

CONFORMED COPY

CREDIT NUMBER 3095 AM

Development Credit Agreement

(Municipal Development Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 19, 1998

CREDIT NUMBER 3095 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 19, 1998, between the REPUBLIC OF ARMENIA (the Borrower) and the 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; and

(B) Parts A, B, C and D of the Project will be carried out by the Yerevan Water and Sewerage Enterprise (YWSE) with the Borrower 's assistance, and as part of such assistance, the Borrower will make available to YWSE a part of the proceeds of the Credit as provided in this Agreement;

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 and in the Project Agreement of even date herewith between the Association and YWSE;

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 December 2, 1997), with modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and

'Participating Countries' means, collectively, all such countries."

(b) 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: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services from, such territories; or (b) 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 Charter 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) "Charter" means the charter of YWSE (as hereinafter defined), dated May 8, 1998 (Registration No. 27314000578), as amended to the date of this Agreement;

(b) "Drams" means the lawful currency of the Republic of Armenia;

(c) "Earthquake Damaged Zone" means the area damaged by the earthquake in 1988 as such area is defined in the Decree of the USSR Council of Ministers No. 1463, dated December 27, 1988, as amended to the date of this Agreement;

(d) "Management Contract" means the performance-based management contract to be entered between the Borrower and a private sector operator for management of water and wastewater services in the YWSE Service Area (as hereinafter defined);

(e) "Operating Investment Fund" means a special revolving fund to be established, administered and maintained by YWSE (as hereinafter defined) for the purposes of financing essential short-term investments to improve operation and maintenance of the water and wastewater system in Yerevan;

(f) "PMU" means the Project Management Unit established by the joint Resolution No. 6 of the Ministry of Finance and Economy and the Ministry of Urban Development, dated May 6, 1998 and registered on May 8, 1998 (Registration No. 286-120-03-194);

(g) "Project Agreement" means the agreement between the Association and YWSE (as hereinafter defined) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(h) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 10, 1997 and April 30, 1997 between the Borrower and the Association;

(i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(j) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and YWSE (as hereinafter defined) pursuant to Section 3.01(c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(k) "YWSE" means Yerevan Water and Sewerage Enterprise, established pursuant to its Charter approved by the Borrower's Decree No. 240 dated April 29, 1998 and registered on May 8, 1998 (Registration No. 27314000578); or any legal successor thereto; and

(l) "YWSE Service Area" means the area defined in YWSE by-laws.

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 twenty-two million three hundred thousand Special Drawing Rights (SDR 22,300,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement 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 acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and 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 December 31, 2003 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 semi-annual installments payable on each June 15 and December 15 commencing June 15, 2008 and ending December 15, 2032. Each installment to and including the installment payable on December 15, 2017 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) 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 (3) 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:

- (i) carry out Parts E and F of the project with due diligence and efficiency and in conformity with appropriate administrative financial, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause YWSE to perform in accordance with the provisions of the YWSE Project Agreement all the obligations of YWSE therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable YWSE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts E and F of the Project and shall assist YWSE in carrying out Parts A, B, C and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall relend the proceeds of the Credit allocated from time to time to Categories (1)(a) and (b), (2)(a) and (b), (3) and (4) of the table in paragraph 1 of Schedule 1 to this Agreement to YWSE (the Subsidiary Loan for the purposes of this paragraph) under a subsidiary loan agreement to be entered into between the Borrower and YWSE (the Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Association and which shall include, without limitation, the following terms:

- (i) the principal amount of the Subsidiary Loan shall be repaid by YWSE to the Borrower in equal semi-annual installments over thirty five (35) years, including a grace period of ten (10) years;
- (ii) the principal amount of the Subsidiary Loan repayable by YWSE shall be the equivalent in Drams (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account in respect of the above-mentioned Categories;
- (iii) interest shall be charged on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equivalent to the rate payable by the Borrower to the Association according to the provisions of Section 2.05 of this Agreement.

(d) the Borrower shall exercise its rights under the Subsidiary Loan Agreement 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 Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of 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 3.03. For the purposes of Section 9.07 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.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by YWSE pursuant to Section 2.03(a) of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, acting through the PMU, shall establish and maintain 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 for and in connection with the carrying of 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 (6) 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 financial statements, records and accounts and a report of such audit by said auditor, 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 shall 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 expenditures, 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 expenditures 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) YWSE shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that YWSE will be able to perform its obligations under the Project Agreement.

