



**Amendment to
Project Proposal for**

ARMENIA

June 2025

Component: Revenue and Spending

Module: RM-II: Revenue Administration
SM-II: Managing Public Finance



PROJECT SUMMARY

COUNTRY: Armenia

LEAD DEPARTMENT: FAD

REGION: MCD

PLANNED DATES: FY26-27

PROJECT MANAGERS: Michael Hardy (Revenue Administration, FADR1, Lead)
Charles Vellutini (Tax Policy, FADT1)
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ESTIMATED BUDGET \$690,150

BUDGET FOR ENDORSEMENT: \$690,150

PROJECT AMENDMENTS:	PURPOSE	SC APPROVAL
INITIAL PROJECT PROPOSAL	Proposal for RM-I: Tax Policy and RM-II: Revenue Administration modules	June 2024
AMENDMENT 1	Update of RM-II: Revenue Administration module following TADAT Assessment; addition of SM-II: Managing Public Finances module following IMF-WB 2025 Spring Meetings.	June 2025

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ACRONYMS

CD	Capacity development
C-PIMA	Climate - Public investment management assessment
CRM	Compliance risk management
FAD	IMF's Fiscal Affairs Department
MCD	IMF's Middle East and Central Asia Department
MoF	Ministry of Finance
MTEF	Medium-term expenditure framework
PFM	Public financial management
PIM	Public investment management
PIMA	Public investment management assessment
SBA	IMF's Stand-by Arrangement
SRC	State Revenue Committee, Armenia
STX	Short-term expert
TADAT	IMF's Tax Administration Diagnostic Assessment Tool

I. PROJECT AMENDMENT PURPOSE

Country request and relevance/importance

The State Revenue Committee (SRC) is a revenue administration with responsibility for both tax and customs functions. The authorities requested a Tax Administration Diagnostic Assessment Tool (TADAT) evaluation during the 2024 Annual Meetings. The new Chairman (former deputy Finance Minister) wants an updated baseline of tax administration performance on which to base a reform program. TADAT will be delivered May 2025. This RM-II module (revenue administration) amendment is to resource the specific capacity development (CD) requests that flow from the reform program. However, customs focused CD is also anticipated in FY27.

Subsequently, at the IMF-World Bank 2025 Spring Meetings, the authorities requested support in relation to public financial management (PFM) systems and for building capacity to achieve the expected reform outcomes, captured by the SM II module. PFM reforms form the backbone of the ongoing IMF Stand-by Arrangement (SBA) addressing key challenges in budget planning and execution, public investment management (PIM), and fiscal risks management. Despite notable progress in some PFM areas (i.e., fiscal risks management, state-owned enterprise reforms), challenges persist in building effective PIM process. Successful implementation of priority PFM reforms requires a programmatic approach with reform actions tailored to the Armenian context supported by hands-on assistance to match the authorities' pace and absorption capacity.

Description of Modules

TADAT aligns closely with core tax administration functions, so CD that will be delivered will be most strongly grounded in the following objectives of the RM-II (revenue administration) module: "Strengthen Core Tax Administration Functions," "Corporate and Compliance Risk Management" and "Strengthen Management and Governance Arrangements". For FY27, the objective "Improve Customs Administration" will be utilized in addition to the above.

The proposed project will support the delivery of key PFM reforms under the SM-II module (managing public finances), focusing on two key objectives: "Building and strengthening fiscal institutions and frameworks", and "Strengthening budget credibility." The programmatic two-year CD will support the

Ministry of Finance (MoF) with implementing the identified priority PFM reforms building on earlier CD delivered by the IMF's Fiscal Affairs Department (FAD).

The estimated budget for this two-year project is \$690,150 covered within the total budget endorsement request for Armenia of \$1,060,706 through FY27.

II. BACKGROUND

Macro-fiscal situation

Economic activity has decelerated from its previous highs as temporary external growth drivers have diminished. GDP grew by 5.9 percent in 2024, down from 8.3 percent in 2023, largely due to moderating trade and tourism flows. Strong domestic consumption and private investment, buoyed by construction and service sectors, supported growth. Lower than anticipated excise, corporate income tax, and personal income tax collections (0.4 percent of GDP relative to the fourth review projection) were more than offset by higher non-tax revenues (0.6 pp of GDP), including dividends from the Zangezur Copper and Molybdenum mines (0.4 percent of GDP). Current spending accommodated large social protection needs, while restraining spending on goods and services. Capital spending accelerated relative to 2023 but remained below projections (by 0.5 percent of GDP) mainly due to under-execution of domestically financed projects.

