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**CREDIT NUMBER 4095 AM**

# **Development Credit Agreement**

**(Rural Enterprise and Small-scale Commercial Agriculture Development Project)**

between

**REPUBLIC OF ARMENIA**

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 20, 2005**

Public Disclosure Authorized



**CREDIT NUMBER 4095 AM**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated July 20, 2005, between 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 (the Project) has requested the Association to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Republic of Armenia and the Association (the Japanese Grant Agreement), the Association, acting as administrator of grant funds provided by Japan, has agreed to make a grant (the Japanese Grant) to the Borrower in the amount of one million seven hundred fifty-five thousand United States Dollars (\$1,755,000) to assist in financing part of the Project on the terms and conditions set forth in the Japanese Grant Agreement; and

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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

*"Section 5.08. Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the

Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Community Council” means the council that is elected by its community members according to the Law of Local Self-Government of the Borrower, dated May 7, 2002;

(b) “Community Economic Development Plan” means the development strategy of eligible community, including proposals for priority investments to be financed under Part C of the Project according to the terms and conditions set forth in the Operational Manual;

(c) “Community Grant” means the grant approved by the PIU for the purpose of Part C of the Project;

(d) “Competitive Grant” means the grant approved by the Competitive Grant Committee for the purpose of Part A.2 of the Project;

(e) “Competitive Grant Committee” means the competitive grant committee to be established pursuant to Paragraph 3 (c) of Schedule 1 of this Agreement, in accordance with the Operational Manual;

(f) “Dram” means the national currency of the Borrower;

(g) “EMP” means Environmental Management Plan, satisfactory to the Association, adopted by the Borrower and submitted to the Association on April 8, 2005, setting forth measures to mitigate any adverse impacts to the environment under the Project;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Grant Beneficiary” means a recipient of the Community Grant and Competitive Grant, meeting the criteria referred to in Parts A.2 and C of Schedule 6 to this Agreement;

(j) “MASCs” means the Marz Agricultural Support Centers, established through the Decree by the Minister of Agriculture of the Borrower (No. 283, dated August 1, 1997), responsible for coordination and implementation of advisory activities under Part B.1 of the Project, under terms and conditions set forth in the Operational Manual;

(k) “Marz” means a local administrative unit, created through the Constitution of the Borrower;

(l) “Marz Community Selection Committee” means the commission to be established for each participating Marz under Part C of the Project which selects eligible communities in each participating Marz according to the eligibility criteria and terms and conditions set forth in the Operational Manual;

(m) “Operational Manual” means the manual, satisfactory to the Association, setting forth the implementation procedures for activities for the Project, eligibility criteria and terms and conditions under Parts A.2, B and C of the Project;

(n) “PFI(s)” means participating financial institution(s) which meets the criteria set forth in the Operational Manual and the Rural Investment Guidelines, selected for the provision of the Sub-loans under Part A.1 (b) of the Project;

(o) “PIU” means the Project Implementation Unit, established under the Ministry of Agriculture of the Borrower through the Ministerial Decree (Decree Number 268) dated December 7, 2004, for the purposes of the Project implementation;

(p) “PMB” means the project management board to be established by the Borrower to oversee Project implementation pursuant to Paragraph 3 (d) of Schedule 1 to this Agreement;

(q) “Procurement Plan” means the Borrower’s procurement plan, dated May 13, 2005, approved by the Project Preparation Management Board of the Borrower, covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18-month period (or longer) of Project implementation;

(r) “Project Account” means the account referred to in Section 6.01 (b) of this Agreement, maintained by the Borrower in Drams and to be used for financing the Borrower’s contribution to the Project’s expenditures;

(s) “RASC” means the Republican Agricultural Support Center, established through the Governmental Decree of the Borrower (No. 1240-A, dated August 15, 2002), responsible for nationwide coordination of advisory services, training and publications

under Part B.1 of the Project, under terms and conditions set forth in the Operational Manual;

(t) “RFF” means the Rural Finance Facility, an autonomous unit to be established pursuant to Paragraph 3 (e) of Schedule 1 of this Agreement under the auspices of the Ministry of Finance and Economy of the Borrower and to which any legal limitations set out in any regulations with regard to licensing and/or the Credit Organizations Law of the Borrower shall not apply, for the purpose of channeling and managing Subsidiary Loans earmarked for lending through eligible PFIs under: (i) Part A.1 of the Project; and (ii) the Rural Areas Economic Development Program of the International Fund for Agricultural Development;

