

CONFORMED COPY

CREDIT NUMBER 3375 AM

Development Credit Agreement

(Transport Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 7, 2000

CREDIT NUMBER 3375 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 7, 2000, between 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;

(B) the Borrower intends to obtain grant financing from the Government of France, the Government of Canada, the Government of the United States of America and from the European Union (collectively referred to as Co-financiers) in an amount equivalent to \$600,000 to assist in financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and each of the Co-financiers (collectively referred to as the Co-financiers' Grant Agreements); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

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

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) "AR" means Armenia Roads, a state-owned joint stock company established pursuant to the Government of Armenia Decree No. 13 dated January 14, 1999;
- (b) "ARD" means the Armenian Railways Department, established pursuant to the Government of Armenia Decree No. 634 dated October 16, 1998;
- (c) "Eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- (d) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement;
- (e) "MOFE" means the Borrower's Ministry of Finance and Economy;
- (f) "MOTC" means the Borrower's Ministry of Transport and Communications;
- (g) "PIU" means the Project Implementation Unit established within the MOTC;
- (h) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (i) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and
- (j) "Subsidiary Credit Agreement" means the agreement to be entered between the Borrower and ARD pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Credit 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 twenty-nine million and nine hundred thousand Special Drawing Rights (SDR 29,900,000).

Section 2.02. 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, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2004 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 1 and June 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each December 1 and June 1 commencing December 1, 2010 and ending June 1, 2035. Each installment to and including the installment payable on June 1, 2020, 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 Bank 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 semi-annual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall: (i) open and maintain a Project Account in a bank acceptable to the Association; (ii) replenish said Project Account from time to time so that the amount deposited in said Project Account shall not be less than the equivalent of \$100,000; and (iii) use said Project Account for financing the Borrower's contribution to the Project expenditures.

(c) The Borrower shall relend the proceeds of the Credit to ARD (Subsidiary Credit) under a subsidiary credit agreement to be entered into between the Borrower and ARD, under terms and conditions which shall have been approved by the Association and which shall include, inter alia: (i) the principal amount of the Subsidiary Credit shall be denominated and repaid in Dollars in equal semi-annual installments over twenty (20) years (the Repayment Period), including a grace period of five (5) years; and (ii) the Borrower shall charge interest on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to: (A) two percent (2%) per annum during the first five (5) years of the Repayment Period; (B) five percent (5%) per annum during a five-year period following the first five (5) years of the Repayment Period; and (C) seven percent (7%) per annum during the second decade of the Repayment Period.

(d) The Borrower shall exercise its rights under the Subsidiary Credit 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 Bank shall otherwise agree, shall not assign, amend, abrogate or waive the Subsidiary Credit Agreement or any provision thereof.

(e) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. 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 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 shall 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 related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association who shall be hired not later than November 30, 2000;
- (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 statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01

of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, a Project Management Report for such period.

Section 4.03. (a) The Borrower shall cause AR and ARD to maintain records and account adequate to reflect in accordance with sound accounting practices their operations and financial condition.

(b) The Borrower shall cause AR and ARD to:

- (i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles applied, by independent auditors acceptable to the Association;  
consistently
- (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 said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section 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 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 requested.

Section 4.04. Commencing from January 1, 2001, the Borrower shall increase budget allocations for AR by a percentage no less than the percentage increase in the Borrower's overall budget revenues estimated in the preceding fiscal year.

Section 4.05. The Borrower shall: (a) not later than June 30, 2001, complete a study on road financing; (b) promptly thereafter, adjust road user charges based on the conclusions and recommendations of the said study; (c) commencing from January 1, 2002, increase, in addition to the annual increase provided for in Section 4.04 above, annual budget allocations for the AR in accordance with the estimated additional revenues generated by the adjusted road user charges; and (d) ensure that budget allocation for AR will reach an equivalent of \$16,000,000 by the fiscal year 2004.

#### 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) The Co-financiers' Grant Agreements shall have failed to become effective by December 31, 2001, 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.

(b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any of the Co-financier's Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the respective Co-financier's Grant Agreement.

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

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the Borrower has opened the Project Account referred to in Section 3.01(b) with an initial deposit equivalent to \$600,000; and

(b) the Borrower has entered into the Subsidiary Credit Agreement with ARD.

Section 6.02. 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF ARMENIA

By /s/ Arman Kirakossian

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shigeo Katsu

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods		100% of foreign



			expenditures, 100% of local expenditures
	(a) for Parts A and C of the Project	1,500,000	(ex-factory cost) and 80% of local expenditures for
other	(b) for Part B of the Project	8,000,000	items procured locally
(2)	Works for Part A of the Project	14,370,000	85%
(3)	Consultants' services and training		100%
	(a) for Parts A and C of the Project	1,560,000	
	(b) for Part B of the Project	200,000	
(4)	Incremental operating costs:		
	(a) of the PIU	130,000	100%
	(b) of the AR	260,000	100% of expenditures incurred prior to January 1, 2002, 80% expenditures incurred prior to January 1, 2003, 60% expenditures incurred prior to January 1, 2004 and of expenditures incurred thereafter
of			
of			
40%			
(5)	Unallocated	3,880,000	
	TOTAL	29,900,000	

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 of the PIU" means the incremental expenses incurred by the PIU on account of Project implementation, including staff salaries, office supplies, vehicle operation and maintenance, utilities, communications, banking charges and audit expenses; and

(d) the term "incremental operating costs of the AR" means the incremental expenses incurred by the AR on account of Project implementation, including staff salaries, office supplies, vehicle operation and maintenance, utilities, communications, banking charges and audit expenses.

