

## INDICATIVE CONTENT OF PROJECT CONCEPT

### Section 1.01 General information about Project

Project name	Development of the North-South Road Corridor
Sector	Road construction
Type of project	Rehabilitation, upgrading
State	Armenia
Location	From the northern border at Bavra to the southern border at Meghri

### Section 1.02 Brief description of Project

The "North-South" Road Corridor, 556 km in length, links Central Asia with Iran, Georgia, Russian Federation and Europe. The Corridor passes across Armenia from South to North (Meghri-Kapan-Goris-Yerevan-Ashtarak-Gumri-Bavra), links up with the Georgian road leading to seaports Poti and Batumi (Black Sea) and extends on toward EU countries. As a result of the proposed Project, the road route Europe-Caucasus-Asia will be improved in the area of junction between West Asia and Eastern Europe. The quickest shortcut route of the Corridor, 449 km in length, in its final stretch on the territory of Georgia passes along the road Akhaltsykhe-Batumi, which is currently in need of major rehabilitation. The Corridor, compliant with the relevant international engineering standards, is the most comfortable and the shortest route for transit from Iran via Georgia to the CIS countries. This Road Corridor is a section of the corridor leading to the Russian Federation, which is the subject of the relevant agreement referenced in the list of principal regulatory documents (see para 1.05).

<b>Yerevan-Bavra-Akhaltskha-Batumi-Poti</b>			
	160.9	117.0	70.0
Route	Total length	Territory of Armenia	Territory of Georgia
Yerevan-Batumi	449.9	160.9	289.0
Yerevan-Poti	519.9	160.9	359.0

<b>Yerevan-Bavra-Akhaltskha-Khashuri-Poti-Batumi</b>				
	160.9	117.0	76.0	70.0
Route	Total length	Territory of Armenia	Territory of Georgia	
Yerevan-Batumi	638.9	160.9	478.9	
Yerevan-Poti	568.9	160.9	408.9	

Yerevan-Bagratashen-Tbilisi-Khashuri-Poti-Batumi			
Route	Total length	Territory of Armenia	Territory of Georgia
Yerevan-Batumi	696.7	205.7	491.0
Yerevan-Poti	626.7	205.7	421.0

Yerevan-Gogovan-Tbilisi-Khashuri-Poti-Batumi					
	169.2	130.0	142.0	215.0	70.0
Route	Total length	Territory of Armenia	Territory of Georgia		
Yerevan-Batumi	726.2	169.2	557.0		
Yerevan-Poti	656.2	169.2	487.0		

### Expected Project deliverables

- As a result of the Project implementation, the Corridor will become the most convenient and shortest regional route leading to the Black Sea at Batumi and Poti;
- Improved throughput capacity and traffic safety of the road network in Armenia;
- Smooth traffic of trucks and passenger transport;
- Improved access to markets and reduced logistical overheads;
- Strengthened public roads management system;
- Increased transit traffic of goods across Armenia;
- Healthier environment offered to residents of roadside communities.

### Section 1.03 Project readiness

The investment program of the "North-South" Road Corridor designed to provide funding for the Project, has been up and running since 2010.

The agreement on disbursement of the first tranche requires rehabilitation work to be carried out on the 18 km road Yerevan-Ashtarak and improvement of road safety on the 38-km road Yerevan-Ararat.

The construction works **funded by the first tranche** are divided into two components:

1. The first 6.7 km section of the Yerevan-Ashtarak road and 38 km of the Yerevan-Ararat segment (before starting the work both segments require land acquisition and resettlement plans to be executed, as a result of which no competitive bidding process has yet been initiated, and further research is needed).
2. The 11.7 km section of the Yerevan-Ashtarak road, for which the competitive bidding took place in 2010, with an estimated preliminary cost in the amount of US\$ 21.3 million (cost of 1 km equal to US\$ 1.82 million)

The **second tranche** is contemplated for funding the rehabilitation work on the northern stretch of the road Ashtarak-Talin (41.9 km). The Loan Agreement for the second tranche of US\$ 170 million has already been signed with the Asian Development Bank. The total amount of the second tranche for the Project is equal to US\$ 210 million. Currently, land acquisition procedures are being executed for disbursement of the second tranche, and upon completion thereof the contractor will immediately proceed with Project implementation.

