

July 27, 1999

Mr. Levon Barkhudarian
Minister of Finance
Ministry of Finance
1, Government House
Republic Square
Yerevan 375010
Republic of Armenia

Re: Development Credit Agreement 3007 AM - Education Financing and
Management Project
Amendment to the Development Credit Agreement

Dear Mr. Barkhudarian:

We refer to the above-referenced Development Credit Agreement (the Agreement) between the Republic of Armenia and International Development Association (the Association) dated February 4, 1998 and to the letter from Mr. Edward Sandoyan, then Minister of Finance and Economy, dated June 14, 1999, requesting certain modifications to the Agreement. We hereby agree to amend the Agreement as follows:

Schedule 1 "Withdrawal of the Proceeds of the Credit" is amended as follows:

1. In paragraph 1, a new disbursement category "Grants for Microprojects" is introduced in paragraph 1 and the Credit proceeds are re-allocated between the categories in a following way:

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|--|--|--|
| (1) Civil works | 73,000 | 80% |
| (2) Textbooks (including printing and delivery Services) | 5,218,000 | 100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items pro- cured locally |
| (3) Goods other than textbooks | 505,000 | 100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items pro- cured locally |
| (4) Consultants' services, Training, fellowships and Studies | 1,837,000 | 100% |
| (5) Incremental operating costs | 588,000 | 100% |
| (6) Refunding of Project Preparation Advance | 661,000 | Amounts due pursuant to Section 2.02 (c) of this Agreement |
| (7) Unallocated | 812,000 | |
| (8) Grants for Microprojects | 1,406,000 | 90% |
| TOTAL | 11,100,000 | |

2. Paragraph 4 is amended to read as follows:

"4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) textbooks, goods and works under contracts not exceeding \$200,000 equivalent, (b) services provided by consulting firms under contracts not exceeding \$100,000 equivalent; (c) services provided by individual consultants under contracts not exceeding \$50,000 equivalent; (d) training, fellowships and studies under contracts not exceeding \$50,000 equivalent; (e) operating costs; and (f) Grants for Microprojects, all under such terms and conditions as the Association shall specify by notice to the Borrower.

Schedule 5 "Special Account"

3. Paragraph 1 (a) is amended to read as follows:

"(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement".

Please confirm your agreement to the foregoing by signing, dating and returning to us the form of confirmation on the enclosed copy of this letter.

This amendment shall become effective upon receipt of the countersigned copy of this letter by us.

Sincerely,

By /s/ Judy O'Connor
Country Director for Armenia
Country Unit III
Europe and Central Asia Region

CONFIRMED BY:

REPUBLIC OF ARMENIA

By /s/ Levon Barkhudarian
Authorized Representative

Date: November 15, 1999

