

CONFORMED COPY

CREDIT NUMBER 3035 AM

Development Credit Agreement

(Agricultural Reform Support Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 12, 1998

CREDIT NUMBER 3035 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 12, 1998, between the REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied 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 Chapter VII of the Charter of the United Nations."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty (30) days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "ADC" means the Agribusiness Development Center to be established under Part A of the Project;

(b) "ARC" means the Agricultural Research Council, an agency of the MOA (as defined below) responsible for consolidation of research facilities and coordination of the national agricultural research program;

(c) "ASCs" means the Agricultural Support Centers, local agencies of the MOA (as defined below) responsible under Part C of the Project for coordination of research and extension activities;

(d) "Beneficiary" means a recipient of a Subloan under Part B of the Project;

(e) "Credit Guidelines" means the Credit Guidelines referred to in Part C (4) of Schedule 4 to this Agreement;

(f) "MOA" means the Borrower's Ministry of Agriculture;

(g) "PFI" means a participating financial institution, to be selected, in accordance with the criteria referred to in Part C (2) of Schedule 4 to this Agreement, for the provision of Subloans under Part B of the Project;

(h) "PIU" means the Project Implementation Unit established within MOA;

(i) "PMB" means the Project Management Board, established by the Borrower to oversee Project implementation;

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

(k) "Subloan" means a loan to be provided by a PFI to a Beneficiary for purposes of Part B of the Project and in accordance with the provisions of the Credit

Guidelines; and

(1) "Subsidiary Loan Agreement" means any of the agreements to be entered into between the Borrower and the PFIs in accordance with the provisions of paragraph C (3) of Schedule 4 to this 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 ten million seven hundred thousand Special Drawing Rights (SDR 10,700,000).

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 (i) the reasonable cost of goods and services required for Parts A, C and D of the Project and to be financed out of the proceeds of the Credit, and (ii) withdrawals made by a Beneficiary of a Subloan under Part B of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 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 June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing June 15, 2008, and ending December 15, 2032. Each installment to and including the installment payable on December 15, 2017 shall be one- and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of 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 Parts A, C and D of the Project through MOA and PIU, and shall cause the PFIs to carry out Part B of the Project, all with due diligence and efficiency and in conformity with appropriate financial, engineering, credit and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) The Borrower shall relend the proceeds of the Credit allocated under Category (2) of the table shown in Schedule 1 to this Agreement for the provision of subloans under Part B of the Project to the PFIs under Subsidiary Loan Agreements to be entered into between the Borrower and the PFIs, under terms and conditions which shall have been approved by the Association including those set forth in Part C (3) of Schedule 4 to this Agreement.

(d) 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 any Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, C and D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or

such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower 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;

(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

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of 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. (a) The Borrower shall cause each PFI to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of the PFI.

(b) The Borrower shall cause each PFI to:

(i) have its 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 consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of 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 such other information concerning such records, accounts and financial statements and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that the Credit Guidelines shall have been amended, suspended, repealed or waived without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. 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.

Section 6.02. The obligations of the Borrower under Section 4.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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/ Ruben 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) Works under Parts A, C, and D of the Project	583,000	100% of foreign expenditures, 90% of local expenditures
(2) Subloans under Part B of the Project	3,580,000	100% of amounts disbursed by the PFIs
(3) Goods under Parts A, C and D of the Project	1,358,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local items procured locally
(4) Consultant's services and training under Parts A, C and D of the Project	1,535,000	100%
(5) Incremental operating cost for Project Institutions	1,587,000	75% of expenditures incurred prior to June 30, 1999; 60% of expenditures incurred prior to June 30, 2000, 40% of expenditures incurred prior to June 30, 2001, and 20% of expenditures incurred thereafter
(6) Incremental operating costs for the PIU	44,000	100%
(7) Refunding of Project Preparation Advance	1,101,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	912,000	

TOTAL 10,700,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "incremental operating costs" means operating expenditures incurred for purposes of the Project implementation, including expenditures on account of office materials, utility supplies and vehicle operation and maintenance, but excluding salaries; and

(d) the term "Project Institutions" means ADC, ARC, and ASCs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made (a) in respect of payments made for expenditures prior to the date of this Agreement, and (b) on account of any Subloan unless (i) the Credit Guidelines have been adopted and agreed upon with the Association in accordance with the provisions of Part C (4) of Schedule 4 to this Agreement, and (ii) such Subloan has been provided in accordance with the provisions of the Credit Guidelines.