## **Section 1.04 Project funding scheme**

**Overall cost of the Project** is equal to US\$ 100 million. It may be adjusted on the basis of the proposed detailed feasibility study and the Project funding model.

**Project investment structure:** A detailed investment structure will be presented following the development of the funding model of the Project.

**Breakdown of the Project overall cost by sources of financing:** A detailed breakdown by sources of funding will be made available after the development of the financial model of the Project and designation of the road sections to be financed by the ACF and ADB.

ACF funds - US\$ 100 million;

ADB funds - up to US\$ 270 million;

Armenian Govt funds - up to US\$ 100 million (payment of taxes, collected during the implementation process, as well as compensations for potential withdrawal of land and property).

### **ACF financing terms:**

Requested funding availability limit of ACF: US\$ 100 million (the amount will be updated after the development of the feasibility study and the Project funding model);

Loan maturity, including grace period: 20 years;

Interest rate: 1.65 % per annum;

Front-end fee: 0.5% of the ACF loan amount; currency: US dollars;

Grace period: 5 years;

Repayment of the principal shall be carried out in accordance with the schedule provided if/when the Project is approved.

The grant element, estimated in accordance with the IMF Guidelines, should be equal to 33.5%.

The terms of borrowing are similar to those of the Asian Development Bank.

**Purpose of the ACF financing** - The ACF Loan will be provided for funding general construction works and consulting services.

**Availability of written agreements between the Project Company and investors (including preliminary arrangements), description and content of the existing arrangements and signed documents** - Consent of the ADB to finance the Project. ADB included the Project into its funding program.

The ACF Investment Loan in the amount of about US\$ 100 million is applied for to finance one of the components of the "North-South" Road Corridor Program. The funding is provided in the form of parallel financing of components of the "North-South" Corridor together with the Asian Development Bank. The components will be determined exactly during preparation of the detailed feasibility study.

Funding of the feasibility study will be carried out by the Asian Development Bank, as part of the third tranche for the "North-South" Road Corridor Program.

The ACF will provide its funds in the form of a Sovereign Loan to the Ministry of Finance of the Republic of Armenia for subsequent transfer to the implementation agency, i.e. the Ministry of Transport and Communications of the Republic of Armenia, which has established a special Project Implementation Unit (PIU).

Detailed terms and conditions for granting the Loan, as well as the number of tranches, will be determined during the preparation of the feasibility study and the Project financial model.

Note: The funding of the “North-South” Road Corridor Investment Program will be provided pursuant to the Financing Framework Agreement signed 15 September 2009 between the Government of Armenia and the Asian Development Bank. The Agreement makes provision for allocating the amount of US\$ 962 million to be raised from the following sources:

Source of finance	Total (US\$ million)	%
Asian Development Bank		
Regular capital resources	440.0	46
Special capital resources	60.0	6
Japan International Cooperation Agency (JICA)	70.0	7
Government and other sources of co-financing	392.0	41
ACF		
<b>Total</b>	<b>962.0</b>	<b>100</b>

The implementation process is divided into individual tranches, for each of which a separate loan agreement is signed. The loan agreement for the first tranche was concluded on 12/10/2009. The Periodic Financing Request (PFR) for the second tranche was signed and forwarded to the ADB. In December 2010, negotiations were held, and the relevant supporting appraisal documents were signed for the second tranche. Currently, negotiations are underway to sign the main Investment Loan Agreement.

Financial plan for first tranche			
Source of finance		Total (US\$ million)	%
A	Asian Development Bank. Special capital resources	60.0	86
B	Cofinancing by RA	10.0	14
	<b>Total</b>	<b>70.0</b>	<b>100.0</b>

<b>Financial plan for second tranche</b>			
<b>Source of finance</b>		<b>Total (US\$ million)</b>	<b>%</b>
A	Asian Development Bank. Regular capital resources	170.0	81
B	Cofinancing by RA	40.0	19
	<b>Total</b>	<b>210.0</b>	<b>100.0</b>

The cost of construction of the whole road corridor, according to the preliminary calculations, is estimated at about US\$ 1.2 billion.

As part of the Financing Framework Agreement signed between the Republic of Armenia and the Asian Development Bank on 15 September 2009, the Asian Development Bank agreed to put up US\$ 500 million for funding the “North-South” Road Corridor Project in the form of a multi-tranche financial instrument.

As of today, US\$ 230 million has been committed under the two loan agreements.

