

**CONFORMED COPY**

**LOAN NUMBER 7854-AM**

# **Loan Agreement**

**(Second Public Sector Modernization Project)**

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated March 30, 2010**

**LOAN AGREEMENT**

Agreement dated March 30, 2010, between REPUBLIC OF ARMENIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of nine million United States dollars (\$9,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; and (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the MoF in accordance with the provisions of the Operational Manual and Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Borrower shall have duly extended the contractual arrangements with the existing Project Management Group under terms and conditions satisfactory to the Bank with terms of reference and qualifications satisfactory to the Bank; and
- (b) the Borrower has prepared and furnished to the Bank the Project Operational Manual in form and substance satisfactory to the Bank.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

### **ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Borrower’s Representative is the Minister of Finance of the Borrower.
- 5.02. The Borrower’s Address is:

1 Melik-Adamyan Street  
Yerevan 0010  
Republic of Armenia

Facsimile:

+374-10-524282

5.03. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

**REPUBLIC OF ARMENIA**

**By /s/ Tigran Davtyan**

**Authorized Representative**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ Aristomene Varoudakis**

**Authorized Representative**

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to enhance the performance of public sector management for better service delivery by: (i) strengthening institutional capacity in policy formulation; (ii) maximizing the efficiency of human capital; and (iii) developing information systems for internal work flow and external communication.

The Project consists of the following parts:

#### Part A: Strengthening Institutional Capacity in Policy Making and Service Delivery

1. Conducting organizational reviews and re-engineering of the business processes in selected pilot ministries to determine appropriate organizational framework, improve management of business processes and design adequate arrangement for interagency cooperation, through the provision of goods and consultants' services.
2. Strengthening the capacity of the Office of Government in policy analysis and formulation through the provision of consultants' services.
3. Strengthening the organizational capacity for policy driven performance planning and management processes through the provision of consultants' services.

#### Part B: Maximizing the Efficiency of Human Resources in the Public Sector

1. Preparing a feasibility study to identify constraints and risks for pay reform as well as weigh options and propose realistic steps for introducing a performance pay system through the provision of consultants' services.
2. Support for the establishment of the ethics commission within the CSC through the provision of consultants' services.
3. Capacity building through the delivery of a comprehensive series of courses for public service officials on key administrative issues through the provision of consultants' services and training.

#### Part C: Systems Development for Improved Performance and Transparency

1. Enhancing the electronic document management system (EDMS) to improve the interoperability between different government information systems, through the provision of goods, consultants' services and training.
2. Defining the role and scope of services to be provided through e-kiosks to enhance public access and information through the provision of goods and consultants' services.
3. Enhancing the government's efficiency in management of e-governance and automation systems to ensure the sustainability of the achievements and further development through the provision of consultants' services.

Part D: Just-in-Time Technical Assistance

Provision of just-in-time technical assistance (JIT TA) to bridge policy and implementation gaps revealed in the course of introducing performance based approaches in the public sector through the provision of consultants' services.

Part E: Project Management and Implementation

1. Providing administrative support services to the Project Management Group, as well as the FFPMC in carrying out procurement and financial management under the Project.
2. Provision of consultants' services to: (a) monitor and evaluate the Project progress; (b) monitor and evaluate Project impact; (c) monitor and evaluate Project fiduciary controls; (d) undertake the Mid-term Review; and (e) continuously engage internal and external stakeholders.
3. Conducting periodic surveys on the reform process and publicity to explain Project objectives and activities to managers, staff and other stakeholders and public dissemination of the results of such surveys through the provision of consultants' services.
4. Provision of minor works for refurbishment of Government offices involved in the Project implementation.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Borrower shall vest the overall responsibility for the implementation of the Project by the PSRC. The Borrower shall ensure that PSRC shall carry out the Project in accordance with the Project Implementation Plan and the Project Operational Manual and, except as the Bank shall otherwise agree, shall not amend or waive any provision of the Project Implementation Plan or the Project Operational Manual if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
2. For the purpose of ensuring the proper coordination and execution of the Project, the Borrower shall maintain the Project Management Group consisting of a Project Manager and staff with terms of reference and qualifications satisfactory to the Bank pursuant to the Project Operational Manual, with the responsibility for developing and updating the Project Implementation Plan and the Project Operational Manual, providing advice and support to the agencies participating in the Project and reporting to the PSRC on Project implementation.
3. The Borrower shall vest the FFPMC with the responsibility for financial management and procurement under the Project and shall ensure that FFPMC at all times has adequate staff and resources to fulfill its responsibilities with respect to Project implementation.
4. If there will be a need to arise for refurbishment of Government offices during the Project implementation, the Borrower shall furnish to the Bank an EMP Checklist for Small Scale Civil Works under Part E.4 of the Project for its prior review and approval. The refurbishment or minor works shall not start under the Project, unless the Bank's approval is received.

