

CONFORMED COPY

CREDIT NUMBER 3175 AM

Development Credit Agreement

(Electricity Transmission and Distribution Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 30, 1999

CREDIT NUMBER 3175 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 30, 1999, between REPUBLIC OF ARMENIA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated February 4, 1999, from the Borrower describing its Power Sector Restructuring and Development Program (hereinafter the Program) designed to reform and develop the Borrower's power sector and declaring the Borrower's commitment to the execution of such Program;

(B) the Borrower has requested support from the Association and the International Bank for Reconstruction and Development (the Bank) for the execution of the Program through a series of credits and loans to assist in implementing such Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project;

(D) the Project, except Part D.1 thereof, will be carried out by Armenergo, HVENC and YDC (as hereinafter defined), with the Borrower's assistance, and as part of such assistance, the Borrower will make available to said companies part of the proceeds of the Credit as provided in this Agreement;

(E) the Borrower intends to obtain a grant (USAID Grant) from the United States Agency for International Development (USAID) in an amount equivalent to fifteen million Dollars (\$15,000,000) to assist in financing the Project, on the terms and conditions set forth in the agreement to be entered into between the Borrower and

USAID (the USAID 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 and in the YDC Project Agreement of even date herewith between the Association and YDC;

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) "Armenergo" means a power dispatch and financial settlement company of the Borrower, established under the Government Decree No. 450, dated July 20, 1998, and such term shall include any legal successor or successors thereto;

(b) "Armenergo Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Armenergo pursuant to Section 3.02(a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Armenergo Subsidiary Loan Agreement;

(c) "Charter of Armenergo" means Armenergo's Charter, dated January 22, 1998; registration No. 27314000069;

(d) "Charter of YDC" means YDC's Charter, dated January 14, 1998;

(e) "Energy Regulatory Commission" means a regulatory agency in the Borrower's energy sector established pursuant to the President's Decree No. 717, dated April 3, 1997;

(f) "Financial Rehabilitation Plan" means the Borrower's financial rehabilitation plan for the energy sector, approved by the Government Decree No. 551, dated December 2, 1997 and the Government Decree No. 555 dated September 7, 1998, as the same may be amended from time to time upon the agreement between the Borrower and the Association;

(g) "HVENC" means the High Voltage Electric Network Company, a power transmission company of the Borrower, established pursuant to the Government Decree No. 450 dated July 20, 1998; and such term shall include any legal successor or successors thereto;

(h) "HVENC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and HVENC pursuant to Section 3.02(a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the HVENC Subsidiary Loan Agreement;

(i) "PIU" means the unit established by the Borrower for purposes of Project management and implementation;

(j) "Project Account" means the account referred to in Section 3.03 of this Agreement;

(k) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated August 29, 1997 and September 17, 1997 between the Borrower and the Association;

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

(m) "Subsidiary Loan" means the loan to be provided to each of Armenergo, HVENC and YDC under their respective Subsidiary Loan Agreements pursuant to Section 3.02(a) of this Agreement;

(n) "Subsidiary Loan Agreements" means collectively the Armenergo Subsidiary Loan Agreement, HVENC Subsidiary Loan Agreement and YDC Subsidiary Loan Agreement;

(o) "YDC" means the Yerevan Distribution Company, a power distribution company of the Borrower, established under the Government Decree No. 450 dated July 20, 1998; and such term shall include any legal successor or successors thereto;

(p) "YDC Project Agreement" means the agreement between the Association and YDC 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 YDC Project Agreement; and

(q) "YDC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and YDC pursuant to Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the YDC Subsidiary Loan Agreement.

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 fifteen million Special Drawing Rights (SDR 15,000,000).

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 account in a commercial bank 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 June 30, 2002 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 December 15 and June 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 December 15 and June 15 commencing June 15, 2009 and ending December 15, 2033. Each installment to and including the installment payable on December 15, 2018, 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:

- (i) shall carry out Part D.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause each of Armenergo, HVENC and YDC to carry out their respective Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Armenergo, HVENC and YDC 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 Part D.1 of the Project and shall cause Armenergo, HVENC and YDC to carry out their respective Parts of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Borrower shall relend the proceeds of the Credit, except the portion thereof allocated from time to time for Part D.1 of the Project under Category (2) of the table shown in Schedule 1 to this Agreement, to Armenergo, HVENC and YDC under the Armenergo Subsidiary Loan Agreement, HVENC Subsidiary Loan Agreement and the YDC Subsidiary Loan Agreement, respectively, which shall all be entered into on terms and conditions agreed upon with the Association, including those set forth in Schedule 6 to this Agreement.

(b) 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 3.03. The Borrower, acting through PIU, shall (a) establish a Project Account in a commercial bank to be exclusively used for financing expenditures incurred under the Project in the currency of the Borrower and not financed from the proceeds of the Credit; and (b) maintain amounts on deposit in the Project Account at all times at a level equivalent to not less than the estimate of such expenditures for the following three-month period.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.05. 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) shall be carried out by YDC with respect to its respective activities under the Project, pursuant to Section 2.03 of the YDC Project Agreement.