(c) The Charter of the YWSE shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial conditions of YWSE or the ability of YWSE to perform any of its obligations under the Project Agreement, or its ability 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) any event specified in paragraph (a) of 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;

(b) any event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

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 PMU has been staffed with an adequate number of personnel whose qualifications and experience are satisfactory to the Association.

(b) The Subsidiary Loan Agreement has been executed on behalf of the Borrower and YWSE.

(c) An auditing firm, acceptable to the Association, has been hired by the Borrower for conducting audit under the Project.

(d) The Borrower shall have signed a contract with a consultant, acceptable to the Association, to assist the Borrower in preparing a draft Management Contract and in organizing a bidding process for selection of a private sector operator.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in

the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by YWSE, and is legally binding upon YWSE in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and YWSE and is legally binding upon the Borrower and YWSE in accordance with its terms.

Section 6.03. The date ninety (90) 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

Telex:

243331 LADA SU

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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, Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By /s/ Edward Sandoyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works		80%
(a) under Part A	900,000	
(b) under Parts C and D	2,800,000	
(2) Goods and Equipment		100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items pro- cured locally
(a) under Part A	2,700,000	
(b) under Parts C and D	6,700,000	
(3) Management Contract Base Fees	3,700,000	100%
(4) Consultants' services, studies and training	1,600,000	100%
(5) Incremental operating costs	900,000	100%
(6) Refunding of Project Preparation Advance	1,500,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement
(7) Unallocated	1,500,000	
TOTAL	22,300,000	

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 Borrower ;

(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 "incremental operating costs" means the incremental expenses incurred on account of Project implementation, management and

monitoring, including: salaries and allowance of the PMU staff (excluding governmental officials of the Borrower), office rent and maintenance, office supplies, vehicle operation, travel, communication and audit costs;

(d) the term "Management Contract base fees" means the fees to be paid to the private sector operator under the terms of the Management Contract, including remuneration and reimbursable expenditures, as such terms shall be defined in the Management Contract, but excluding a performance bonus or any other payments which might be stipulated in the Management Contract in addition to the remuneration and reimbursable expenditures.

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; and (b) payments made for expenditures under Categories (1) (b), (2) (b) and (3) until the Borrower shall have entered into the Management Contract with a private operator acceptable to the Association and shall have furnished to the Association a satisfactory opinion of a legal counsel that the Management Contract has been duly authorized and ratified by the Borrower and the private sector operator, and is legally binding upon the parties in accordance with its terms.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$500,000 equivalent, (b) goods under contracts costing less than \$200,000 equivalent, (c) services of consulting firms under contracts costing less than \$100,000 equivalent; (d) services of individual consultants under contracts costing less than \$50,000 equivalent; (e) operating costs and (f) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) make emergency improvements in the water supply system of Yerevan; (ii) improve the efficiency, management, operation and delivery of water and wastewater services for Yerevan; (iii) provide essential framework for the sustainable involvement of the private sector in the overall management of the water and wastewater services on the territory of the Borrower; (iv) develop a national housing policy focusing on critical economic issues associated with the ongoing housing sector reform; and (v) develop a housing strategy for the Earthquake Damaged Zone.

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: Immediate Investment Program

1. Provision and installation of the new low and high pressure pipes, rehabilitation of a pumping station, installation of block meters and repairing connections in the selected areas of Yerevan.
2. Restoration of a high pressure distribution system, rehabilitation of a low pressure network, repairing distribution pipes and connections, installation of block meters in residential buildings and launching of a water conservation campaign through the associations of condominiums in the selected areas of Yerevan.
3. Construction of water catchment boxes, a flood protection dike alongside the Hrazdan river, and rehabilitation of water tank and chlorinating facilities in the selected areas of Yerevan.

Part B: Management Contract

Improvement of the operation of the water supply and wastewater systems in the YWSE Area through the Management Contract that would, inter alia: improve the efficiency of the water supply distribution system and the operating equipment; improve the disinfecting of water supplies; protect the integrity of the surface water sources; improve the operations of the wastewater system; improve the efficiency of meter reading, billing and revenue collections; improve the operations of water and wastewater systems; improve the efficiency of customer service and public relations; and improve the effectiveness of the management and administrative control of the water and wastewater systems.