#### **Section 1.05 Government support of the Project**

The Project will be implemented by the Ministry of Transport and Communications of RA, which is the “North-South” Road Corridor Investment Program Organization.

The national budget will provide funding of one portion of the Project in the amount of taxes to be levied in the process of implementation, equal to approximately 20-25% of the total cost.

Government financing is performed on the basis of the agreements and acceptance reports signed, subject to an appropriate financing request.

The list of principal regulatory, as well as statutory documents, pertaining to the Project, is given in the Table 1.

**Table 1.**

<b>Ref. # of document and date of ratification</b>	<b>Description</b>
11 March 2010, # 446-H	Articles of the “North-South” Road Corridor Investment Program Organization
26 October 2009, # 892-A	Statute of the Organization's Council
<b>HX-48-H (Executive Order of the President of the Republic of Armenia)</b>	<b>On Approval of the Intergovernmental Agreement on North-South Road Corridor, St. Petersburg</b>

6 August 2009, # 968-A	On construction of North-South Road Corridor
RO-248 23 October 2001	Law “On public non-profit organizations”

<b>HX-48-H (Executive Order of the President of the Republic of Armenia)</b>	<b>On Approval of the Intergovernmental Agreement on North-South Road Corridor, St. Petersburg</b>
6 August 2009, # 968-A	On construction of North-South Road Corridor
ZO-248 23 October 2001	Law “On public non-profit organizations”
22 December 2011, # 1919 –H	On measures to ensure execution of national budget of 2012
23 December 2010, # 1748 - H	On measures to ensure execution of national budget of 2011
24 December 2009, # 1522 –H	On measures to ensure execution of national budget of 2010
09/07/1998 Resolution 429	Report on national budget expenditures for the Loan Program.
04.02.2008 80-Վ Executive Order of MFE	Financial statements
21 November, 2002 # 1809-H	Statute of the Ministry of Transport and Communications of RA

### **Section 1.06 Project economic and financial performance forecasts**

Economic and financial forecasts will be developed and presented, when the Feasibility Study and Financial Model of the Project have been prepared.

### **Section 1.07 Environmental Impact of the Project**

The environmental impact assessment is carried out by an independent consultant in accordance with the Environmental Safeguards Policy of the Asian Development Bank. A detailed social and environmental impact assessment will be developed in coordination with an international consultant, subject to preliminary endorsement of the Project, and will thereafter be submitted to the ACF Council upon final approval of the Project.

### **Section 1.08 Performance bond for the Fund**

The borrowed funds of ACF constitute a sovereign loan and are an integral part of the sovereign liabilities of the Republic of Armenia. The Republic of Armenia will post the funds borrowed from ACF, in its national budget as a source of funding the budget deficit and as an expenditure item for financing of the National Investment Project, as well as it will make provision in its national budget for the outlays allocated in amounts sufficient for repayment and service of the ACF Loan.

Upon completion of the Project, extra revenue will be generated for the Republic of Armenia through reducing operation overheads to relatively low levels, as well as by collection of availability charges, imposed on users of the corridor roadside infrastructure facilities and due to increasing traffic.

All along the corridor there will be priority road sections that will be defined as such during the preparation of the feasibility report.

## **II. INFORMATION ON PROJECT COMPANY**

### **Section 2.01. General.**

**The registered name of the Company in accordance with its Articles of Association (full and abbreviated), specifying its form of ownership** - Ministry of Transport and Communications of RA in its capacity of Implementation Agency.

**Data on registration as legal entity -**

**Location (registered office and place of business), title of ownership of premises of the actual address (if different from location of registered office)** - Yerevan, Nalbandyan St. 28.

**Form of ownership** - State-owned.

**Sector** - The Ministry of Transport and Communications of the Republic of Armenia is a public executive authority responsible for administering government policies and management of transport services.

### **Background of Project Company, establishment, duration in business, experience in its market segment**

The Project Company operating in its capacity of Implementation Agency has been in the business of carrying out investment projects for rehabilitation of public roads in the Republic of Armenia. For administering projects, the Project Company has an Investment Project Implementation Unit, staffed with appropriate professionals working in an adequately equipped office.

### **Section 2.02. Structure of shareholding of the Project Company:**

100% state-ownership

### **Section 2.03. Main financial performance indicators of the Project Company:**

In accordance with the Budget Law of the Republic of Armenia.