

**CONFORMED COPY**

**CREDIT NUMBER 3652 AM**

# **Development Credit Agreement**

**(Natural Resource Management and Poverty Reduction Project)**

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 1, 2002**

**CREDIT NUMBER 3652 AM**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated July 1, 2002, between the REPUBLIC OF ARMENIA (the

Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Republic of Armenia has requested the GEF Trust Fund to provide additional assistance towards the financing of the Project, and by an agreement of even date herewith between the Republic of Armenia (the Recipient) and the Association, acting as administrator of the GEF Trust Fund Grant, the Association is agreeing to provide such assistance in an aggregate principal amount equal to four million and one hundred thousand Special Drawing Rights (4,100,000) (the Grant Agreement).

(C) the Swedish International Development Agency (SIDA) has agreed in a letter to the Republic of Armenia dated April 4, 2002 (the SIDA Letter) to provide technical assistance in an amount of up to Swedish Kronor 10,000,000 for the purposes of the implementation of Part B (ii) of the Project (the SIDA Grant) on terms and conditions set forth in the SIDA Letter.

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## **ARTICLE I**

### **General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement:

(a) The second sentence of Section 5.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means an individual, community group or community eligible for a Sub-grant (hereinafter defined) in accordance with the eligibility criteria specified in the

Sub-grant Guidelines (hereinafter defined), and for whose benefit a Sub-grant is provided or proposed to be provided;

(b) “Environmental Management Plans” means the plans, satisfactory to the Association, prepared and incorporated by the Borrower in Watershed/Micro-catchment plans (as defined hereinafter), Forest management plans (as defined hereinafter), and Protected Area Management Plans (as defined hereinafter) describing the environmental mitigation, monitoring, and institutional measures to be adopted under the Project; “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(c) “Forest Service” means Hyantar, the Borrower’s State Close Joint Stock Company in charge of forest services in the Republic of Armenia under the MNP (as defined hereinafter) established under Order No. 123, dated October 1, 1998 of the MNP (as defined hereinafter);

(d) “Forest Management Plans” means the forest management plans adopted by MNP (as defined hereinafter) to be carried out for the implementation of Part B of the Project;

(e) “FREC” means the Borrower’s Forest Research and Experimental Center State Close Joint Stock Company under the MNP (as defined hereinafter) established under Order No. 73, dated June 12, 1998, of the MNP (as defined hereinafter);

(f) “MNP” means the Borrower’s Ministry of Natural Protection;

(g) “Operational Manual” means the manual adopted by the Borrower, setting forth the procedures for the implementation of the Project, key instruments for the execution and coordination of the Project, including: (i) procurement and financial management procedures; (ii) PIP; and (iii) Sub-Grant Guidelines (as defined hereinafter);

(h) “PIP” means the Borrower’s implementation plan for the Project;

(i) “PIU” means the Project implementation unit to be established under the Government of the Republic of Armenia’s Decision No. 786, dated August 29, 2001, under the MNP as referred to in Section 6.01 (a) of this Agreement, or any legal successor thereto;

(j) “Project Account” means the account opened by the Borrower in accordance with Section 6.01 (c) of this Agreement;

(k) “Project Area” means the Borrower’s geographic and administrative marzes of Tavoush and Gegharkunik located in the northern part of the Republic of Armenia;

(l) “Project Management Board” means the Borrower’s inter-ministerial board established by Resolution of the Prime Minister No. 707, dated October 3, 2001;

(m) “Management Plans” means the Borrower’s plans to be prepared in accordance

with Part C (i) of the Project;

(n) “Special Account” means the account referred to in Section 2.02 (ba) of this Agreement;

(o) “Sub-grant” means a grant made or proposed to be made by the Borrower, through the PIU out of the proceeds of the GEF Trust Fund Grant and the Credit to a Beneficiary for the financing of a Sub-project;

(p) “Sub-grant Agreement” means an agreement between the Borrower and a Beneficiary, and referred to in paragraph 10 (b) of Schedule 4 to this Agreement;

(q) “Sub-grant Guidelines” means the guidelines referred to in paragraph 10 (a) of Schedule 4 to this Agreement, and to be included in the Operational Manual, as such Sub-grant Guidelines may be amended from time to time with the agreement of the Association;

(r) “Sub-project” means an activity to be carried out under a Watershed/Micro-catchments Plan (as defined hereinafter) and Forest Management Plans under Part A of the Project, and in respect of which a Sub-grant is provided, or proposed to be provided, for the benefit of the Beneficiary; and

(s) “Watershed/Micro-catchments Plans” means watershed or micro-catchments rehabilitation plans satisfactory to the Association entered into between the PIU and the Beneficiaries legally represented by the authorized local government authority, and which provide the Beneficiaries with a menu of options of activities to implement Part A of the Project.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to six million and seven hundred thousand Special Drawing Rights (SDR 6,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of Sub-grants made under Part A of the Project to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, services and operating costs required for carrying out the Project, other than for Sub-grants made under Part A of the Project, and to be financed out of the proceeds of

the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be July 31, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days (60) after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and