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, except that withdrawals, in an aggregate amount not to exceed SDR30,000 may be made on account of payments made for expenditures before that

date but after April 1, 2000.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts not exceeding \$600,000 equivalent per contract; (ii) goods under contracts not exceeding \$100,000 equivalent per contract; (iii) services provided by consulting firms under contracts not exceeding \$100,000 equivalent per contract; (iv) services provided by individual consultants under contracts not exceeding \$50,000 equivalent per contract; (v) training; and (vi) operating costs of the PIU, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a separate special deposit account, in a bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the said Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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 (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole

discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$4,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 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 equal or exceed the equivalent of SDR 9,600,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account's 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special

Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are  
Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$5,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the reliability and reduce the cost of transport in the Republic of Armenia in support of expanding the country's growth and development, including: (i) improvement of the main road network, with significant reductions in total transport costs, in improved road safety, and in increased operational efficiency of AR; (ii) improvement of the rail service, and in the financial and managerial performance of ARD; and (iii) strengthening of the MOTC's planning capacity, i.e. to use economic analysis as a basis for setting priorities and making investment decisions in the transport sector.

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: Road Rehabilitation

1. Rehabilitation of selected road sections and bridges.
2. Carrying out of engineering design and supervision for the road and bridge rehabilitation works.
3. Assistance in the development of a road safety program through: (i) the

establishment of a National Road Safety Council; (ii) development of an Accident Reporting System; (iii) carrying out safety engineering activities including the establishment of accident standards; (iv) conducting a safety audit; (v) establishment of a capacity for making signs and for road marking; (vi) providing safety engineering training; (vii) provision of traffic control equipment; (viii) provision of safety education within the school system; and (ix) eliminating some accident black spots as these are identified through the accident reporting system.

4. Provision of technical assistance, equipment and administrative support for institutional strengthening of AR.

Part B: Railways

1. Carrying out repair of tracks and bridges for the line from Yerevan to the borders between the Republic of Armenia and Georgia.

2. Carrying out of the overhaul locomotives, wagons and passenger coaches.

3. Replacement of about 150KM of contact wire, and repair of equipment at substations, and upgrading two repair facilities of the ARD.

4. Provision of about 42Km of cable, replacing the open wire systems, provision of dispatch telephones in station, substations energy supply posts and signaled crossings and installations of central control panels at selected stations and batteries at two location buildings.

5. Institutional strengthening of the ARD through: (i) the creation of separate operating companies for the management of the infrastructure of the rolling stock and the business operation of the railway, and technical support, office supplies and training of staff for these companies; and (ii) provision of office equipment to ARD for accounting, tracking of goods in shipment, and communications locally and abroad.

Part C: Institutional Support to the MOTC

Provision of equipment, technical assistance and training to the MOTC; and provision of administrative support to the PIU, including financing of their operating costs during project implementation.

\* \* \*

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section.

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 2 of Appendix 1 thereto.

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

(a) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost the equivalent of \$600,000 or more.

(b) Preferences 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 \$600,000 equivalent per contract, up to an aggregate amount not to exceed \$2,550,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. Bidders for works procured under this method may be postqualified in accordance with the provisions of paragraph 2.57 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 \$600,000 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

(a) With respect to: (i) each contract for works estimated to cost the equivalent of \$600,000 or more; (ii) each contract for goods estimated to cost \$100,000 or more; and (iii) the first two contracts for works to be 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.

(b) With respect to all contracts for goods procured in accordance with the provisions of Part C.2 of this Section, the following procedures shall apply:

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

received;

- (ii) prior to the execution of any contract procured under national shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

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

## Section II. Employment of Consultants

### Part A: General

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

### 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. Selection Based on Consultants' Qualifications

Services for carrying out technical assistance under Part A of the Project estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount of \$400,000, may be procured under contracts awarded in accordance with the provisions of paragraph 3.1 and 3.7 of the Consultants' Guidelines.

#### 2. Individual Consultants

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

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

#### 1. Selection Planning

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

2. Prior Review

(a) With respect to each contract 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; and

(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 within the MOTC, with the staff, resources and responsibilities acceptable to the Association;

(b) assign to the PIU the responsibility for the overall Project coordination and the implementation of Part C of the Project. The PIU shall be responsible, inter alia, for: (i) preparation by August 1 of each year, commencing from August 1, 2001, of annual work programs and associated budgets for the Project, reviewed and agreed upon with the Association; (ii) monitoring of the preparation of bidding and contract documents and of procurement procedures under the Project; (iii) maintenance of Project records including the Special Account and the Project Account, and arranging for the audit thereof; and (iv) preparation and furnishing to the Association of Project Management Reports; and

(c) assign the responsibility for the implementation of Part A of the Project - to the AR and, Part B of the Project - to the ARD.

2. Not later than December 31, 2002, the Borrower shall carry out an urban transport study in accordance with terms of reference acceptable to the Association.

3. Not later than December 31, 2004, the Borrower shall complete the restructuring of ARD in accordance with the principles and objectives agreed upon with the Association.

4. Not later than December 31, 2000, the Borrower shall establish a mechanism, acceptable to the Association, for setting ARD's tariffs.

5. 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 May 1, 2002, 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 June 30, 2002, 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.

6. The Borrower shall use cost benefit analysis, in accordance with the principles agreed between the Borrower and the Association, to determine the actual road segments to be repaired under this Project, as well as for all investments in the transport sector during execution of the Project, and shall only undertake transport infrastructure projects with a positive Net Present Value.

For the purposes of this paragraph:

"Net present Value" means present value of all expected cash inflows from an investment discounted at the cost of capital of twelve percent (12%) compared to the initial investment.

