they have to rely on a strong government counterpart to ensure that the project is well prepared and implemented. The PIU successor units staff capacity with respect to project development has weakened in recent years in several units. Weaker project preparation eventually leads to delays in the implementation phase and/or changes in scope, design, structure of the project.

Box 7. Implementation Difficulties with Yerevan Solid Waste Project (YSWP)

Solid waste management projects can be complicated undertakings. While they are usually fairly straight forward concession type contracts, they do require a combination of technical knowledge and close coordination and cooperation of multiple actors. The below highlights key issues the project faced and demonstrate how a combination of factors led to the project's substantive delays.

The agreement between EU/EBRD and the Government/City of Yerevan to finance and undertake the project was signed in 2014, but construction has not commenced by spring 2023. The benchmark completion period for this type of projects is 4.5 years.

The Design, Build, Operate-concession type contract was new to Armenia in the solid waste sector. This meant that there was little knowledge in the market with regards to project scope and bidding. The initial consultant that was engaged to prepare the project documentation and bidding documents failed to complete the assignment. The tender for this work then had to be redone. In combination this led to several years of delay prior to tendering.

After tendering, the bid evaluation took 16 months. This is unusual. A key issue characterizing this process was that the bid committee had 10 members that had to reach an agreement which proved difficult. In addition, there were exogenous factors that made the environment around the bid difficult such as the Covid Pandemic, the war with Azerbaijan and a change of the Mayor of the City of Yerevan. The bidding for the project was cancelled due to there only being one bidder. The project is currently being restructured to make it more marketable. A key issue to decide is whether a BTO contract type is still the best approach.

Source: EBRD April 2023

47. **Streamlining the process of obtaining necessary decisions, approvals from local authorities, utilities, and the judiciary can greatly improve the creation of large-scale infrastructure assets.** Building new infrastructure requires significant interaction with various public sector stakeholders, including local authorities and utilities. However, the implementing authorities have reported challenges in obtaining appropriate permits and licenses, receiving accurate information on pre-existing sub-soil infrastructure (such as power cables, water, and wastewater infrastructure), and acquiring temporary utility services needed to commence construction. One of the most significant challenges is reaching final judicial decisions regarding expropriation and resettlement. The issue of expropriating private land and resettling individuals is often controversial, and the long waiting times (up to two years) for such cases to be decided by the courts, exacerbate the issue. Overall, a lack of progress on these matters can significantly prolong project implementation, as illustrated in Box 7 on the Yerevan Solid Waste Project. These types of issues are not unique to Armenia. A structured process for identifying both issues and solutions in detail is therefore necessary. The example of such a process in New York City is included in Box 8 on the city's Capital Process Reform Task Force. It is worth noting that such a process would require high level support, representation from stakeholders across central and local government as well as the private sector. Focus should be on straightforward issues such as a forum with decision-makers to ensure coordination of major projects with utilities, a government commitment to

deadlines on inquiries by contractors and enhanced transparency and e-procurement. Indeed, such initiatives might find support in their development from relevant development partners.

Box 8. New York City Capital Process Reform Task Force

Mayor Eric Adams convened a Capital Process Reform Task Force in April 2022 to undertake a comprehensive review of the city's capital process and to develop recommendations for reform with the goals of reducing project completion time, saving taxpayer money, enhancing participation, and building capacity. The Task Force consisted of individuals with different expertise in the capital process, including construction contractors, design professionals, labor leaders, City agencies, and the City Comptroller. The Task Force was managed by the Mayor's Office of Policy and Planning. The Task Force's work was organized by six working groups that focused on major components of the capital construction process: Project Pipeline, Reform Procurement, Streamline Approvals, Public Participation, Manage Projects More Effectively, Performance Management and Reporting

The Task Force Recommendations (December 2022) included:

- lowering some thresholds for central approvals;
- allowing new contract types;
- cutting redundant regulation around procurement;
- better e-bidding;
- frontloading some payments so contractors have a buffer for delays in permitting;
- allowing changes to contracts under a streamlined process in certain cases (e.g., as a result of new technology, safety enhancements, better future maintenance);
- streamlined and standardized invoice checklists;
- better project implementation tracking.

The Task Force also looked at the particular challenges around coordination with utility companies and suggested that senior city officials host regular meetings with senior utility company executives to enhance coordination and avoid project delays.

Most recommendations have been accepted, some of which require legal reform at the State level.

Source: https://www.nyc.gov/assets/home/downloads/pdf/press-releases/2022/CP-Reform-Task-Force.pdf and https://www.nyc.gov/assets/home/downloads/pdf/press-releases/2023/CP_ReformTaskForce.pdf

48. The monitoring of externally financed projects is not sufficiently effective. Monitoring for externally financed projects is anchored with the PM's Office, for domestically financed it is with the MoF. However, an upgrade of the project implementation and monitoring framework across those two institutions along with enhancements of technical and human capacity is needed to develop a problem-solving capacity. There is no national guidance or procedure for when to reevaluate the feasibility of the project in light of significant changes in the assumptions. This could be somewhat mitigated by development partners' investment frameworks if they provide for a systematic restructuring process in relevant cases. It is also worth noting that according to the PIM decree (Art. 13) feasibility studies have a validity of three years only. The intention with this is to ensure that the assumptions are up to date. However, experience shows that assumptions may indeed turn out to be faulty well within such a timeframe. Additionally, there is a lack of public transparency about project progress, with limited access to project information for stakeholders and the public. There is also little focus on identifying problems early in order to take corrective action. It is therefore important that the proposed Monitoring Unit in the MoF's Budgeting Department becomes operational as soon as possible and can provide much needed secretarial service to the MoF and PMs Office when undertaking project monitoring. Box 9 highlights some key features from the UK's portfolio management and oversight framework. Key takeaways include centrally set standards for monitoring and evaluation, quarterly assessments, a focus on identifying problem projects before serious issues arise in order to take corrective action by classifying projects using a traffic light system (see Annex 8 and 9 for further details).