Section 3.06. 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 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 designed to ensure the continued achievement of the objectives of the Project and the Program; 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, acting through the PIU, shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; and
- (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, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(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 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; and
- (ii) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall take all necessary measures to ensure that the average electricity tariffs shall be sufficient during the fiscal years of 1999, 2000 and 2001 to at least cover Armenergo's, HVENC's and YDC's operation and maintenance costs, their debt-service requirements (as such term is defined in paragraph C.1(b)(v) of Schedule 6 to this Agreement), and accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation, satisfactory to the Association.

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) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

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

(c) 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 YDC will be able to perform its obligations under the YDC Project Agreement.

(d) The Charter of YDC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of YDC or its ability to carry out the Project or the ability of YDC to perform any of its obligations under the YDC Project Agreement.

(e) The USAID Grant Agreement shall have failed to become effective by July 31, 1999 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

- (f) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the USAID Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the USAID Grant Agreement.
- (ii) Subparagraph (i) shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination 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.

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 (b) 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; and
- (b) any event specified in paragraph (d) 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 PIU has entered into a contract with a procurement consulting firm acceptable to the Association;
- (b) the PIU has opened the Project Account with an initial deposit therein equivalent to \$250,000;
- (c) the Subsidiary Loan Agreements, have been executed on behalf of the Borrower and Armenergo, HVENC and YDC, respectively;
- (d) the PIU has established a Project management information system, satisfactory to the Association, including Project progress indicators and financial accounting, reporting and contract management systems;

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 YDC Project Agreement has been duly authorized or ratified by YDC, and is legally binding upon YDC in accordance with its terms;
- (b) that the Subsidiary Loan Agreements, have been duly authorized or ratified by and are legally binding upon the parties thereto.

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
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:

Telex:

INDEVAS
Washington, D.C.

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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF ARMENIA

By /s/ Rouben Shugarian

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) Goods, equipment and vehicles	10,700,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services and training	1,100,000	100%
(3) Operating costs of the PIU	300,000	100%

(4)	Refunding of Project Preparation Advance	1,400,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5)	Unallocated	1,500,000	
	TOTAL	15,000,000	

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 "operating costs of the PIU" means the incremental expenses incurred by the PIU on account of Project implementation, including office supplies, communications, vehicle operation and maintenance, auditing services and travel and supervision costs;

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts not exceeding \$200,000 equivalent; (ii) services provided by consulting firms under contracts not exceeding \$100,000 equivalent; (iii) services provided by individual consultants under contracts not exceeding \$50,000 equivalent; and (iv) training and operating costs of the PIU, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The project is to support the first phase of the Borrower's Program which aims to: (a) place the power sector on an efficient, commercial footing; (b) meet the Borrower's electricity requirements in a reliable and cost-effective manner; (c) attract private capital to meet the bulk of the capital requirements in the sector; and (d) eliminate quasi-fiscal subsidies provided in the form of non-payments and other non-technical losses of electricity, and below cost recovery tariffs.

The objectives of the Project are: (i) to improve measurement and accountability of electricity and revenue flows between generation, transmission and distribution companies, and within YDC; (ii) to reduce technical losses in the electricity transmission network and YDC, and improve system availability; and (iii) to improve the commercial performance and financial condition of Armenergo, HVENC and YDC.

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: System Metering and Computers

Provision of meters, testing equipment and computers and software to support commercial transactions and permit internal control of electricity and revenue flows.

Part B: Transmission System Rehabilitation

Replacement of 220kV and 110kV circuit breakers and current transformers at transmission sub-stations at Ekhegnadzor, Zovuni and Marash and the reconstruction and modernization of low voltage switch gear at the Shaumian-2 sub-station.

Part C: Distribution System Rehabilitation

Replacement of circuit breakers, transformers, and cables, for rehabilitation of part of the electricity distribution networks in Yerevan.

Part D: Technical Services

(1) Provision of consultant services and training to assist the PIU in: (i) procurement and Project implementation; and (ii) financial audit of Armenergo, HVENC and YDC.

(2) Provision of consultant services to Armenergo to assist in strengthening its management capacity.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

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 shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 2 of Appendix 1 thereto.

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

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.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$200,000 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 international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 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 each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-Based Selection

Services for carrying out the activities under Part D.2 of the Project may 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 financial audits under Part D.1 of the Project and estimated to cost less than \$200,000 equivalent in aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services for assistance to the PIU under Part D.1 of the Project and estimated to cost less than \$200,000 equivalent in aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 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 third 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 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. During the execution of the Project, the Borrower shall:

(a) maintain the PIU with representatives from the Borrower's Ministry of Energy, Armenergo, HVENC and YDC whose qualifications and experience shall be satisfactory to the Association; and

(b) assign to the PIU the responsibility for Project management and implementation, including: (i) preparation of work programs under the Project; (ii) coordination of the activities of Armenergo, HVENC and YDC under the Project; (iii) preparation of bidding and contract documents and the undertaking of procurement procedures under the Project; (iv) maintenance of project records including the Special Account and the Project Account, and arranging for the audit thereof; and (v) preparation and furnishing to the Association of quarterly reports on the status of Project implementation.

