

First ODA Loan to the Republic of Armenia - Supporting Construction of Electricity Transmission and Distribution Network-

OECF (The Overseas Economic Corporation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa) has decided to provide a loan of up to 5,399 million yen to fund "Electricity Transmission and Distribution Project" in the Republic of Armenia, and signed the loan agreement on February 18, 1999.

The loan agreement was signed at OECF head office in Tokyo by Mr. Shinozawa, President, Chairman of the Board, OECF and H.E. Mr. Merujan Michaelian, Minister of Energy.

This is the first time that OECF grants a loan to Armenia. This loan brings the total number of recipient countries of ODA loans to 93.

1. Amount Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)		Repayment Period /Grace Period (years)		Tying Status	
		Goods and Services	Consulting Services	Goods and Services	Consulting Services	Goods and Services	Consulting Services
Electricity Transmission and Distribution Project	5,399	1.8	0.75*	30/10	40/10	General-untied	Bilateral Tied

* Special Environmental Projects

2. Project Summary

Electricity Transmission and Distribution Project

(1) Outline of Armenia

Armenia is one of the three Caucasian nations. To the north it is bordered by Georgia, to the east by Azerbaidjan, to the west by Turkey, and to the south by Iran. Most of the territory of Armenia consists of plateaus with an elevation between 800 and 2,000 m, and the country experiences frequent earthquakes. The Alpine zone, which includes Mount Ararat (5,165 m) in Turkey, on which Noah's Ark is said to have landed, and the Armenian side of Mount Aragatu (4,090 m), forms the river-head area of neighboring rivers including the Tigris and Euphrates, and Lake Sevan, situated at an altitude of 1,924 m, covers one fifth of the Armenian territory.

The Armenian plateau area that is inhabited by the Armenians has been the site of cultivation from an extremely long time ago, and an ancient empire is said to have existed there in the 9th century BC. Armenia was also the first country to be received to Christianity as a nation (301 AD).

From the Middle Ages to modern times, Armenia has experienced various invasions from its neighbors, and undergone foreign rule for many years. Many Armenians now live scattered in neighboring countries as the result of escaping from foreign rule. They played an important role in business in Russia and Middle Eastern countries.

Thereafter, Armenia became a Soviet Republic under the 1936 Constitution, and in 1991, it gained independence from the Soviet Union.

The collapse of economic infrastructure by the major earthquake that shook Armenia in December 1988, the economic blockade during the Nagorno-Karabakh conflict with Azerbaidjan, and social and economic turmoil immediately after the collapse of the Soviet Union have inflicted a considerable economic shock to the nation; an inflation rate jumped up to more than 10,000% in 1993, and per capita income fell from US\$1,810 in 1991 to US\$560 in 1993. Thereafter, as the result of IMF supported economic reforms, Armenia was the first nation among the former-Soviet republics to achieve a positive rate of economic growth in 1994, and has since begun a steady economic recovery. The major economic policy issues Armenia will have to address in the years to come are the continued privatization of state-owned enterprises and the reduction of the budget deficit. While receiving aid from the IMF, World Bank and other international organizations, Armenia is working in the direction of becoming more fully a market economy.

(2) Project Background and Necessity

Armenia has a relatively large electric power generation capacity (3,593 MW) due to the construction of power plants during the Soviet regime. However, its nuclear power plants had to be closed in March 1989 due to damage suffered in the major earthquake, as did a gas pipeline going through Azerbaidjan. Furthermore, damage to Armenia's gas pipeline traveling through Georgia due to domestic conflict in that country and the sharp increase in the price of imported fuel were additional factors that contributed to a decline in the operation rate of the country's thermal power stations, resulting in a power supply capacity of 6,295 GWh in 1993, a 40% reduction compared to 1988. Despite the government's attempt to stabilize the supply of electric power by increasing the operation rate of hydraulic power plants, it could not avoid an electric power crisis as daily electric power availability fell to between 2 and 4 hours from 1993 to 1995. Armenia was thus forced to resume use its nuclear power plants, safety problems notwithstanding.

Furthermore, Armenia's power transmission and distribution network has suffered from long years of insufficient maintenance, and concentrated consumption exceeding facility capacity over short periods due to power supply restrictions during the above-mentioned power crisis has resulted in burnt transformers, melted cables, and other damage. As a result, fluctuations in the power supply voltage occur and power supply has become unstable.

The Armenian government has therefore made the construction of new power plants, the rehabilitation of existing ones, and the improvement of its power transmission and distribution network (reduction of power transmission network losses and increase of power charges collection rate) its highest priorities.

(3) Objectives and Outline of the Project

By constructing a power transmission and distribution network covering the entire national territory of Armenia (upgrading of substations and load-dispatching offices, improvement of communication equipment and rehabilitation of transmission and distribution network) as well as the installation of consumption meters, this project will improve the stability and reliability of power supply. Moreover, by aiming to reduce power transmission losses and increase the power charges collection rate, the project aims to strengthen the management foundation of the power transmission and distribution companies and improve Armenia's balance of international payments by more efficient use of energy resources.

The proceeds of the loan will be used for civil works, procurement of required electricity transmission equipment and consulting services (construction supervision, etc.).

This is a co-financing project with the World Bank.

The executing agency is the Energy Investment Projects Implementation Office State Closed Joint Stock Company (Address: 127 Amaranotsain, Bldg. #2, Yerevan 375047, Republic of Armenia, TEL: 3742-592648, FAX: 3742-151809).