November 1 commencing on November 1, 2012 and ending on May 1, 2042. Each installment to and including the installment payable on May 1, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through

MNP, with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices and with due regard to environmental factors, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Without limitations upon the provisions of paragraph (a) above the Borrower shall: (i) maintain throughout Project implementation an account in a commercial bank on terms and conditions satisfactory to the Association (the Project Account) with an initial deposit in an amount equivalent to seventy five thousand dollars (\$75,000) for the purposes of financing its counterpart contribution to the implementation of the Project; (ii) thereafter replenish on a monthly basis the Project Account throughout the implementation of the Project in a manner such that at the time of the replenishment there is an amount of seventy five thousand Dollars (\$75,000) equivalent available in the Project Account starting as of the Effective Date of this Agreement and until the Borrower's contribution has been fully disbursed; and (iii) ensure that sufficient annual budgetary allocations will be made in the Borrower's annual budget to cover the Borrower's financial contribution to the Project.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works 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 3 to this Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Recipient on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 (a) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:



- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report (FMR) shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

- (a) the Operational Manual shall have been amended, suspended, abrogated or waived without the Association's prior consent.
  
- (b)
  - (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant or to benefit from the SIDA Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Grant Agreement or the SIDA Letter respectively; and
  
  - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreements; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified:

- (a) the event specified in paragraph (a) Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and
  
- (b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of

the General Conditions:

(a) the Borrower has provided evidence satisfactory to the Association that the PIU has been fully staffed and is operational in a manner that is satisfactory to the Association;

(b) the Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(c) the Borrower has provided evidence satisfactory to the Association that it has opened the Project Account referred to in Section 3.02 to this Agreement and deposited the initial amount of \$75,000; and

(d) the Borrower has provided evidence satisfactory to the Association that the Operational Manual has been issued in a manner that is satisfactory to the Association.

Section 6.02. The date of ninety days (90) after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Minister of Finance and Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy  
1, Government House  
Republic Square  
Yerevan 375010  
Republic of Armenia

Telex:

243331 LADA SU

Facsimile:

374 1 52 42 82

For the Association:

International Development Association

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

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

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

REPUBLIC OF ARMENIA

By /s/ Vardan Khachatryan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Owaise Saadat

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

Part A: General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	3,120,000	90%
(2) Goods	700,000	100% of foreign expenditures, 100% of local

		expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' Services, including audit services and training	1,100,000	100%
(4) Sub-Grants	140,000	100%
(5) Incremental operating costs	470,000	100%
(6) Refunding of Project Preparation Advance	360,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	810,000	
TOTAL	6,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "training" means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including travel costs and per diem of trainees, study tours, rental of facilities and equipment, and training materials; and

(d) the term "incremental operating costs" means operating expenditures incurred by the PIU on account of the implementation and management of the Project, including: bank charges, advertising costs for the purposes of Project management, local travel expenses of the PIU staff, and salaries and training expenses of the PIU staff, but excluding salaries of civil servants, utilities, other travel expenses, telecommunications costs, maintenance of office equipment, office supplies, and vehicle maintenance (fuel).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in

respect of payments made for expenditures prior to the date of this Agreement and expenditures paid by the Grant Agreement and SIDA Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent; (b) works under contracts costing less than \$200,000 equivalent; (c) services provided by consulting firms under contracts costing less than \$100,000 equivalent; (d) services provided by individual consultants under contracts costing less than \$20,000 equivalent; (e) training; (f) operating cost; and (g) Sub-grants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any payment made from the Credit Account was used for any expenditure not consistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Credit Account, an amount equal to the amount so used or the portion thereof as specified by the Association.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to promote the adoption of sustainable natural resource management practices and alleviate rural poverty in degraded hilly and mountainous areas of the Republic of Armenia.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives.

#### Part A: Community-Based Watershed Management

Provision of technical assistance, training, goods, works, and Sub-grants to improve the management, water use, biodiversity conservation, and productivity of arable, hayfield, meadows, land, pastures, and forest resources in the upper watersheds of the Project Area through the implementation of community based Watershed/Micro-catchments Plans and Forest Management Plans.

#### Part B: Improved State Forest Management

Provision of technical assistance, training, goods, and works to: (i) support sustainable management, rehabilitation, conservation, and enforcement of legal protection of state forests in the Project Area; (ii) improve the forest sector's institutional, legal and policy framework for sustainable forest management and biodiversity conservation; and (iii) strengthen the institutional capacity of the Forestry Service to develop community forest management plans and implement and monitor state forest management plans.

Part C: Protected Area Management and Biodiversity Conservation

Provision of technical assistance, training, goods, and works to: (i) prepare and implement management plans for the Dilijan State Reserve and Lake Sevan National Park within the Project Area; and (ii) improve MNP's capacity for conservation, management, and policy design for protected areas in the Project Area.

Part D: Project Management and Implementation Support

Provision of technical assistance, goods, and training, for the PIU for Project implementation purposes, provision of small works for the rehabilitation of the PIU offices and provision of financial assistance to carry out auditing services.

\* \* \*

The Project is expected to be completed by January 31, 2008.