Box 9. Portfolio Management and Oversight in the UK

Major projects are monitored through the Government's Major Project Portfolio (GMPP). The GMPP covers the largest and most complex projects. Portfolio management for the remainder is managed by the line ministries but must follow centrally mandated Project Delivery Functional Standard. GMPP projects are classified in four categories-infrastructure and construction, transformation and service delivery, military, and information technology. The 2020−21 GMPP annual report included 66 construction and infrastructure projects with whole life costs of £236 billion. Projects in this category had an average cost of £3.8 billion and schedule of 11 years. Central monitoring of the GMPP is overseen by the Infrastructure Project Authority (IPA) located in the Cabinet Office and includes systematic data on performance against budget and schedule.

Quarterly assessment of projects on the GMPP involves detailed scrutiny of project cost and schedule performance. Projects that fall outside of a tolerance of +/- 10 percent on cost or schedule are subject to further challenge. The Government's Project Functional Standard includes outcome review as the final stage in the project lifecycle and best practice guidance for evaluation is contained in the Green Book and Magenta Book on evaluation.

GMPP Quarterly Reporting framework is clearly structured. For all projects on the GMPP, project reports contain overview data such as project description and history; cost, schedule, and benefits data and NPV estimate; physical completion rating; and project resources overview. IPA connects over 2,000 discrete pieces of project data each quarter. Each project return includes an update on 'Vital Signs' across three categories:

- 1. People – including size of project team, rate of churn, number of vacancies, share of Senior Responsible Owners (SROs) time spent on the project and summary capability and capacity assessment.

- 2. Performance – including risks ratings, milestones and variance and current forecast outturn against approved cost, schedule, and benefits.

- 3. Principles and fundamentals – including performance against milestones and assurance and drawdown of contingency.

A report on overall trends across the portfolio is published annually and departments submit detailed quarterly reports to the IPA covering data on costs, schedule, benefits, and a range of internal management information. As part of the annual reporting process, departments are required to explain changes in cost from the previous year and Line Ministries submissions are published at the project level. Each project is assigned a Delivery Confidence Assessment.

More details on the specific standards and guidance can be found in Annex 8.

Source: United Kingdom PIMA, (2022). IMF, FAD.

49. **The 2023 PIM Decree is a significant step forward, but success will require that the authorities' and partners' requirements are well aligned.** While the PIM Decree applies to all public investment projects, regardless of financing form, its requirements for feasibility studies and internal rate of return estimates early in the process may not be easily compatible with the procedures of most development partners. It is the LMs responsibility to undertake a feasibility study and in practice the LM will rely on collaboration with a development partner to accomplish this. However, some development partners may require written assurance from the government expressing a desire to undertake the project with them as financier before the partner will finance such a study. In order to align the government's and development partners' procedures, an option could be that first i) the PIC decides to proceed with a

project on the basis of a concept note (without a feasibility study) and then ii) using the minutes of the PIC meeting as the legal basis, the government can request a development partner to develop the project with the government and iii) as a part thereof fund the feasibility study. The mission understood that the MoE sees no obstacle to such a procedure taking place now, but this issue should be further discussed with the donor community in order to ensure that there is no regulatory uncertainty, potentially undermining the development of foreign financed projects. If such legal uncertainty exists, an update of the decree specifying the procedure outlined above would be necessary.

B. Recommendations

Recommendation 7

50. Develop one or two pilot projects in close coordination with one or more development partners to demonstrate that the PIM process works for large and complex projects and, if necessary, identify upgrades to the PIM decree, other regulation, procedures, tools, and processes that can enhance the outcomes of externally financed projects. See Annex 1 for details.

Recommendation 8

51. Strengthen the monitoring framework underpinning the implementation of externally financed projects to better identify delays in implementation, take corrective actions, and support decision making. The monitoring framework upgrade should happen in a unified manner with the domestically financed projects. See Annex 1 for details.

Recommendation 9

52. Identify actions to enhance the regulatory and institutional enabling environment for the implementation of complex projects. See Annex 1 for details.

Annex 1. Draft Action Plan for Strengthening Public Investment Management

Action Plan	Resp.	2023	2024				2025				Rec.
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
I. Strengthening the PIM Legal and Regulatory Framework											
Adopt a gradual approach to implementing the new procedures of the 2023 PIM Decree that enables stakeholders to better understand and put in practice the new requirements for project preparation.											3
▪ Extend to the 2025 budget the AMD 3 billion threshold above which projects must follow the new PIM procedures, including having the approval from the PIC.	MoE, MoF										
Ensure consistency of the definition of public investments across laws and regulations guiding PIM to eliminate misunderstandings on the implementation of the new decree.											1
▪ Amend part 3 of article 1.2. of the Budget Systems Law to define the concept of investment project consistent with the definition of the PIM decree article 1.3.2. The proposed legislative amendment is to add after part 3 of article 1.2. “Capital expenditures with defined objectives and results within a specific time period and structured by an underlying contract or legal document constitute a capital project”.	MoE, MoF										
▪ Amend the 2023 PIM Decree in line with GFSM: article 1.3.2 by removing the sentence “…or replacing an existing depreciated asset”.											
II. Strengthening PIM Budgeting and Planning Process											
Ensure that MoF and MoE have access to information on new and ongoing investment projects to appropriately allocate budget resources.	MoE, MoF										2

