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**CREDIT NUMBER 4565 AM**

# **Financing Agreement**

**(Second Education Quality and Relevance Project)**

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 5, 2009**

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**CREDIT NUMBER 4565 AM**

**FINANCING AGREEMENT**

Agreement dated June 5, 2009, between the REPUBLIC OF ARMENIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“ASSOCIATION”). The Recipient and the Association hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II - FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to seventeen million Special Drawing Rights (SDR 17,000,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

**ARTICLE III - PROJECT**

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

**ARTICLE IV - EFFECTIVENESS: TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following, namely, the Recipient has approved the Operational Manual, acceptable to the Association.
- 4.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

**ARTICLE V - REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Minister of Finance of the Recipient.
- 5.02. The Recipient's Address is:

Ministry of Finance  
1 Melik-Adamyán Street  
Yerevan 0010  
Republic of Armenia

Telex:  
243331 LADA SU

- 5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS	248423 (MCI)	1-202-477-6391
Washington, D.C.		

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

REPUBLIC OF ARMENIA

By: /s/ Tigran Davtyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Aristomene Varoudakis

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to support the second and third phases of the Recipient's Program through: (a) enhancing school learning in general education and improving the school readiness of children entering primary education; and (b) supporting the integration of the tertiary education system into the European higher education area.

The Project consists of the following parts:

#### **Part A: Enhancing the Quality of General Education**

1. Provision of technical assistance, goods, training and Grants to promote school readiness and equal opportunities at the start of general education.
2. Provision of technical assistance and Grants to support further improvements in the quality of education through improved teacher in-service training and professional development.
3. Provision of technical assistance, goods and training to support the integration of information and communication technologies in teaching and learning process.
4. Provision of technical assistance, goods and training to support the implementation of the Recipient's high-school reform.

#### **Part B: Supporting tertiary education reforms in the context of Bologna Agenda**

1. Provision of goods, technical assistance, training to establish and strengthen the national quality assurance system and Grants to support universities to develop internal quality assurance units.
2. Provision of goods, technical assistance and training to support the development of a tertiary education management information system.
3. Provision of goods, technical assistance, training and Student Loans to strengthen the Recipient's capacity to implement a sustainable education financing system.
4. Provision of goods, technical assistance and training to support the reform of pre-service teacher training.

Part C: Project Management, Monitoring and Evaluation

Provision of goods, training and administrative support to CEP, including CEP staff salaries, to assist in Project implementation and annual audit of the Project accounts, financial management, monitoring and reporting.

## **SCHEDULE 2**

### **Project Execution**

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

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

1. The Recipient shall designate the CEP with the responsibility for procurement planning, monitoring and reporting, disbursement and implementation of internal financial controls, maintenance of Project accounts and preparation of Project Reports, and shall ensure that CEP at all times shall have adequate staff and resources to fulfill its responsibilities with respect to Project implementation.
2. The Recipient shall maintain the updated Operational Manual in form and content satisfactory to the Association, shall duly perform all its obligations under the updated Operational Manual and shall not assign, amend, abrogate or waive the updated Operational Manual without obtaining the prior approval of the Association.
3. The Recipient shall maintain the Project Steering Committee consisting of key stakeholders responsible for the Project implementation.
4. The Recipient shall maintain Project component and sub-component heads with composition and responsibilities acceptable to the Association to assist in the Project implementation.

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

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

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

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

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than four (4) months before the Closing Date.



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

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

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

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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

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

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

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

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

<b>Procurement Method</b>
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(a)	Quality Based Selection
(b)	Selection Based on Fixed Budget
(c)	Least Cost Selection
(d)	Selection Based on Consultant's Qualification
(e)	Single Source Selection
(f)	Individual Consultants

**D. 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.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Works, Goods, Consultants' Services, including Audit, Training, Incremental Operating Costs under the Project, and Grants, including Student Loans, under Parts A.1 and 2 and Parts B. 1 and 3 of the Project	17,000,000	80%
<b>TOTAL AMOUNT</b>	<u>17,000,000</u>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) for payments made prior to the date of this Agreement; and
- (b) under Category (1), unless the Recipient has hired the Project component and sub-component heads in the CEP, acceptable to the Association.

2. The Closing Date is November 30, 2014.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage) *</b>
On each May 15 and November 15  commencing May 15, 2019 to and including November 15, 2028	5%

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\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Center for Education Projects” or “CEP” means a project management unit established and operating within MoES.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Disbursement Letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV A.1 of Schedule 2 to this Agreement, as may be revised from time to time.
6. “Drams” means a lawful currency of the Recipient.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
8. “Grant/s” means financing to be provided by CEP under Parts A.1 and 2 and Part B.1 of the Project referred to in Schedule 1 to this Agreement.
9. “Incremental Operating Costs” means expenditures incurred on account of the Project implementation, including equipment and vehicle maintenance, cost for fuel, office utilities, minor office repair and equipment costs, supplies, literature, field trips, meetings and in local and international travel costs related to Project, participation fee for TIMSS, communication costs, reasonable banking charges, media advertisement, and other reasonable costs as approved by the Association.
10. “MoES” means the Ministry of Education and Science of the Recipient who will be responsible for overall implementation of the Project.
11. “Operational Manual” means the manual to be approved by the Recipient, through MoES, pursuant to Section 4.01 of this Agreement, describing

procedures for the implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient, including procedures governing administrative, procurement, accounting, financial management, monitoring and evaluation arrangements for the Project, and rules and procedures governing provision of Grants, including Student Loans, under Parts A. 1 and 2 and Parts B.1 and 3 of the Project and their implementation arrangements; as the same may be amended from time to time with the agreement of the Association.

12. "Participating School" means a school selected by the Recipient and the Association in accordance with the selection criteria and procedures set forth in the Operational Manual.
13. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
14. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 25, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
15. "Program" means the program, describing the main features of the Recipient's education reform to be carried out during the period of 2003 -2013, set forth or referred to in the letter from the Recipient to the Association dated November 4, 2003, setting out certain measures required to carry out the program and declaring the Recipient's commitment to the execution of the program.
16. "Project Account" means the account maintained by the Recipient in Drams and to be used for financing the Recipient's contribution to the Project's expenditures.
17. "Steering Committee" means the Steering committee established by the Recipient pursuant to Prime Minister's Decree No. 456/N, dated September 26, 2003, or any successor thereto, in accordance with the provisions of Section I.A.3 of Schedule 2 to this Agreement.
18. "Student Loans" means a financing to be provided by the Recipient under Part B.3 of the Project and referred to in Schedule 1 to this Agreement.
19. "Training" expenditures incurred on account of Project related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.

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

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

*“Section 2.07. Refinancing Preparation Advance*

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

2. Paragraph (i) of Section 6.02 is modified to read as follows:

*“Section 6.02. Suspension by the Association*

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

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

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

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