2. Not later than September 30, 1999, the Borrower shall issue an offering memorandum for privatization of a majority of YDC's shares.

3. 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 August 31, 2000 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 September 30, 2000, or such later date as the Association shall request, 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 views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, Categories (1), (2) and (3) 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 \$1,000,000 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 for the Special Account 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 of the Project 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the 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, with 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 for the respective special Account, 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 for that Special Account. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for the Special Account 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 or such notice will be utilized in making payments for eligible expenditures.

SCHEDULE 6

The Subsidiary Loan Agreements

Pursuant to the provisions of Section 3.02(a) of this Agreement and except as the Association shall otherwise agree, the principal terms and conditions set forth or referred to in this Schedule shall apply to the Sub-loans:

A. Amounts:

1. The following are the dollar equivalents of the amounts from the Credit proceeds to be onlent by the Borrower to Armenergo, HVENC and YDC under their respective Subsidiary Loan Agreements. Each such amount may be adjusted upon the agreement between the Borrower and Armenergo, HVENC and YDC, respectively:

(a)	Armenergo:	\$1,010,000
(b)	HVENC:	\$8,170,000
(c)	YDC:	\$9,830,000

B. Terms:

1. The Subsidiary Loans shall be denominated and repaid in dollars.
2. The Subsidiary Loans shall be repaid in equal semi-annual installments over a period of twenty (20) years, including a grace period of five (5) years.
3. Interest on each Sub-loan shall be charged on the amounts withdrawn and outstanding under the respective Subsidiary Loan Agreement at an annual rate exceeding by one-half of one percent (0.5%) the interest rate equivalent to the International Bank for Reconstruction and Development (IBRD) variable lending rate for currency pooled loans prevailing at the time of respective dates of repayment of the Subsidiary Loans as adjusted each January 1 to the then prevailing rate.
4. Interest accruing on the Subsidiary Loan on or before June 14, 2002 shall be capitalized and added to the amount of the Subsidiary Loan withdrawn and outstanding.
5. Each Subsidiary Loan Agreement shall include provisions whereby Armenergo, HVENC or YDC, as the case may be, shall be required to carry out through the PIU all its respective activities under the Project, including, without limitation, preparation of bidding and contract documents, approval of contracts, authorization of expenditures, maintenance of Project financial records, supervision of work and preparation of progress reports on Project implementation.

C. Financial Conditions:

Armenergo Subsidiary Loan Agreement and HVENC Subsidiary Loan Agreement shall each include the following provisions:

1. (a) Except as the Association and the Borrower shall otherwise agree, Armenergo and HVENC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of Armenergo or HVENC, respectively, shows that the estimated net revenues of each said company during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of

Armenergo or HVENC, respectively, in each year on all debt of Armenergo or HVENC, respectively, including the debt to be incurred.

(b) For the purposes of this Section:

(i) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(ii) The term "net revenues" means the difference between: (A) the sum of revenues from all sources related to operations and net non-operating income, and (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iii) The term "net non-operating income" means the difference between: (A) revenues from all sources other than those related to operations; and (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iv) The term "reasonable forecast" means a forecast prepared by each Armenergo and HVENC not earlier than twelve (12) months prior to the incurrence of the debt in question, which the Association together with Armenergo or HVENC, respectively, accept as reasonable and as to which the Association has notified Armenergo or HVENC, respectively, of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of Armenergo or HVENC.

(v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

2. (a) Except as the Association and the Borrower shall otherwise agree, Armenergo and HVENC shall each maintain, starting in January 1, 2000, a ratio of current assets to current liabilities of not less than 1.3.

(b) Before April 1 in each of its fiscal years, Armenergo and HVENC each shall, on the basis of forecasts prepared by Armenergo and HVENC, and satisfactory to the Association, review whether they would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall each furnish to the Association the results of such review upon its completion.

(c) If any such review shows that Armenergo or HVENC would not meet the requirements set forth in paragraph (a) for said companies' fiscal years covered by such review, Armenergo or HVENC, respectively, shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates in order to meet such requirements).

(d) For the purposes of this Section:

(i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements,

taxes and payments in lieu of taxes, and dividends.

(iii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

3. Armenergo and HVENC shall each: (a) take all necessary measures to ensure (i) by January 1, 2000 that its accounts receivable accumulated since January 1, 1999 shall be maintained at not more than the equivalent of ninety (90) days billing for electricity sales, and (ii) by January 1, 2000, that its accounts payable accumulated since January 1, 1999 shall be maintained at not more than the equivalent of ninety (90) days of expenses; and

(b) without limitation to the preceding paragraph (a), take all necessary measures to ensure actual collection of not less than 82% of its total billing during the year 1999, not less than 90% of its total billing during the year 2000, and not less than 95% of its total billing during the year 2001.

4. (a) Armenergo and HVENC shall each maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Armenergo and HVENC shall each:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year beginning with 1998 audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association and the Borrower, 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 its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association and the Borrower such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