Country engagement and alignment to reform priorities

FAD has been supporting PFM reforms in Armenia, with positive results in strengthening fiscal risks management and developing a state-owned enterprise ownership. Recent FAD CD support provided a roadmap for the authorities to complete a comprehensive review of the Medium-Term Expenditure Framework and the annual budget process; reviewed the organizational structure of the MoF, and provided targeted support on the PIM function. However, despite advancements in some areas, challenges persist. Some of the main PFM challenges identified are: (1) insufficient use of the medium-term budget planning; (2) limited integration of public investment projects into the medium-term budget framework; (3) inefficient PIM process constrained by recent transfer of the function from the Ministry of Economy to the MoF; and (4) weak capacity.

IMF priority areas / cross-cutting themes

The CD under this program will support the country's climate related initiatives in PFM, such as managing fiscal risks from climate and improve climate sensitivity of public infrastructure.

III. PROJECT AMENDMENT MODULES - DESCRIPTION

This proposal is an amendment to an existing project. The amendment proposes CD support to Armenia in the areas of revenue administration and managing public finances. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	- Strengthened core tax administration functions - Strengthened revenue administration management and governance arrangements - Improved customs administration functions
Spending	SM-II: Managing Public Finances	- Sustainable Fiscal Institutions - Strengthened Budget Management - Strengthened Macroeconomic Frameworks

A. RM II - Revenue Administration

Scope

The ongoing focus is on increased domestic revenue mobilization. The revenue administration will secure a contemporary baseline measure of core competencies. From this it will either address identified gaps, or have greater confidence that it can undertake more advanced work on complex compliance risks.

Program Objectives

Following work to establish personal income tax and social security contributions gap assessments, the new chair wants greater reassurance that core competencies are sound before embarking on activity to

address complex compliance risks. The ongoing focus is on increased domestic revenue mobilization. The results of the TADAT assessment will refine the actual CD, however some areas under contemplation are:

- Core registration and tax administration processes and capabilities
- Compliance Risk Management (CRM) and analytics
- Addressing the informal economy (indirect audit techniques, whole of government, revised powers)
- Cross-border and international taxation (including customs-tax collaboration)
- Customs risk assessment
- Anti-smuggling capabilities
- Digital forensics

Expected Results (outcomes)

The expected results are:

- Agreed incremental improvement milestones (2026 and 2027) on granular performance metrics for on-time filing, on-time payment and tax debt measures (follow on from TADAT and strengthened core tax administration processes)
- An integrated approach to address the informal economy
- Strengthened CRM capability
- Customs-Tax collaboration initiative, probably in relation to low value parcels (2027)

B. SM II – Managing Public Finances

Scope

The proposed SM-II component will focus on key PFM reforms to be supported with regular FAD expert advice, on-the-ground supervision, and relevant training. Key areas of support will include:

- (1) strengthening budget process and implementing a Medium-Term Expenditure Framework (MTEF);
- (2) building a more effective and efficient PIM process; and (3) further enhancing fiscal risks

management. All activities will be delivered by a combination of in-country and remote missions to build capacity of relevant MoF departments to sustain reform efforts.

Program Objectives

The objective of the PFM module is to assist the Armenian authorities in strengthening their PFM systems through sustainable fiscal institutions (including PIM), more efficient budget processes and stronger macro fiscal frameworks., through:

- i. conducting an update of PIMA diagnostic with an added climate module (C-PIMA) to obtain a wholistic view on the reforms implemented since 2018 and remaining constraints;
- ii. providing hands-on support in strengthening the budget process to transition from the current bottom-up annual budget preparation to a medium-term, more strategic and policy-oriented budget frameworks;
- iii. providing CD with hands-on training and templates to continue improving coverage and quality of fiscal risks assessment and disclosure.

Expected Results (outcomes)

Key outcomes of the Project will include: (1) completed diagnostic of infrastructure governance framework (PIMA) and climate PIMA to identify the existing weaknesses and gaps, and inform the next phase of reforms for enhanced integration of public investment projects in the medium-term budget framework; (2) improved comprehensiveness and credibility of medium-term budget framework; and (3) strengthened identification, monitoring, and management of fiscal risks.