Action Plan	Resp.	2023	2024				2025				Rec.
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
▪ All investment projects above AMD 1 billion, and regardless of their form or funding, submit project concept note as per the template in the PIM Decree.											
Strengthening the availability of investment project information. ▪ Develop a PBB codification of projects based on an *ad hoc* sequential list of projects.	MoE, MoF										5
Strengthen the capital investments budgeting process by better integrating PIM with planning and strategic documents, the MTEF, and PBB during the 2025 budgeting process.											6
▪ Enforce the provisions of the budget MI and PCN template (section II) that link approved LM's projects with government planning documents (strategic objectives and key sectoral output/outcome targets).	MoE, LMs										
▪ Ensure that approved LMs' projects are effectively reflected in the programs with which they are associated in the PBB framework, including their future operating costs, as referred to in the budget MI.	MoF, LMs										
▪ Enforce the provision of the budget MI that links the costing of approved LM's projects approved through the PIM process with the MTEF ceiling estimates for on-going (*existing expenditure obligations*) and new investment projects (*new initiatives*).	MoE, MoF, LMs										
Develop one or two pilot projects in close coordination with one or more development partners in order to identify possible upgrades to the PIM decree, other regulation, procedures, tools and processes that can enhance the outcomes of externally financed projects.											7
▪ In coordination with one or more development partners, identify one or two investment projects on which the new project preparation procedures can be piloted. A relevant partner could be the EU.											

Action Plan	Resp.	2023	2024				2025				Rec.
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
▪ Undertake a study of the PIU-successor units to precisely identify their capacity gaps. Issues to analyze include responsibilities, procedures and resources of the existing foundations/implementing units compared to the former PIUs, the level of project management skills over the cycle, language, and other personal skills.											
▪ Take stock of the potential bottlenecks that could derail project preparation and implementation due to inconsistencies between the PIM decree and development partners' processes, in particular: i. ensure that a project identified by the government for external financing is referred to the selected partner at a sufficiently early stage of the preparation cycle defined by the PIM decree and with a sufficient commitment on both sides on the further finalization steps of the agreement; ii. secure the financing of the preparatory works of the project (feasibility study, appraisal, inclusion in the pipeline, and budgeting for the domestic financing) in line with the internal procedure's requirements of each actor; and iii. Update the PIM decree if necessary to ensure there is no legal uncertainty that may undermine good development partner participation.											
▪ Consider piloting the MCA with the support of 3 LMs to determine whether the methodology needs further refinement.											

Action Plan	Resp.	2023	2024				2025				Rec.
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
III. Stronger PIM Implementation and Monitoring											
Redesign the institutional framework for project monitoring for domestic and foreign financed projects to ensure strong project implementation that corrective action and realistic budgeting.											4-8
▪ Establish a project monitoring and evaluation unit at the MoF Budget Department. This unit should support the PM's and MoF's monitoring role in a unified manner.	PM, MoF										
▪ Re-establish the responsibility for MoF to harmonize standards and support LMs/foundations throughout the project cycle, in particular with respect to budgeting and implementation. This task should be anchored in the new monitoring and evaluation unit.	PM, MoF										
▪ The PM's office should task the MoF monitoring and evaluation unit, supported by other MoF units, to i. enhanced monitoring in terms of frequency and detail of problem projects ii. publish online dashboard on project progress compared to the original baseline as set out in the PIC decision and what actions have been taken in response iii. Determine whether the national funds, donor funds, that a LM is requesting will realistically be spent taking into consideration the LMs implementation performance in recent years	PM, MoF										
▪ Establish periodic meetings between DPM, MoF, MoE, LMs and the relevant development partners to review and decide the way forward on non-performing projects and discuss needed regulatory changes.	MoF, MoE, DPM										