Part C: Operating Investment Fund

Establishment and operation of the Operating Investment Fund to support essential short-term and operating investments to improve operation and maintenance and support the rehabilitation of the water and wastewater system in Yerevan, including but not limited to:

(a) purchase of material and equipment to carry out the piping network and pumping system rehabilitation;

(b) purchase and installation of materials and parts to rehabilitate piping systems, pumping systems, metering systems (bulk and retail), control systems, and other elements necessary to upgrade the systems to efficient working conditions; and

(c) purchase of operating supplies required to provide compliance with the Borrower's quality standards for drinking water.

Part D: Capital Investments

Design, implementation and supervision of the restructuring and rehabilitation of the water and wastewater systems in Yerevan.

Part E: Housing

Assistance in the development of the Borrower's national housing policy and a housing strategy for the Earthquake Damaged Zone.

Part F: Technical Assistance

1. Provision of assistance to the PMU in implementation of the Project and dissemination of the Project experience to other utilities.
2. Provision of auditing services to monitor the private sector operator's technical and financial performance under the Management Contract.
3. Provision of consultants' services to assist in establishment of an appropriate financial management and accounting systems for the PMU and YWSE and for annual financial audits.
4. Carrying out of studies for development of a regulatory framework for the water sector.
5. Assistance in the preparation of follow up water sector projects for the Borrower.

* * *

The Project is expected to be completed by June 30, 2003.

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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:

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. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 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.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

With respect to: (a) each contract for goods and works awarded in accordance with the provisions of Part B of this Section, and (b) the first two contracts for works awarded in accordance with the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 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

1. 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 Bank in January 1997 and revised in September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services, including the services of consultants to assist the Borrower in employing a private sector operator and the services of the private sector operator under the Management Contract, 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.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for the preparation of detailed designs and bidding documents under Part A of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for carrying out technical and financial audit required for the Project and 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 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for carrying out tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines, up to an aggregate amount not to exceed \$300,000, 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 for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 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 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 shall maintain the PMU which at all times shall be adequately staffed and shall operate in accordance with terms of reference acceptable to the Association and which shall have the overall responsibility for coordinating Project implementation.

2. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall: (i) by September 30, 1998, make available to YWSE an amount of \$1,000,000 equivalent for financing YWSE recurrent operating and maintenance costs in the last quarter of the calendar year of 1998; (ii) by February 1, 1999, submit evidence satisfactory to the Association that an annual allocation in the amount of \$2,000,000 equivalent shall be made available to YWSE for financing its recurrent operating and maintenance costs for the calendar year of 1999; and (iii) by February 1, 2000, submit evidence satisfactory to the Association that an annual allocation in the amount of \$1,000,000 equivalent shall be made available to YWSE for financing its recurrent operating and maintenance costs for the calendar year of 2000.

3. Not later than June 30, 2002, the Borrower shall (i) submit to the Association a plan for the continued management of the water and wastewater services in Yerevan which shall include, without limitation, various options for management of water and wastewater services and private sector participation in

such management; (ii) upon review of said plan by the Association, incorporate the Association's comments and recommendations for said plan; and (iii) implement said plan thereafter.

4. By October 31 of each year commencing in 1999, the Borrower shall submit for the Association's approval a program of investments for the next calendar year to be financed under Parts C and D of the Project.

5. (a) Not later than June 30, 1999, the Borrower shall enter into the Management Contract with a private sector operator under such terms and conditions which shall be approved by the Association.

(b) The Borrower shall take and cause to be taken all actions necessary or appropriate to enable a private sector operator to perform its obligations under the Management Contract, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis in accordance with the indicators agreed upon between the Borrower and 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 June 1 and December 1 of each year commencing in 1999, a report (Semi-annual Report) of such scope and detail as the Association shall reasonably request, describing the progress achieved in carrying out of the project during the preceding six (6) months and setting out the measures recommended to ensure the efficient carrying out of the project during the following six (6) months;

(c) prepare in cooperation with YWSE, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2001, 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

(d) review with the Association and YWSE, by December 31, 2001, or such later date agreed upon between the Borrower and the Association, the report referred to in subparagraph (b) of this paragraph, 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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, works 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 \$1,000,000 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 \$500,000 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 3,000,000.

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 Accounts;

(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.