(u) “Rural Investment Guidelines” means the compendium of the rules and regulations including its annexes, approved by the Ministry of Finance and Economy of the Borrower and acceptable to the Association, applicable to the management of financial resources available under Part A.1 (b) of the Project, as the same may be amended from time to time with the agreement of the Association;

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

(w) “Sub-loan” means a loan made or proposed to be made by the PFI to Sub-loan Beneficiary under Part A.1 (b) of the Project, in accordance with the Sub-loan Agreement and in compliance with the Subsidiary Loan Agreement, for the purpose of financing costs for carrying out of a Sub-project;

(x) “Sub-loan Agreement” means an agreement entered into between a PFI and a Sub-loan Beneficiary for the purpose of financing a Sub-project;

(y) “Sub-loan Beneficiary” means an individual or legal entity that intends to or already is engaged in agricultural economic activities in rural areas under Part A.1 (b) of the Project;

(z) “Sub-Project” means a specific project to be carried out by either the Grant Beneficiary or Sub-loan Beneficiary utilizing the proceeds of a Community Grant, Competitive grant or Sub-loan;

(aa) “Subsidiary Loan” means the total amount of the principal in Dollars or Drams provided by the RFF to PFI in accordance with the terms and conditions of the Subsidiary Loan Agreement; and

(bb) “Subsidiary Loan Agreement” means an agreement between the Ministry of Finance of the Borrower, the RFF and the PFI, for the purpose of implementing Part A.1 (b) 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 this Agreement, an amount in various currencies equivalent to thirteen million three hundred thousand Special Drawing Rights (SDR 13,300,000).

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) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A.1 (a), B, C and D of the Project and to be financed out of the proceeds of the Credit; and
- (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by a PFI or PIU on account of withdrawals made for the benefit of a Sub-loan Beneficiary or Grant Beneficiary to meet the reasonable cost of goods, works and services required for Sub-projects under Parts A 1 (b), A.2 and C of the Project.

(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.

Section 2.03. The Closing Date shall be May 31, 2010 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 (60) days 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 June 15 and December 15 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 June 15 and December 15 commencing December 15, 2015 and ending June 15, 2045. Each installment to and including the installment payable on June 15, 2025 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 (6) 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 (5) 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 of America 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 the PIU with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, 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 Operational Manual, the Rural Investment Guidelines, the Implementation Program set forth in Schedule 4 to this Agreement and Procedure and Terms and Conditions under Parts A and C of the Project set forth in Schedule 6 to this Agreement.

(c) Without limitation upon the provisions in paragraph (a) of this Section, the Borrower shall maintain, until the completion of the Project, a Project Account on terms and conditions acceptable to the Association, to finance its counterpart contribution to the expenditures of the Project and ensure that the funds deposited into the Project Account shall be used exclusively to finance the Borrower's counterpart contributions to the Project.

(d) For the purpose of carrying out Part A.1 (b) of the Project, the Borrower shall make part of the proceeds of the Credit available to PFIs under the Subsidiary Loan Agreements to be entered into between the Ministry of Finance and Economy, the RFF and PFIs, under the terms and conditions which shall have been approved by the

Association to include those set forth in Part A, Paragraph 3 of Schedule 6 to this Agreement.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, 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 the Borrower 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 Borrower on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied

auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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) retain, until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

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 cause the PIU to 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 FMR shall be furnished to the Association not later than forty five (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 forty five (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 or the Rural Investment Guidelines shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

- (b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the Japanese 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 Japanese Grant Agreement; or (B) Japanese Grant shall have become due and payable prior to the agreed maturity thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; 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.

(c) The Seed Law of the Borrower referred to in Paragraph 3 (b) of Schedule 1 to this Agreement, shall have been amended, suspended, abrogated, repealed or waived

so as to affect materially and adversely, in the opinion of the Association, the ability of the Borrower to carry out the Project.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; 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 Japanese 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, has been fulfilled.

(b) The Borrower has opened a Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in local currency equivalent of \$50,000.

