

CONFORMED COPY

CREDIT NUMBER 2666 AM

Project Agreement

(Power Maintenance Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ARMENIA STATE ELECTRICITY COMPANY

Dated December 23, 1994

CREDIT NUMBER 2666 AM

PROJECT AGREEMENT

AGREEMENT, dated December 23, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ARMENIA STATE ELECTRICITY COMPANY (ARMENERGO).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Armenia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to nine million four hundred thousand Special Drawing Rights (SDR 9,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that ARMENERGO agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and ARMENERGO, the proceeds of the credit provided for under the Development Credit Agreement will be relented to ARMENERGO on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS ARMENERGO, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) ARMENERGO declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and sound operating practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and ARMENERGO shall otherwise agree, ARMENERGO shall carry out the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. ARMENERGO shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. ARMENERGO shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, ARMENERGO shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) ARMENERGO shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) ARMENERGO shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by ARMENERGO of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of ARMENERGO

Section 3.01. ARMENERGO shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. ARMENERGO shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. ARMENERGO shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank, for insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) ARMENERGO shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of ARMENERGO responsible for carrying out the Project or any part thereof.

(b) ARMENERGO shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association.
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of ARMENERGO thereunder shall terminate on the date on which the Development Credit Agreement shall terminate in accordance with its terms, and the Association shall promptly notify ARMENERGO thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For ARMENERGO:

27, Abovian Street
Yerevan 375009
Armenia

Telex:

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of ARMENERGO, or by ARMENERGO on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the President of ARMENERGO or such person or persons as the President of ARMENERGO shall designate in writing, and ARMENERGO shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Basil Kavalsky

Acting Regional Vice President
Europe and Central Asia

ARMENIA STATE ELECTRICITY COMPANY

By /s/ Rouben Shougarian

Authorized Representative

SCHEDULE 1

Implementation Program

1. ARMENERGO shall maintain PIU referred to in Section 1.02 (f) of the Development Credit Agreement which, at all times, shall be staffed and shall operate in accordance with the guidelines agreed between ARMENERGO and the Association.
2. Not later than March 31, 1995, ARMENERGO shall sign a contract with a consulting firm to be hired in accordance with the Bank's procurement guidelines to assist ARMENERGO with Project implementation according to terms of reference agreed with the Association.
3. Not later than December 31 of each year during execution of the Project, ARMENERGO shall adopt measures necessary to ensure the reduction of the average collection period for electricity sold to no more than 60 days by December 31, 1995, no more than 45 days by December 31, 1996, and no more than 30 days thereafter.
4. ARMENERGO shall reduce its total electricity system losses: (i) by December 31, 1995 - by at least 30 percent of the losses assessed for 1994; and (ii) by December 31, 1996 - by at least 30 percent of the losses assessed for 1995.

For the purpose of this paragraph:

"total electricity system losses" means the difference between the total amount of electricity produced from all sources and the total amount of electricity paid for by all users.

5. Not later than July 15, 1995, ARMENERGO shall submit to the Association an action plan which shall include priority metering and control investments, billing and accounting methods, incentive programs and other organizational arrangements to meet the electricity loss reduction targets specified in paragraph 4 of this Schedule.
6. Without limitation upon the provisions of Article IX of the General Conditions,

ARMENERGO shall:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between ARMENERGO and the Association, a plan of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

(b) afford the Association a reasonable opportunity to exchange views with ARMENERGO on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

7. Not later than September 30, 1996, the Association shall review with ARMENERGO the progress made in the implementation of the Project. ARMENERGO shall take all necessary measures to execute the actions identified and agreed upon between the Association and ARMENERGO during such review.

SCHEDULE 2

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D 1 (a) of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, ARMENERGO shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, ARMENERGO shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Republic of Armenia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$1,700,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Contracts for goods which the Association agrees: (a) are of proprietary nature; (b) the timely supply thereof is critical for efficient Project execution; or (c) need to be compatible with other installment equipment, up to an aggregate amount equivalent to \$3,200,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$250,000 or more, and all contracts awarded in accordance with procedures under Part C.2 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist ARMENERGO in carrying out the Project, ARMENERGO shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, ARMENERGO shall employ such Consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, ARMENERGO shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single source selection of firms; (c) assignments of a critical nature as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.