**SCHEDULE 3**

**Procurement**

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each and contracts for works shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods up to an aggregate amount not to exceed \$50,000 and which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$2,040,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Direct Contracting

Goods which are of a proprietary nature or must be procured from a particular



supplier as a condition of a performance guarantee and costing \$36,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Community Participation

Goods and works required for Part A of the Project shall be procured in accordance with procedures acceptable to the Association.

7. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$4,310,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract procured under Part B, Part C.1, Part C.5 above and all contracts for goods estimated to cost the equivalent of \$100,000 or more and all contracts for works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts to be procured under Part C.2, Part C.3, and Part C.4 above, the following procedures shall apply:

(i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of

quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured

under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

Services may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply; and

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

**SCHEDULE 4**

## **Implementation Program**

1. The Borrower through PIU shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, through PIU, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31 each year throughout Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the year preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the year following such date; and

(c) review with the Association, by May 15 each year throughout Project implementation, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

(d) prepare, through PIU, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2005, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(e) review with the Association, by May 15, 2005, or such later date as the Association shall request, the report referred to in paragraph (d) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. The Borrower shall:

(a) maintain during the execution of the Project, the PIU with staff and resources as shall be required to perform its duties in respect of overall management, supervision, and implementation of the Project in a manner satisfactory to the Association; and

(b) maintain during the execution of the Project, the Project Management Board with membership and responsibilities as shall be required to perform the overall oversight and policy guidance for the implementation of the Project so as to ensure that the implementation and

management of the Project is carried out in a manner satisfactory to the Association.

3. The Borrower shall cause the Forest Service and FREC to assist the PIU throughout the implementation of the Project in accordance with the Operational Manual; and remain involved and consulted for the purposes of carrying out of the Project throughout the implementation of the Project.

4. The Borrower shall: (a) initiate and implement changes to the management processes of the Forest Service by no later than December 31, 2003 in accordance with an action plan satisfactory to the Association in order to strengthen the entity and make it more efficient and transparent; and

(b) Ensure that an independent annual financial audit of the Forest Service is carried out on terms and conditions satisfactory to the Association, starting not later than June 30, 2003 throughout Project implementation.

5. The Borrower shall adopt and/or carry out, as the case may be, in a manner satisfactory to the Association, the Management Plans referred to in Part C (i) of the Project not later than eighteen months following the Effectiveness Date of this Agreement.

6. By not later than December 31, 2003, the Borrower shall for the purposes of Part B (ii) of the Project establish and operate a training center under FREC and shall adopt and carry out a business plan, satisfactory to the Association, for such training center.

7. The Borrower shall establish by not later than December 31, 2002 an inter-ministerial task force in order to strengthen the prevention and elimination of illegal harvesting activities in the Republic of Armenia, with membership and responsibilities satisfactory to the Association.

8. The Borrower shall not later than September 1, 2004 prepare and present to the National Assembly draft regulations providing for a legal and regulatory framework for the transfer of forest management and forest user rights from the State to territorial and local administrative governments, when and to the extent applicable.

9. The Borrower shall, through the PIU, ensure that the Project is carried out in accordance with the Operational Manual and that all measures necessary for the carrying out of the Environmental Management Plans are taken in a timely manner.

10. For the purposes of carrying out Part A of the Project, the Borrower shall:

(a) ensure that Sub-projects shall be selected, approved, implemented and evaluated in accordance with the criteria and procedures set forth in the Sub-Grant Guidelines;

(b) for purposes of each Sub-grant, the Borrower shall, through the PIU, conclude an agreement with the Beneficiary based on a model form provided for in the Operational Manual (Sub-Grant Agreement), setting forth the respective obligations of the parties thereunder, including but not limited to:

- (i) a description of the Sub-project and an estimate of the cost thereof, disbursement schedules and procurement procedures, as they may apply, and the amount of the Beneficiary's contribution to the cost of the Sub-project;
- (ii) the obligation of the Beneficiary: (A) to carry out the Sub-project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to environmental factors, and to maintain adequate records; and (B) upon completion of the Sub-Sub-project, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;
- (iii) the obligation of the Beneficiary to provide all such information as the Association or the Borrower shall reasonably request relating to the implementation of the Sub-project and the performance of the Beneficiary thereunder;
- (iv) the obligation of the Beneficiary not to use the proceeds of a Sub-grant to finance taxes or duties levied on or in respect of eligible expenditures relating to a Sub-project, or land acquisition;
- (v) the obligation of the Beneficiary to procure works, goods and services under the Sub-project in accordance with the procedures set forth in the Operational Manual;
- (vi) the obligation of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Sub-grant and to submit to the Recipient at regular intervals statements with respect to such records and accounts; and
- (vii) the right of the Borrower to suspend or terminate the right of the Beneficiary to the use of the proceeds of a Sub-grant upon failure by such Beneficiary to perform its obligations under such agreement.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) “Eligible Categories” means categories (1) through (5); set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) “Eligible Expenditures” means the expenditures for goods, works, services, Sub-grants and operating costs referred to in Section 2.02 (a) of this Agreement.

(c) the term “Authorized Allocation” means an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been

justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may



be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