Section 6.02. The date one hundred twenty (120) days 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

Cable address:	Telex:	Facsimile:
	243331 LADA SU	(3741) 151-069

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/ Roger J. Robinson

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

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	150,000	90%
(2) Goods		80%
(a) for Part B.2 of the Project	520,000	
(b) for others	450,000	
(3) Training	180,000	100%
(4) Consultants' Services and Incremental Operating Costs		
(a) for RFF	60,000	50% until December 31, 2007, and 20% thereafter
(b) for MASCs, RASC and Seed Agency of the Borrower	790,000	75% until December 31, 2007, and 35% thereafter
(c) others	900,000	100%
(5) Grants		100% of amounts disbursed
(a) for Part A.2 of the Project	1,240,000	
(b) for Part C of the Project	4,891,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Sub-loans		100%
(a) for sub-projects with maturities above 18 months	2,910,000	
(b) for sub-projects with maturities of up to, and including 18 months	730,000	
(7) Unallocated	<u>479,000</u>	
TOTAL	<u>13,300,000</u>	

2. For the purposes of this Schedule, the term:

(a) “Consultants’ Services” means fees and allowances for consultants (individuals or firms) hired to support the Project components through technical reviews and evaluation, committee work, support to solve specific problems of advisory system and for farm management advice, monitoring and evaluation services and impact assessments and any other technical assistance as may be agreed upon by the Association, and contracted staff in the MASCS, the RASC and the RFF who support activities under Part A.1 and B.1 of the Project, in accordance with the Operational Manual;

(b) “eligible social charges” means the employer’s contribution to the social and medical charges assessed by the Borrower on employment contracts with citizens of the Borrower;

(c) “Grants” means financing of Competitive Grants and Community Grants under Parts A.2 and C of the Project, in accordance with the Operational Manual and Schedule 6 to this Agreement;

(d) “Incremental Operating Costs” means incremental expenses incurred with respect to the implementation of the Project, including costs of office and vehicle maintenance, utilities, minor office equipment, minor office repairs, office rent, salaries and eligible social charges of staff in the PIU, translation services, communication and printing, transportation, local business trip expenditures, the PIU staff training, banking charges and any other reasonable and necessary activities directly related to Project



implementation, management and monitoring as may be agreed upon by the Association; and operating costs in the MASCs, the RASC, the RFF and Seed Regulatory Agency of the Borrower who support activities under Part A.1 and B.1 and B.2 of the Project; and

(e) "Training" means fees of consultants, including educational and other institutions and organizations that provide training services, costs of study tours, workshops and related travel expenditures and boarding, lodging and per diem allowances.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 133,000, may be made in respect of Category (4) (b) on account of payments made for expenditures before that date but after July 1, 2005;

(b) payments made for expenditures under Category (2) (a), unless the Association shall have received satisfactory evidence that the Borrower has enacted its Seed Law, acceptable to the Association;

(c) payments made for expenditures under Category (5) (a), unless the Association shall have received satisfactory evidence that the Competitive Grant Committee has been established under terms and conditions set forth in the Operational Manual;

(d) payments made for expenditures under Category (5) (b), unless the Association shall have received satisfactory evidence that the PMB has been established under terms and conditions set forth in the Operational Manual; and

(e) payments made for expenditures under Category (6) (a) and (b), unless the Association shall have received satisfactory evidence that the RFF has been established under terms and conditions set forth in the Operational Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for all training, grants, sub-loans and incremental operating costs and for expenditures under contracts for works, goods and services not subject to the Association's prior review, as stipulated in the Procurement Plan, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to support the development of the Borrower's small and medium-scale rural businesses by: (a) improving the ability of farmers and rural entrepreneurs to access markets; and (b) stimulating market-oriented private and public investments in rural areas.

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

#### Part A: Small Rural Business Support

1. Enhancement of rural financial services of the RFF through provision of, inter alia, (a) consultants' services for capacity building to the PFIs; and (b) working capital and long-term investment capital.
2. Provision of grants to improve market access and linkage between producers and processors.

#### Part B: Farm-focused Development Support

1. Strengthening of the decentralized agricultural extension system to improve linkages with village-level authorities, including: (1) streamlining the advisory system to improve effectiveness of the MASCs and the RASC; (2) technology assessment and dissemination; and (3) increasing outreach at the village-level.
2. Strengthening of the Borrower's seed and sapling market in order to: (a) enhance efficiency; (b) increase the availability of good quality certified seed and planting material; and (c) increase the efficiency and level of trust in the seed regulatory system.

#### Part C: Community-focused Economic Development

Development of the Community Economic Development Plans with the assistance of community facilitators, and provision of grants and consultant's services to finance priority investments included in the Community Economic Development Plans.

Part D: Project Implementation

Support to the PIU for the effective implementation of the Project.

