I. Project Context

Country Context
The recent economic crisis reversed some of the economic achievements. Armenia experienced a sharp downturn with output contracting by 14% in 2009. Poverty increased, with 35.8% of the population living below the poverty line in 2011 compared to 27.6% in 2008. The Government’s strong counter-cyclical fiscal policy focused mainly on increased spending on infrastructure, social protection, and emergency financing for enterprises. While the fiscal expansion helped protect the poor and maintain jobs, the pace of recovery remained slow with around 4% real growth expected for 2013.

Sectoral and institutional Context
The key challenges in the power sector include: (a) threatened power supply reliability; (b) possible power supply gap after retirement of existing nuclear power plant in 2026 and delay with commissioning of the new plant; (b) and (c) increasingly unaffordable power tariffs.
The average age of power transmission assets is around 45 years and most of them have not undergone any major rehabilitation or upgrade. Specifically, 12 out of 16 110/220 kV substations, 30% of 220 kV lines and 43% of 110 kV lines on HVEN balance sheet require urgent rehabilitation. The total investments for rehabilitation of the above assets are estimated at around US$250 million over the next 5-6 years in order to avoid increased incidence of power supply outages causing significant social and economic costs.

The challenge of power supply reliability is clearly recognized by the Government as reflected in various strategic documents, including the recently adopted Concept of National Energy Security (2013), Power Sector Strategy (2006) and the Armenian Development Strategy for 2012-2025 (2012). The Government is actively collaborating with IFIs and bilaterals to secure financing for much needed investments. Specifically, the Government has already requested the World Bank to support rehabilitation of two high-voltage substations (Ashnak and Yerevan TPP) and power transmission lines (Lori 220 kV line - 50 km; and Toumanyan-1 and 2 110 kV lines – 4 km) under the proposed US$50 million Electricity Transmission Network Improvement Project (ETNIP) in 2015-2019. The Government also plans to implement US$80 million phased project with ADB to rehabilitate the remaining eight high-voltage substations in 2014-2020.

II. Proposed Development Objectives
A. Current Project Development Objectives – Parent
The project development objective is to increase the reliability and capacity of the transmission network.

B. Proposed Project Development Objectives – Additional Financing (AF)

III. Project Description
Component Name
Strengthening of the power transmission network
Comments (optional)
This component will finance works, goods, and technical assistance for rehabilitation and expansion of Haghtanak substation and rehabilitation of Charentsavan-3 and Vanadzor-1 substations.

Component Name
Technical assistance
Comments (optional)
This component will finance goods, technical assistance, including Training and Operating costs, to HVEN to strengthen its capacity in operation and maintenance of power transmission assets, technical supervision, planning, procurement, financial management, and project management.

IV. Financing (in USD Million)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Project Cost:</td>
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<tr>
<td>Total Bank Financing:</td>
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<td>Financing Gap:</td>
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<td>For Loans/Credits/Others:</td>
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<tr>
<td>Borrower</td>
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</table>
V. Implementation
The implementation and institutional arrangements will remain the same as under the ongoing Electricity Supply Reliability Project. High Voltage Electric Networks CJSC (HVEN) will implement the project. HVEN, a state-owned transmission company established in 1998, is responsible for operation, construction and maintenance of the high voltage power transmission network in the country. The implementation of the project will be overseen by the Project Management Board of the HVEN, consisting of representatives of the HVEN, the Government and power sector companies. HVEN operations are overseen by the company’s Board, which consists of representatives of the HVEN, Ministry of Energy and Natural Resources, Ministry of Finance, and the State Property Management Department.

VI. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<th>No</th>
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<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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<td>Projects on International Waterways OP/BP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
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</tbody>
</table>

Comments (optional)
No additional safeguards policies are triggered.

VII. Contact point
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