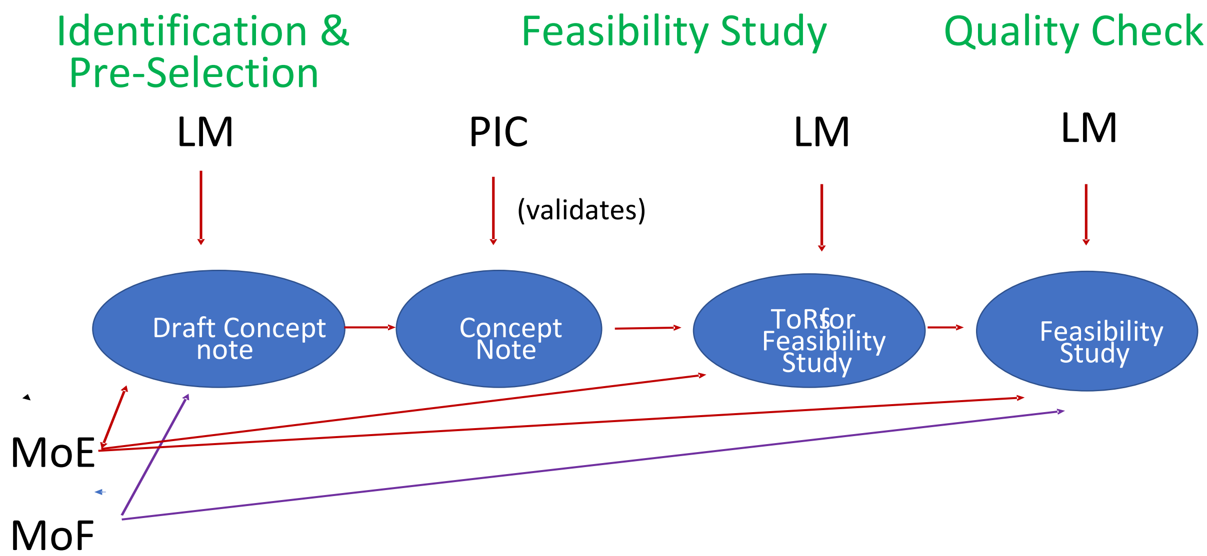
Action Plan	Resp.	2023	2024				2025				Rec.
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
▪ Launch a stock take on a sample of low performing projects (including externally financed) above AMD 3 billion to identify a topology of systemic risks and key delay factors to be addressed.											
▪ Enhance the current procedure in the PM's Office to help the implementation of projects that are not on track ("one-stop shop"). and would benefit from enhanced support from the PMs office in terms of enhancing the pace of implementation, overcoming regulatory obstacles, taking decisions amongst a multiplicity of stakeholders											
▪ Improve monitoring of projects by developing a pro-active monitoring framework that supports the decision-making for corrective measures on non-performing projects for all sources of funding. Develop criteria for when a project's feasibility study should be re-submitted.	DPM, MoE, MoF										
▪ Develop better reporting templates on externally financed projects in close coordination with development partners and use these to create an early warning procedure for problem projects (see Annexes 8, 9).											
▪ Propose the Audit Chamber (AC) to expand the scope of its current risk-based methodology toward public investment projects by focusing on both financial and non-financial performance indicators.	CoA										
▪ Propose the AC to consider conducting performance audit over the public investment spending and management in line with INTOSAI standards (ISSAI 300).	CoA										
Identify actions to enhance the regulatory and institutional enabling environment for the implementation of complex projects.											9
▪ Undertake a study of implementing units, local governments, and LMs to identify the greatest regulatory barriers to effective project implementation. Issues to analyze include issues with obtaining appropriate licenses and permits; information about the existing											

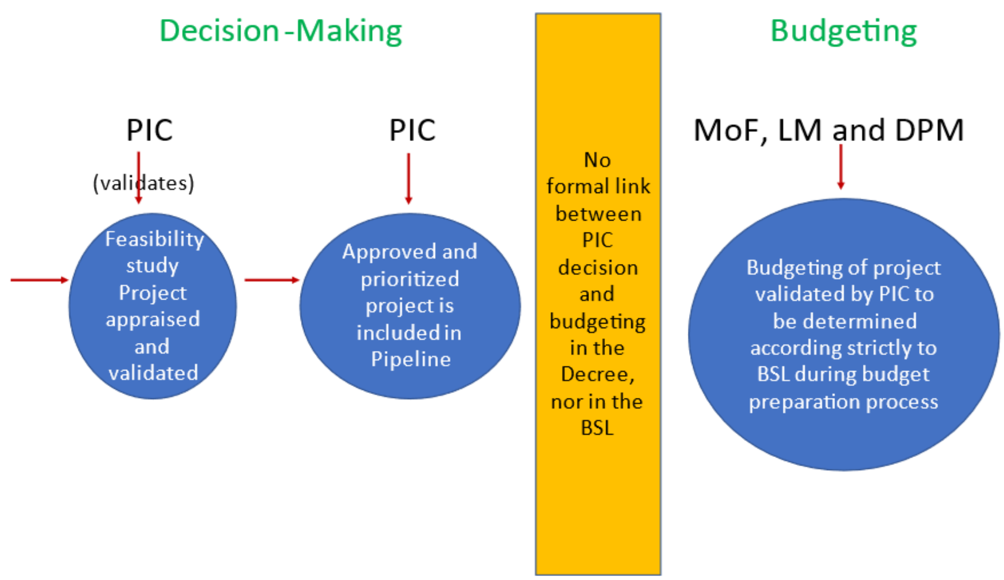
Action Plan	Resp.	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	Rec.
infrastructure, such as temporary utilities; drawbacks in legal frameworks that can lead to projects stalling (e.g., expropriation rules). The Deputy PM, supported by the MoF, should lead the work, develop a strategy and workplan and monitor implementation of it.											
▪ Undertake a study of the PIU-successor units to precisely identify their capacity gaps. Issues to analyze include responsibilities, procedures and resources of the existing foundations/implementing units compared to the former PIUs, the level of project management skills over the cycle, language, and other personal skills.											
IV. Cross cutting solutions for enhancing the PIM Process											
Strengthen the availability of investment projects information. ▪ Include a PIM module in the on-going design of the IFMIS.	MoF, MoE, LMs										5
Develop a comprehensive capacity enhancement plan and program for all key PIM stakeholders.	DPM, MoF, MoE										3
Continue to develop a comprehensive training and support program. A steering committee led by the PM, MoE, MoF, and development partners (observers) should establish a clear program containing a theory of change, deliverables, and timelines. The program should aim to fill key capacity gaps through various forms of training, guidance, tools, peer networks covering both technical and process skills.[29]											
▪ Continue to provide capacity building support to MoE, MoF, DPM's office, LMs for completing PCNs for the 2025 budget.											
▪ Undertake capacity building actions to create in-house competences at the AC for investment projects' audits											

[29] This should take into consideration ongoing TA work undertaken by the World Bank and the Asian Development Bank.