\* \* \*

The Project is expected to be completed by November 30, 2009.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

##### B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) no preference of any kind shall be given based on nationality of the bidder and/or origin of goods. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers and/or origin of goods shall not be applicable to procurement procedures under the Credit;

(b) 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;

(c) post-qualification shall be conducted;

- (d) post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
- (e) joint venture partners shall be jointly and severally liable for their obligations;
- (f) estimated contract prices shall not be advertised; and
- (g) in handling the bids:
  - (i) bid prices shall be announced at bid opening. If a two envelope system is used, both envelopes shall be opened at bid opening and bid prices announced;
  - (ii) no bids can be rejected at bid opening;
  - (iii) bids shall not be rejected solely because they exceed the estimated price;
  - (iv) bids can be cancelled and new bids invited, only if the conditions of clause 2.61 of the Guidelines are met; and
  - (v) any bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Commercial Practices. Items estimated to cost less than \$150,000 equivalent per contract and to be financed under Sub-loans made for Subprojects under Part A.1 (b) of the Project may be procured in accordance with commercial practices acceptable to the Association.

5. Community Participation. Goods, works and services required for Parts A.2 and C of the Project may be procured on the basis of community participation in accordance with the procedures stipulated in the Operations Manual, and which shall require, *inter alia*, the issuance of requests for price quotations from at least (3) local suppliers and use of standard contract forms specifically developed for community-based goods and services. Non-governmental organizations, local suppliers and other community-based

organizations, registered according to the Borrower's legislation, shall be allowed to bid. The comparison and evaluation of the quotations received shall be done as prescribed in the Operations Manual. The Borrower, through the PIU, shall maintain records and accounts adequate to enable it to register and monitor in accordance with the provisions of the Operations Manual the financial, technical and procurement aspects of these procedures.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Commercial Practices. Services estimated to cost less than \$150,000 equivalent per contract and to be financed under Sub-loans made for Subprojects under Part A.1 (b) of the Project may be procured in accordance with commercial practices acceptable to the Association.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

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

## **SCHEDULE 4**

### **Implementation Program**

1. The Borrower shall:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;
  - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2007, 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 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
  - (c) review with the Association, by November 30, 2007, 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.
2. The Borrower shall take or cause to be taken, all measures necessary for the carrying out of the EMP in a timely manner.
3. The Borrower shall:
  - (a) ensure that the adequate budget shall be allocated for contributing to the cost of the advisory services under Part B.1 of the Project; and
  - (b) submit to the Association, by November 1 of each year, its budgetary allocations for the following year to the Ministry of Agriculture of the Borrower for its rural advisory services.
4. The Borrower shall, by April 15, 2006, provide a space available to permanently accommodate the Seed Regulatory Agency of the Borrower.
5. The Borrower shall maintain, until completion of the Project, the PIU with resources, staff, powers and functions satisfactory to the Association.
6. The Borrower, through the PIU, shall furnish to the Association, for its prior review and concurrence: (a) the first thirty (30) Sub-project proposals recommended for approval under Part A.2 of the Project; (b) the first twenty (20) Community Economic



Development Plans; and (c) the first ten (10) Sub-project proposals recommended for approval under Part C of the Project.

7. The Borrower shall ensure that each PFI through the RFF shall furnish to the Association, for its prior review and concurrence, the first three (3) Sub-project proposals regardless of their amounts.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$1,500,000 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 \$750,000 until 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 4,000,000.

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.

## **SCHEDULE 6**

### **Procedure and Terms and Conditions under Parts A.1 (b), A.2 and C of the Project**

#### Part A: Procedure and Terms and Conditions under Part A.1 (b) of the Project

1. The Borrower shall carry out Part A.1 (b) of the Project through the PFIs selected for participation in the Project pursuant to Paragraph 2 below.
2. The RFF, in consultation with IDA, shall select the PFIs in accordance with the eligibility criteria set forth in the Rural Investment Guidelines.
3. For the purpose of Part A.1 (b) of the Project, the RFF, on behalf of the Borrower, shall on-lend the amount of the Credit allocated to Category (5) of the table set forth in Paragraph 1 of Schedule 1 to this Agreement to the PFIs under Subsidiary Loan Agreements to be entered into between the Ministry of Finance and Economy of the Borrower, the RFF and each PFI under terms and conditions set forth in the Rural Investment Guidelines.
4. The terms of the Subsidiary Loan Agreement shall include the following:
  - (a) the RFF shall undertake to ensure that the Subsidiary Loans are sufficiently secured in conformity with the legislation of the Borrower as specified in the Rural Investment Guidelines; and
  - (b) the RFF shall have the right to withdraw the debt of the PFI from accounts of the PFI in the Central Bank of the Borrower, if the PFI has delayed performance of repayment of its Subsidiary Loan and/or its interest.
5. Following the execution of the Subsidiary Loan Agreement, the PFI shall enter into a Sub-loan Agreement with each of Sub-loan Beneficiary, as set forth in the Rural Investment Guidelines.