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) incremental operating costs of the PIU and Project Institutions, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) support the development of private sector farming and agro-processing; (b) improve and expand credit in the farming sector; and (c) increase the efficiency of providing agricultural services relating to research, education, information, and extension.

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: Agribusiness Development Center (ADC)

Establishment of ADC as a semi-autonomous agency of the Borrower, responsible for providing consultant services to the managers of large commercial farms and agro-industrial enterprises and for conducting training for such managers in the areas of financial management, marketing and strategic planning.

Part B: Subloans

Provision through the PFIs, in coordination with the PIU, of subloans to farmers, farming enterprises and agribusiness enterprises.

Part C: Institutional Strengthening

(1) Equipping of the Agricultural Research Council (ARC).

(2) Strengthening of higher agricultural education through the provision of training materials and the creation of a computerized information network to improve library facilities and access to international technical information.

(3) Strengthening of extension services through the establishment and equipping of ASCs, including the provision of transportation and communications equipment and training materials.

Part D: Strengthening of the PIU

(1) Strengthening of PIU's financial management and capacity to monitor progress of the Project implementation, through provision of consultant services, equipment, vehicles and training of its staff.

(2) Support of project preparation activities for title registration under the State Cadastral Administration.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Procurement and Consultants' Services Under
Parts A, C and D of the Project

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with 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 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works 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 in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not exceeding \$750,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, 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.

4. Procurement of Small Works

Works 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 lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 (i) each contract awarded in accordance with the provisions of Part B of this Schedule, (ii) the first two contracts awarded in accordance with the provisions of paragraph 1 of Part C of this Schedule, and (iii) the first contract awarded under each of the provisions of paragraphs 2 and 3 of Part C of this Schedule, 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

Consultants' services under the Project shall be procured in accordance with 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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.

2. The short list of consultants for services under Part C of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for training and technical assistance for ADC and other Project institutions shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Least-Cost

Services for local training of ASCs, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 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 consultants' services costing the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (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 the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Project Management and Supervision

(1) The Borrower shall maintain the PMB with representatives from MOA and assign to PMB the responsibility for overall management of the Project and supervision of the activities of PIU under the Project.

(2) The Borrower shall maintain the PIU at least until completion of the Project under a suitably qualified Project Director, and with such facilities and resources and under such terms of reference as shall be required for performance of its responsibilities in Project implementation, which shall include, inter alia:

(a) by February 15 in each year, the preparation and furnishing to the Association, for its review and comments, of annual work programs for the Project;

(b) the coordination of all activities under the Project;

(c) maintenance of the Project financial records and accounts;

(d) the coordination and supervision of the preparation of bidding and contract documents under the Project, including coordination of the recruitment of foreign and national consultants required for Project implementation; and

(e) the preparation and furnishing to the Association and PMB, of consolidated semi-annual reports on the status of Project implementation.

B. Part A of the Project (ADC)

PIU shall implement Part A of the Project and shall, for this purpose:

(a) implement, not later than June 30, 1998, a plan agreed upon with the Association for the equipping and staffing of ADC;

(b) prepare and discuss with the Association, by June 30, 1998, a plan, including a time-schedule, for the carrying out of feasibility studies and business plans for agro-industrial enterprises and of training of managers of such enterprises; and

(c) prepare, in agreement with the Association, and thereafter implement, a plan for the technical assistance, including the consultancy services, required for the proper carrying out of activities included in Part A of the Project.

C. Subloans under Part B of the Project

Provision of Subloans under Part B of the Project shall be managed by the PIU in accordance with the following arrangements:

(1) Credit Specialist: An agricultural credit specialist whose qualifications and

experience are satisfactory to the Association shall be appointed and assigned to the PIU, by June 30, 1998, to undertake the responsibility for managing the credit activities, including:

(a) reviewing satisfaction of the criteria, described in paragraph (2) below, for accreditation of PFIs under the Project;

(b) managing withdrawals from the Credit Account (or the Special Account) for purposes of the Subloans, and monitoring the carrying out by the PFIs of their undertakings under the Subsidiary Loan Agreements;

(c) maintaining separate records and accounts within the PIU for the Subloans; and

(d) preparing semi-annual reports on the status of implementation of Part B of the Project for incorporation in the reports referred to in Part A (2) (e) of this Schedule.