##### **B. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

#### **Section II. Project Monitoring Reporting and Evaluation**

##### **A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.



2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.
3. The Borrower shall provide the Bank with an annual monitoring and evaluation report and an annual work program including an updated Procurement Plan, all in form and substance satisfactory to the Bank by March 1 of each year throughout the duration of the Project. The mid-term review for the Project shall be conducted by July 2013.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>	
(a)	National Competitive Bidding of the Borrower may be used for procurement of goods and works for the Project, provided that the following provisions are complied with: <ul style="list-style-type: none"> <li>(i) entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and operate under commercial law;</li> <li>(ii) pre-qualification shall be conducted for large works projects;</li> <li>(iii) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;</li> <li>(iv) joint venture partners shall be jointly and severally liable for their obligations;</li> <li>(v) estimated contract prices shall not be advertised;</li> <li>(vi) no bids shall be rejected at bid opening;</li> <li>(vii) no bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.61 of the Procurement Guidelines are met;</li> <li>(viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria;</li> <li>(ix) advance the Bank's approval is required for any modifications in the contract scope/conditions during implementation; and</li> <li>(x) the Borrower shall use the proper bidding documents that are acceptable to the Bank.</li> </ul>
(b)	Shopping
(c)	Direct Contracting

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection based on Consultants' Qualifications
(d) Single-source Selection
(e) Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed (exclusive of Taxes)</b>
(1) Goods, works, consultants' services, Training and Incremental Operating Costs for the Project	8,977,500	100%
(2) Front-end Fee	22,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>9,000,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is July 31, 2015.

### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each May 1 and November 1 Beginning May 1, 2020 through May 1, 2034	3.33%
On November 1, 2034	3.43%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
  - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “CSC” means the Civil Service Council, duly established and operating pursuant to the requirements of the Civil Service Law of December 4, 2001.
5. “FFPMC” means the Foreign Financial Project Management Center within the Ministry of Finance established and operating pursuant to the Minister of Finance and Economy’s Decree No. 37 dated March 29, 2000, or any legal successor thereto.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
7. “EMP Checklist for Small Scale Civil Works” means the environmental management plan under Part E.4 of Schedule 1 to this Agreement to be prepared and approved by the Borrower and referred to in Section I.A.4 of Schedule 2 to this Agreement.
8. “Incremental Operating Costs” means equipment and vehicle maintenance, costs for fuel, office supplies, minor office equipment, literature, field trips, meetings and in-country travel costs related to the Project, FFPMC and Project Management Group staff salaries (excluding current Government officials’ salaries), communication costs, reasonable banking charges and media advertisement costs, and other expenses that may be agreed with the Bank during the Project implementation.
9. “Office of the Government” means the Borrower’s Office of the Government, established pursuant to the Government Decree No. 726 of May 2, 2002.
10. “Operational Manual” means the Borrower’s operational manual satisfactory to the Bank referred to in Section 4.01(b) of this Agreement, setting forth the operational and administrative procedures for the implementation of the Project as such manual may be updated from time to time with prior agreement of the Bank.
11. “Project Management Group” means the unit referred to in Section I.A.2 of Schedule 2 to this Agreement.

12. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October 2006.
13. "Procurement Plan" means the Borrower's procurement plan for the Project, dated February 9, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. "PSRC" means the Public Sector Reform Commission consisting of representatives from various government ministries and agencies as well as the non-governmental organizations established pursuant to the Prime Minister's Decree No. 544 dated September 3, 1999, or any legal successor thereto.
15. "Training" means expenses incurred by the Borrower and the FFPMC in connection with the carrying out of the training activities under the Project including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and related supplies.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

*"Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association ("Preparation Advance"), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (l) of Section 7.02 is modified to read as follows:

*"Section 7.02. Suspension by the Bank*

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association."



3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

(b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”