Action Plan	Resp.	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	Rec.
▪ Key components of the program should be: i. a curriculum covering a variety of topics - management, technical, soft skills (language); ii. aligned with university programs; iii. guidance, manuals, tools, and a community of practice; and iv. s system for validation of the skills attained (examination).											

Annex 2. PIM Process According to 2023 Decree





Annex 3. Summary Assessment of 2018 PIMA

Phase/Institution			Strength	Effectiveness	Rec. #	Reform Priority
A. Planning	1	Fiscal principles or rules	**High:** There are permanent fiscal rules for the central government and separate community debt limits.	**Medium:** The new fiscal rules provide an effective anchor for fiscal policy, but the MTFF is not credible.		Medium
	2	National and sectoral plans	**Medium:** Project cost information included in planning documents is not constrained by resource envelops; and project-specific performance targets are not mentioned.	**Low:** Planning documents do not guide investment decisions, because planning horizons or project costs are not consistent across different documents or with the MTEF envelop.	1	High
	3	Coordination between entities	**Medium:** Rule-based capital transfers are introduced, but communities' projects funded by own revenue are not formally coordinated.	**Medium:** Communities' capital expenditure funded by own revenue are limited to small capital repairs.		Medium
	4	Project appraisal	**Low:** There is no standardized requirements or methodologies for project appraisal.	**Medium:** Domestic projects are subject to rigorous costing and technical appraisal, but major externally financed projects are not selected based on systematic appraisals.	2	High
	5	Alternative infrastructure financing	**Medium:** A level of competition varies across markets; the PPP framework is yet to be developed; and PCs investment plans are scrutinized but not published.	**Medium:** The new PPP law is being prepared to codify the PPP policy framework, but PCs' Investment plans are not credible.		Medium
B. Allocation	6	Multi-year budgeting	**Medium:** Multiyear ceilings are not binding on capital expenditure; there is no publication of total project costs.	**Low:** Multiyear ceilings do not provide a credible anchor; the baseline projections are distorted by implementation problems of largest projects.	3	High
	7	Budget comprehensiveness and unity	**High:** Disclosure of capital expenditures in the budget document is comprehensive and uses functional and program classifications.	**High:** Capital expenditure by General Government units outside the budget sector is minimal.		Low
	8	Budgeting for investment	**Low:** Total project costs are not published in the budget documents; there is no mechanism to protect funding of ongoing projects.	**Low:** Total costs of some major projects have overshot; ongoing projects in some program were given no allocation in the original budget.	4, 7	High
	9	Maintenance funding	**Medium:** Standard methodologies exist for capital and recurrent maintenance projects in many, but not all, sectors.	**Medium:** Maintenance funding is well protected during the budget execution but is not growing as fast as capital spending for new projects.		Medium
	10	Project selection	**Low:** There are no selection criteria or process for selecting major projects; and no project pipeline exists.	**Low:** Externally financed projects are selected without being assessed against criteria or reviewed by a central agency.	2, 5	High
C. Implementation	11	Procurement	**High:** The electronic tools are open and transparent; all procurement related documents are publicly open; the meetings of Appeal Board are transparent.	**Medium:** The use of non-competitive process is declining, but the cost estimation is not realistic; analytical reports of complaints are yet to be improved.	6	Medium
	12	Availability of funding	**High:** Almost all payments for general government capital expenditure are covered by the TSA.	**High:** There have been no significant cash release problems since the impact of the global financial crisis in 2009.		Low
	13	Portfolio management and oversight	**Medium:** Reporting of physical and financial progress is in place; reallocation can be made between projects; but ex-post reviews of major projects are not regularly conducted.	**Medium:** Reallocation does not alter original allocation significantly, while the MOF has limited power to control implementation of major projects.		Medium
	14	Project implementation	**Medium:** There are no common rules and procedures for project adjustments; the ex-post audits have been undertaken for some projects on an ad-hoc basis.	**Low:** No central agency has the mandate for reprioritization of projects facing implementation problems; the Audit Chamber is yet to be fully transformed from the Control Chamber.	3, 7	High
	15	Management of public assets	**Medium:** Asset registers are fragmented but updated regularly; there is no reporting of capital stock.	**Medium:** The quality of some asset registers is being improved.		Medium