(2) The PFIs: A banking or a financial or a cooperative institution of the Borrower may be selected by the Borrower as a PFI under the Project on the basis of the following criteria, namely, that such institution:

(a) has an acceptable audit prepared by external auditors and covering its last year of operation;

(b) has the capacity to extend credit for farming and agribusiness purposes and relevant experience therein;

(c) has a capital adequacy ratio of not less than 4%;

(d) is in compliance with the regulatory requirements of the National Bank of Armenia;

(e) has adopted a strategic corporate plan satisfactory to the Association; and

(f) has adopted, based on the audit report referred to in (a) above, adequate policies and procedures for its credit operations.

(3) The Subsidiary Loan Agreements: The Borrower, acting through its Ministry of Finance and Economy, shall conclude a Subsidiary Loan Agreement with each PFI under terms and conditions agreed upon with the Association which shall include:

(a) the amount of the Credit to be onlent to the PFI;

(b) the obligation of the PFI to use such amount exclusively in the provision of Subloans under Part B of the Project;

(c) the denomination of the amount onlent under the Subsidiary Loan Agreement, at the option of the PFI, either in Drams or in Dollars;

(d) the obligation of the PFI: (i) to repay the amount withdrawn and outstanding under the Subsidiary Loan Agreement over a period not exceeding fifteen (15) years, and with interest at a rate to be determined at such level as shall ensure a reasonable spread for the PFI over the interest rate applicable to Subloans provided by it;

(e) the undertaking of the PFI to use amounts repaid to it under Subloans, and not required to meet the PFI's debt-service obligations under the Subsidiary Loan Agreement, in the provision of further Subloans under Part B of the Project; and

(f) the undertaking of the PFI to apply the Credit Guidelines in determining the terms of Subloans provided by it under the Project.

(4) Credit Guidelines:

(a) The Borrower shall take all actions to ensure adoption by the PIU, not later than June 30, 1998, of Credit Guidelines satisfactory to the Association. The Credit Guidelines shall cover such matters as the maximum amounts of Subloans, the eligibility criteria for Beneficiaries of Subloans, the procedures for approval of Subloans, the farming and agribusiness purposes for which Subloans may be provided, the collateral requirements under the Subloan contracts, the repayment periods for

short-term and medium-term Subloans, the basis for determination of interest and other charges on Subloans, the procurement procedures to be followed by Beneficiaries of Subloans and the reporting requirements to be binding on Beneficiaries of Subloans under their contracts with the PFIs.

(b) Unless the Association shall otherwise agree, no Subloan shall be provided in an amount exceeding the equivalent of \$50,000.

(c) The Credit Guidelines shall specifically provide, with respect to the procurement of goods and works under the Subloan contracts, that (i) works, and goods estimated to cost the equivalent of not more than \$15,000 per contract, may be procured by the Beneficiaries in accordance with relevant commercial practices, provided that such practices involved obtaining quotations from more than one supplier or contractor, and that due account is taken of other relevant factors such as time of delivery and efficiency and reliability of the supplier and, when relevant, availability of maintenance and spare parts, and (ii) goods estimated to cost the equivalent of not more than \$50,000 per contract may be procured under contracts awarded in accordance with national shopping procedures satisfactory to the Association.

(d) The Borrower shall cause the PIU to adopt operating procedures adequate to monitor adherence by the PFIs to the terms of the Credit Guidelines in the provision and administration of subloans under Part B of the Project.

D. Institutional Strengthening under Part C of the Project

The Borrower shall cause the PIU to prepare, in conjunction with relevant officers of MOA, and to furnish to the Association for its comments, by September 30, 1998, a program of action for the implementation of agricultural service activities under Part C (3) of the Project, and thereafter to implement said program in accordance with the time-schedule thereof and taking into account the Association's comments thereon.

E. Monitoring

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 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 paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,250,000

to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be

utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