#### Part B: Procedures and Terms and Conditions under Part A.2 of the Project

1. Competitive Grants shall be made available to existing rural business entities, including:
  - (a) existing formal rural business, agro-processing and marketing associations;
  - (b) existing farmer/producer associations and cooperatives;

(c) farmer and rural business groups which have common goals and are commercially oriented, and provided the required documentation set forth in the Operational Manual; and

(d) such other groups, associations and organizations as the Borrower and the Association may agree.

2. The amount of individual Competitive Grants shall be based upon the estimated cost of goods, works, services and operating costs that will be required, and shall not exceed 75% of the overall costs and limits of individual categories set forth in the Operational Manual.

3. No expenditures referred to under Paragraph 2 above shall be eligible for financing out of the proceeds of the Credit unless a Competitive Grant Agreement has been executed between the Beneficiary and the PIU.

4. Each Competitive Grant Agreement shall require the Beneficiary to, inter alia:

(a) ensure that the Grant funds are used exclusively for the purposes approved by the Competitive Grants Committee;

(b) provide no less than 25% of the total cost, either in cash or in kind;

(c) maintain a financial management system, including records and separate accounts, in a format acceptable to the PIU, reflecting the operations, resources and expenditures related to the Competitive Grant;

(d) procure the works, goods and services to be financed out of the proceeds of the Grants under Part A.2 of the Project in accordance with the Operational Manual, which is consistent with the Community Participation Procedure in Paragraph 3.17 of the Procurement Guidelines and with the Manual for Conducting Very Small Value Procurement under World Bank/IDA Small Grants, Loans and Credits (June 2004);

(e) allow the staff members of the PIU and the Competitive Grants Committee to inspect the sites, works and goods financed by the Competitive Grant; and

(f) agree to have the Grant suspended or terminated upon the Recipient's failure to perform the obligations set forth in the Grant Agreement, and be legally obligated, upon termination to reimburse the PIU any Grant amount already received.

#### Part C: Procedures and Terms and Conditions under Part C of the Project

1. Community Grants shall be made available to any legally-registered entities of eligible communities, meeting the criteria set forth in the Operational Manual.

2. Eligible Marzes are identified through criteria on agricultural potential and poverty as set forth in the Operational Manual and approved by the PMB.

3. The PIU shall rank all communities of respective Marz, and present to the Marz Community Selection Committee according to the selection criteria and terms and conditions set forth in the Operational Manual.

4. The Marz Community Selection Committee shall further review the communities to select the final Community Grant Beneficiaries according to the terms and conditions set forth in the Operational Manual.

5. The Community Council of the eligible community, with assistance of its community members, shall:

(a) appoint representatives of community to oversee implementation activities according to the Operational Manual;

(b) develop a Community Economic Development Plan and submit it to the PIU for approval; and

(c) select the implementing entity (or entities) of the Plan, identified as priorities in the Community Development Plan, which shall become the Beneficiary under Part C of the Project in accordance with the eligibility criteria set out in Paragraph 1 above.

6. Once the Community Economic Development Plan is approved by the PIU according to the criteria set forth in the Operational Manual, a Community Grant Agreement between the PIU, the Community Council and the Beneficiary (or Beneficiaries) shall be concluded, and each such Agreement shall require the Beneficiary (or Beneficiaries) to, inter alia:

(a) ensure that the Community Grant funds are used exclusively for the purposes approved by the Community Economic Development Plan and specified in the Community Grant Agreement;

(b) provide no less than 15% of the total cost, either in cash or in kind with at least 5% cash contribution to be provided prior to the signing of the Community Grant Agreement;

(c) maintain a financial management system, including records and separate accounts, in a format acceptable to the PIU, reflecting the operations, resources and expenditures to the Community Grant;

(d) procure the works, goods and services to be financed out of the proceeds of the Community Grant in accordance with the Operational Manual, which is consistent

with the Community Participation Procedure in Paragraph 3.17 of the Procurement Guidelines and with the Manual for Conducting Very Small Value Procurement under World Bank/IDA Small Grants, Loans and Credits (June 2004);

(e) allow the PIU staff to inspect the sites, works and goods financed by the Community Grant; and

(f) agree to have the Community Grant suspended or terminated upon the Beneficiary's failure to perform the obligations set forth in the Community Grant Agreement, and be legally obligated, upon termination, to reimburse the PIU any Community Grant amount already received.