Annex 4. Recommendations of 2019 PIM Report

	RECOMMENDATIONS	IMPLEMENTATION STATUS	LINK WITH CURRENT REPORT'S RECOMMENDATION
II. Functions, Roles, and Responsibilities in PIM			
II.1.	Formalize, through an appropriate Government Decree, the responsibilities of all stakeholders in the PIM process from planning to evaluation	Completed with the PIM Decree 2021 amended in 2023. Covers only stages from planning to inclusion of projects in the pipeline.	none
III. Strengthening Appraisal and Selection			
III.1.	Strengthen project preparation by: -finalizing the PIM manual being developed (with WB support) -providing guidance to LM for preparing projects	 -On-going -done (WB TA)	-
III.2.	Finalize the development of methodology by: -choosing specific LM to pilot the methodology -determining the thresholds, if any, that will determine which projects should be evaluated by this methodology -defining the parameters that will be used to evaluate projects -adoption a common template for the appraisal a d selection of projects	Done by the PIM decree	Recommendations 2 and 3
III.3.	Strengthen capacity of government officials in project preparation and appraisal by: -undertaking an assessment of the capacity building needs throughout the government -defining a strategic plan through a multi-prolonged program that could include workshops, a train-the-trainer approach, a community of practice, and collaboration with educational institutions	Done with the support of the World Bank, on-going program	Action plan – Cross-cutting recommendation
III.4.	Build a database of projects covering both externally and domestically funded projects that provides information on projects throughout their life cycle	On-going	Recommendation 4
IV. Strengthening Budgeting and Monitoring			
IV.1.	Build portfolio of projects in LM, which are linked to strategic objectives and key sectoral output/outcome targets by:	Partially done but effective implementation is uncertain	Recommendation 5

	-submitting a portfolio of projects from the pipeline of vetted projects, which are explicitly linked to strategic objectives, and output/outcome targets; -challenging the coherence of each portfolio to maximize the outputs and outcomes envisaged in the national strategy within the fiscal space allowed by the macro-fiscal framework		
IV.2.	Improve the credibility of projected expenditures on capital projects in the MTEF and annual budget by: - LMs setting more realistic projections for ongoing and new projects, including making adjustments to the planned disbursement schedules of externally-financed projects -strengthening the challenge function to focus on the credibility of annual and medium-term capital expenditures projections	Partially done but effective implementation is uncertain	Recommendation 5
IV.3.	Help ensure sustainability of capital projects by: -including in the 2021 MTEF/Budget Methodological Instructions a table for calculation of current expenditures that will result in the future from all capital projects -requiring LM to incorporate recurrent costs of capital projects in their MTEF/budget submissions	Done in the Mis, but effective implementation is uncertain	Recommendation 5
IV.4.	Formalize the monitoring of project execution with a view to identifying, and possibly reformulating, poorly-performing projects by: -Implementing a traffic light system for project execution report -undertaking a review of the current portfolio of poorly-performing projects, or those with long implementation periods, focusing on large projects, re-appraising the costs and benefits and reformulating projects whose net benefits are negative	 Not done Not done	Recommendations 6 and 8

Annex 5. Status of Recommendations 2021 PIM Report and Link with Current Report

	RECOMMENDATIONS	IMPLEMENTATION STATUS	CURRENT REPORT RECOMMENDATIONS
1.1	I.1 Amend the Prime Minister's Decree establishing the new specialized PIM process by aligning key concepts with international standards.	The 2013 PIM decree includes most recommended amendments except for inclusion in the scope of the PIM decree investment for restoring a public asset.	Recommendation 1
1.2	Amend the BSL by: • Defining *non-financial asset* fully in line with *GFSM 2014* by listing the types of non-financial asset as they are listed in *GFSM 2014*; and • Defining *capital expenditure* as expenditure that realizes investment as defined in this report.	Not done Done	Recommendation 1
2.1	Revise the program measure level of the program segment of the budget classification in line with the advice of the April 2021 report of the FAD follow-up mission.	Not done	Recommendation 4
2.2	Assign in the PIPD and GFMIS a sequential project identification code to each public investment project to be linked in the GFMIS to the relevant units of the administrative and program classifications.	Not done	Recommendation 4
3.1	Ensure that long-term public investment strategies are included within the national and sectoral strategies and are defined sufficiently clearly for them to guide decisions on projects in the PIM and budget processes.	Not done	Recommendation 5

3.2	Ensure that project pipeline is managed to produce realistic, comprehensive, updated, and timely projections of the ongoing costs of projects for inclusion in the rolling expenditure baseline.	Done but effective implementation is uncertain since no project has reached the stage of inclusion in the pipeline.	Recommendation 5
3.3	Introduce a process for setting capital expenditure ceilings, as elaborated in paragraph 49 of this report.	Not done	Recommendation 5
3.4	Include in the Methodological Instructions (MIs) procedures for identifying, assessing, and approving project savings, and project and contract flexibility guidance, as set out in paragraph 52 of this report.	Partially done but effective implementation is uncertain	Recommendation 5
3.5	Ensure that projects are only approved to enter the pipeline if they can be started quickly in the event of funding becoming available in the foreseeable future.	Stage not yet reached	Recommendation 5
3.6	Ensure that projects approved for inclusion in the budget are selected on the basis of a prioritization in terms of the PIM process that is reconciled with the prioritization of the programs and program measures in terms of PBB with which they are associated.	Stage not yet reached	Recommendation 5
3.7	Require LMs' MTEF/annual budget submissions and the MTEF/budget documents to include: (a) whole-life cost estimates for proposed (budget submissions) and approved (MTEF/budget documents) medium/large and externally financed capital projects; and (b) the relevant post-project ongoing operational expenditures for projects under implementation.	Partially done but effective implementation uncertain	Recommendation 5
3.8	Ensure that mega-projects are designed as groups of stand-alone projects, each of which is linked to a program and is consistent with the program structure that does not cross LMs.	Out of the scope of the report	-