Project proposals typically cover only one to two years of CD activities, which are expected to contribute to the achievement of the objectives outlined in the sections above. The objectives of this Global Public Finance Partnership (GPFP) project may require extended support to be fully and sustainably realized. Therefore, progress reports will serve to monitor advancement towards these objectives, and it may be necessary to adjust or broaden project workplans to better facilitate the achievement of these goals.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

The SRC has shown consistently strong engagement, now further strengthened by the former deputy Finance Minister taking over the Chair, and strengthening political support and cooperation between the SRC and MoF on revenue collection. The self-assessment of likely areas of CD need, ahead of the TADAT assessment, shows good insight. This extension is about ongoing CD assistance, but also represents a point of reset, establishing a new baseline on which to evaluate further progress.

The MoF has maintained a strong and collaborative partnership with the IMF in advancing PFM reforms. This cooperation has been instrumental in supporting the design and implementation of key reforms, including significant improvements in fiscal transparency and fiscal risk management, some progress in modernization of the MTEF, and selected enhancements in PIM. This collaboration establishes a good basis for professional dialogue and trusted relationship to advance remaining priority reform to achieve improved budget credibility, and more efficient allocation of public resources, including for public investments.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX)** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

- **Peer-to-peer:** engagements designed for project beneficiaries to exchange their views and experiences undertaking specific reforms, providing opportunities for the Armenian officers to observe practices adopted by other institutions that have robust arrangements in place in specific areas. This modality will be used by the IMF's Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC) in coordination with FAD.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
IMF's Middle East and Central Asia Department (MCD) country team and IMF Resident Representative	Disclosure and coordination of FAD activities. Support of any benchmarks under SBA or similar. Engagement on Article IV or similar reviews.	Tax Policy Revenue Administration Public Finance Management	Each mission, otherwise bi-annual or as needed more frequently.
IMF's Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC)	Disclosure and coordination of FAD activities	Tax Policy Revenue Administration Public Finance Management	Each mission, otherwise bi-annual or as needed more frequently.
World Bank, Asian Development Bank, European Commission, Swedish Tax Administration, Expertise France (on tax administration matters)	Exchange of information on broad areas of CD engagement to avoid duplication and facilitate coordination	Tax Policy Revenue Administration Public Finance Management	At least annually

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
RM II - Revenue Administration	CD delivery interrupted due to health crisis. Significant regional (border) tension.	Medium	Known techniques for virtual engagement and delivery of CD, if needed. Tension seem to be easing (Mar 2025)
SM II - Managing Public Finance	2022-2024 have been characterized by further regional tensions, tight global financial conditions, a slowdown in major trading partners—including Russia, as well as rising global food and energy prices.	Medium	Agree with the authorities on potential of remote activities in case of adverse events. Ensure proper coordination of PFM CD with MCD, so that it can be resumed following any disruption.
POLITICAL SUPPORT			
RM II - Revenue Administration	Political leadership has not always motivated the SRC in progressing with reforms.	Low	Considered unlikely under newly appointed (2024) Chair, who was former deputy Finance minister. If needed, engage MCD team to assist in securing additional political support.
SM II - Managing Public Finance	Armenian economy remains vulnerable to external shocks. In case of any further external factors or political instability, the MoF commitment to PFM reform implementation could deteriorate.	Medium	The IMF-supported SBA structural benchmarks are anchoring important PFM reforms. Engage regularly with the Finance Minister, relevant deputy ministers, and MoF technical staff to foster and monitor government ownership of reforms. Leverage MCD support.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
RM II - Revenue Administration	SRC management and staff previously took a passive position during CD assignments (2021), but this has not been observed recently (2024)	Low	Low risk assessment, so we accept the risk. If authorities do become passive we can tailor a mitigation including proportionately reduced CD or active management of logframe milestones.
SM II - Managing Public Finance	Commitment and capacity in different aspects of PFM reform have improved overall, but there remain weak spots in implementation.	Medium	Proactively engage with MoF leadership and technical staff, explain the importance and prioritization of PFM reforms, following up on the progress and providing regular check-ins.