3.9	Ensure that the MoF's responsibilities for overall fiscal management and budget preparation include the fiscal management and budget preparation implications of public investment projects, including: • *Project preparation and appraisal:* review financial appraisals and other related studies undertaken, including their assumptions, for fiscal affordability and to identify fiscal risks associated with the projects and appropriate mitigating measures; • *MTEF/annual budget planning process:* (i) analyze new expenditure initiatives that include projects to ensure that that there is sufficient fiscal space for their construction and operational phases over the medium- and longer-term; (ii) analyze investment projects to be included in the MTEF/annual budget to ensure they are consistent with a sustainable fiscal framework, including the fiscal rules; and (iii) set capital expenditure ceilings within a unified PBB budget process; and • *Project approval:* participate in the final decisions on project approval as a permanent member of the Investment Committee.	• Done (PIM Decree) but effective implementation is uncertain. • Partially done (Budget Ministerial instructions), but effective implementation is uncertain. • Done	Recommendation 5

Annex 6. Completion Rate of Large Projects

Armenia: External Loan Disbursements ($ 1000, excluding on-lending projects) and Completion Rate for Large Projects

PROJECTS	*Loan amount*	*Disbursed by the end of 2022*	*Disbursed by the end of 2022+2023 budgeted*	*Completion Rate-2023*	*Completion Rate 2022 + 2023 budgeted*	*Start Year*	*End Year*
N-S Highway (Tranche 2)	170,000	116,187	140,831	**68**	**83**	2011	2023
N-S Highway (Tranche 3, 4)	64,020	50,149	56,190	**78**	**88**	2013	2023
Water supply phase III	30,000	15,536	24,162	**52**	**81**	2013	2022*
N-S Highway (Tranche 3)	100,000	66,586	73,789	**67**	**74**	2014	2023
Education Improvement	24,114	1,291	8,404	**5**	**35**	2014	2022*
Management of Akhuryan River Water Resources I-II	53,350	4,763	21,844	**9**	**41**	2014	2024
Yerevan Urban Infrastructure	112,900	73,417	79,004	**65**	**70**	2015	2023
Yerevan Illumination	4,000	762	762	**19**	**19**	2015	2022*
Schools, seismic protection	83,600	43,715	66,965	**52**	**80**	2015	2024
Irrigation Systems	40,000	29,748	41,089	**74**	**103**	2015	2024
Electricity transmission (Ashnak; Yerevan)	52,000	27,502	27,502	**53**	**53**	2015	2024
N-S Highway Project	150,000	2,527	31,803	**2**	**21**	2015	2022*

M6 rehabilitation	46,987	33,294	36,175	**71**	**77**	2016	2022*
Kotayk solid waste	5,869	1,478	1,478	**25**	**25**	2016	2024
Gyumri urban road project	15,578	9,667	10,462	**62**	**67**	2016	2023
Local economy and infrastructure	55,000	17,165	30,035	**31**	**55**	2016	2023
Social and Local Development	19,099	1,126	12,872	**6**	**67**	2020	2023
Overall completion for off-track projects	1,026,518	494,912	663,365	**48**	**65**		

Annex 7. Performance Budgeting Indicators in France

Methodology to define Performance Indicators (financial and non-financial) linked to public spending.

Source : https://www.budget.gouv.fr/

The French budget is formulated as a PBB structure. It includes 25 **Missions** broken down into **Programs,** usually by line ministries.

From a performance perspective, Programs are associated with **objectives** and **performance indicators** which estimation is strictly defined and is expected not to vary over time. Therefore, objectives and indicators are defined in a generic manner and follow standardized calculations methods.

The example of the budget of the Ministry of Culture (MoC) is illustrated below.

The MoC budget is divided into 6 programs of which the four main programs are Cultural Heritages, Artistic Creation, Support to Cultural Policies, and Knowledge Transmission and Democratization of Culture. Each program is divided into sub-programs (called Actions). The Program Cultural Heritage is divided into 6 Actions of which Historical Monuments, Museums Heritage, Archeological Heritage, etc.

The example of the Program **Cultural Heritages** below illustrates the content and sequencing of performance evaluation. The Program is associated with three Objectives and 8 performance indicators of which:

Objective 1: improve Cultural Heritages' Knowledge and Conservation

> **Indicator 1.1. share of preventive conservation compared to restoration of historical buildings and monuments.** Justification: in a long-term perspective it is less costly to develop preventive operations than realize renovation of under-maintained buildings.
>
> **Indicator 1.2. preventive archeology – share of number of received development files for archeological diagnostic and/or number of preventive archeological prescribed excavations.** Justification: the indicator measures the number of archeological diagnostic and/or the number of preventives excavation operations ordered. The indicator is respectively 6 to 8 percent and 1.5 to 2%
>
> **Indicator 1.3. Quality of State project management**. Justification: The MoC is committed to ensure proper project management by respecting the estimated costs of operations. The indicator measures the ration estimated cost/ actual cost.

Objective 2: Increase Public Access to National Cultural Heritage

Indicator 2.1. Attendance at heritage and architectural institutions. Justification: artistic knowledge transmission is a major orientation of cultural heritage national policy. The indicator includes 3 sub-indicators to scrutinize the overall rate of public attendance expressed in million and ratio related to young people in percentage.

Indicator 2.2. Public accessibility to art collections. Justification: it is self-explanatory. The indicator is divided into two sub-indicators that relates to digitalization of iconographic documents by archives services to the public and hours of operations of museums (volume)

Indicator 2.3. Rate of public satisfaction with institutions and heritage sites. Justification: The MoC is committed to promote quality art supply that meets satisfaction of the public. The indicator is based on an annual quality survey achieved by the Historical Heritage Department of the MoC. The rate of satisfaction is usually around 75 %.

Objective 3: Broaden the Sources of Enrichment of Public National Cultural Heritage

Indicator 3.1. Leveraging public financial funding in restoration of private historical monuments. Justification: The MoC seeks encouraging private financing of restoration works either by mobilizing private partners financing and increase own resources in public institutions in charge of restoration of historical heritage buildings and monuments. The indicator is a ratio private financing of works/public contribution.

Indicator 3.2. Rate of own's resources of cultural heritage and architectural institutions. Justification: The MoC is committed to encourage the increase of own resources (admission ticketing, patronage, branding…). Indicator is a ratio own resources/ totals resource.

Comments

- Indicators above are associated to program-based budgeting but can be adapted to all types of expenditure concepts and procedures, in particular investment projects.
- Indicators cover the previous year (N-1), the year (N, actual) and forecasts for the four following years (N+1 to N+4).
- Indicators must be supported by a detailed and precise methodology justifying their objectives and calculation mode (see below).
- Indicators must be designed in taking into account the availability of data in a permanent manner i.e., being produced in a standardized way through either targeted expenditures (financial data) or physical information such as attendance rate, satisfaction level or else (non-financial data).
- Indicators must be available in a periodic time in order to assess the performance during the year (monthly or quarterly) and not only at the end of the year.
- Indicators must not be too subjective-driven, linked to some exceptional events or perception, in order to ensure a coherence between a long period. This suggests that survey-based indicators should be limited in number, knowing that required survey should be standardized over time.
- Indicators must be limited in number given the amount and complexity of tasks that each requires for making.

Annex 8. Standards and Guidance on Project Delivery in the UK

The UK Treasury and the Infrastructure and Projects Authority (IPA) mandate the use of a set of guidance documents and procedures for project management. It is known as the Project Delivery Functional Standard (The Standard) and is the approved reference for all Line Ministries. The Standard sets out clear definitions of portfolio, projects, programs, and work packages; establishes requirements for the management of portfolios, programs and projects ensuring value for money and successful and timely delivery. Governance requirements are articulated relating to assurance, decision-making, and accountabilities and roles:

- The portfolio director provides leadership and direction and owns the portfolio's vision and strategy. The portfolio director is accountable for the direction and governance of the portfolio and for delivering benefits at an acceptable level of risk.

- The portfolio manager is accountable to the portfolio director for managing the portfolio and ensuring it is set up to deliver on objectives, including monitoring spend against budget and benefits realization.

For major projects, there are standard criteria for classifying delivery confidence, which are systematically applied across the portfolio and used to inform project adjustment where necessary. The IPA undertakes a quarterly review of major projects. Projects are assigned a Red/Amber/Green status, which correspond to conditionality on project progression. As part of IPA's Quarterly Assessment of the portfolio, projects with schedule and/or cost profiles beyond tolerances of +/-10 percent are typically subject to further scrutiny. A set of follow-up reviews and escalation procedures—including potential escalation to the relevant minister—is in place. IPA annual reports show evidence of project redesign and/or early project closure in some cases.

The Standard is widely understood and found to be useful. UK Survey data shows that 75 percent of respondents in a project delivery function stated that the Standard is improving work practices across the function. Project Delivery is one of the designated civil service professions and is made up of over 14,000 professionals in government who are involved with the delivery of projects, programs, and portfolios.

Red/Amber/Green Status and Project Adjustment

Green: Successful delivery to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery. Recommendation: The project is ready to proceed to the next stage.

Amber: Successful delivery to time, cost and quality appears feasible but there are significant issues requiring management attention. These appear resolvable and, if addressed promptly, should not present a cost/schedule overrun. Recommendation: This project can proceed to the next stage with conditions, but the project must report back to the IPA and HMT on the satisfaction of each time bound condition within an agreed timeframe.

Red: Successful delivery of the project to time, cost and quality appears to be unachievable. There are major issues which, at this stage, do not appear to be manageable or resolvable. The project may need re-baselining and/or its overall viability re-assessed. Recommendation: This project should not proceed to the next phase until these major issues are managed to an acceptable level of risk and the viability of the project has been confirmed.

The Government Project Delivery Profession

The Government Project Delivery Profession is a community of over 14,000 professionals working in project implementation across UK Government. To support the development of the profession, the Project Delivery Capability Framework has been established, consisting of three core strands: • Career pathways detailing the range of job roles within the profession; • The technical and behavioral competencies required for such roles; and • Development pathways guiding members of the profession to development and training opportunities available. A number of advanced leadership programs form part of the development pathways including the Major Projects Leadership Academy developed and provided by the University of Oxford; the Project Leadership Program delivered by Cranfield University School of Management; and the Orchestrating Major Programs course for the most senior leaders, also delivered by the University of Oxford.

Source: IMF PIMA September 2022

Annex 9. Indicative Quarterly Project Monitoring Template for Major Projects

Name of project:			
Project number:		Project code:	
Approved budget:		Variation orders approved:	
Revised budget:		Value of approved variations:	
Contractual completion date:		Revised completion date:	
Time extensions approved:		% time lapsed at reporting date:	
% budget spent at reporting date:		% progress at reporting date:	
% planned progress at reporting date:		New or changed risks identified during previous quarter:	
Mitigation steps taken to eliminate risks identified:		Action required at higher authority level to solve delaying issues:	

Source: IMF Staff, Kosovo CPIMA (forthcoming 2023)