Category/Module	Description	Risk Assessment	Mitigation Measures
			Regularly update status of PFM reforms, coordinate with other donors to ensure complementary CD activities.
RESOURCE ADEQUACY			
RM II - Revenue Administration	Resources available do not allow the SRC to address some development areas. Resource adequacy has generally improved between 2021-2024, although some skills (e.g. analytics) present challenges in all administrations.	Low	Focus CD on those matters that do not have resource constraints. if needed, direct CD to the process of how to overcome skilled resource constraints.
SM II - Managing Public Finance	Armenia's demand for IMF CD resources on PFM continues to be high, while insufficient technical capacity and human resources limit CD absorption capacity.	Medium	Ensure CD plans include sufficient capacity building, training elements and prioritize CD to priority or highest risk areas where resources are limited.
OTHER RISKS			
RM II - Revenue Administration	Multiple donors are providing technical assistance on PFM reforms, which may result in overlaps.	Low	Participate in regular donor coordination meetings, take an active role in engaging with other donors to ensure support is prioritized and well-coordinated.
SM II - Managing Public Finance	Multiple donors are providing technical assistance on PFM reforms, which may result in overlaps.	Low	Participate in regular donor coordination meetings, take an active role in engaging with other donors to ensure support is prioritized and well-coordinated.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY26	FY27	FY28	FY29	Grand Total
RM II – Revenue Administration					
HQ led CD mission	-	-	-	-	-
STX visits	2	2	-	-	4
Staff visits	-	1	-	-	1
Workshops (inc. during HQ and remote CD)	-	1	-	-	1
SM II – Managing Public Finances					
HQ led CD mission	1	1	-	-	2
STX visits	1	2	-	-	3
Staff visits	-	-	-	-	-
Workshops (incl. during HQ and remote CD)	1	1	-	-	2
TOTAL	5	8	-	-	13

Note:

- In-person delivery was chosen in most instances to support engagement in a country with an SBA and because of potential sensitivity of the CD messages being conveyed.
- Collectively, the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM II - Revenue Administration		
Q2/FY26	Field-Based work - FB	Tax: CRM
Q3/FY26	Field-Based work - FB	Tax: Core tax function
SM II – Managing Public Finances		
Q3/FY26	Field-Based work - FB	HQ Mission: PIMA and C-PIMA Diagnostic
Q3/FY26	Field-Based work - FB	STX Follow up: MTEF and Effective Budget Process
Q4/FY26	Field-Based work - FB	STX Follow up: MTEF Workshop on Good Practices

VII. PROGRAM FINANCIALS

Module	FY26	FY27	FY28	FY29	TOTAL (USD)
Direct Delivery					
RM II - Revenue Administration	\$45,000	\$60,000	-	-	\$105,000
SM II - Managing Public Finance	\$250,000	\$290,000	-	-	\$540,000
Subtotal	\$295,000	\$350,000			\$645,000
Trust Fund Management Fee (7%)	\$20,650	\$24,500	-	-	\$45,150
TOTAL	\$315,650	\$374,500			\$690,150

Note: The estimated budget for this project is \$690,150 and endorsement is requested for the full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM II – Revenue Administration

Objective: Strengthened revenue administration management and governance arrangements - RAM	
Outcome(s)	Indicator(s)
Corporate priorities are better managed through effective risk management	Improved identification, assessment, ranking and quantification of compliance risks
	Better mitigation of risks through a compliance improvement program (Informal Economy)
Objective: Improved customs administration functions (SDG 17.1) - CAD	
Outcome(s)	Indicator(s)
Customs control during the clearance process more effectively ensures accuracy of declarations	Rate of physical inspections decreased (Low Value Parcels)
Objective: Strengthened core tax administration functions (SDG 17.1) - TAD	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their filing obligations as required by law	On-time filing ratio improved
A larger proportion of taxpayers meet their payment obligations as required by law	On-time payment ratio improved
	Management of tax arrears improved

B. SM II – Managing Public Finances

Objective: Build Sustainable Fiscal Institutions – SFI	
Outcome(s)	Indicator(s)
Strengthened capacity to plan, implement and sustain infrastructure governance	Completed diagnostic of infrastructure governance framework (PIMA)
Strengthened capacity to plan, implement and sustain reforms in strategic areas, including climate, gender, and SDGs	Completed diagnostic of climate-related infrastructure governance framework (C-PIMA)
Objective: Strengthen Budget Management – SBM	
Strengthened annual budget process for more efficient and effective use of resources	Improved public investment planning and allocation (Record Score: PIMA 3, 9, 7)
Strengthened medium-term budget frameworks	Enhanced integration of public investment projects in the medium-term budget framework
	Improved comprehensiveness and credibility of medium-term budget framework and/or expenditure framework (Record Score: PEFA PI-16, FTC 2.1.3)
Objective: Strengthen Macroeconomic Frameworks – SMF	
Strengthened identification, monitoring, and management of fiscal risks	Enhanced analysis, disclosure and management of other contingent liabilities and specific fiscal risks