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CONFORMED COPY

CREDIT NUMBER 4238-AM

Financing Agreement

(Social Investment Fund III Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 1, 2006

CREDIT NUMBER 4238-AM

FINANCING AGREEMENT

AGREEMENT dated November 1, 2006, between REPUBLIC OF ARMENIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixteen million nine hundred thousand Special Drawing Rights (SDR 16,900,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the ASIF in accordance with the Operational Manual and the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The ASIF III Project Technical Committee has been established, in order to develop and carry out the institutional and technical framework relating to the municipal financial management training.
 - (b) The Recipient has opened the Project Account in a bank acceptable to the Association with an initial deposit equivalent to \$500,000.
 - (c) The Recipient has approved the Operational Manual, satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance and Economy.

5.02. The Recipient's Address is:

1 Melik-Adamyan Street
Republic Square
Yerevan 375010
Republic of Armenia

Telex:

243331 LADA SU

5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By /s/ Vardan Khachatryan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Naira Melkumyan

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's policy to raise the living standards of the poor and vulnerable groups through: (a) improving the quality and access, and increasing the coverage of community infrastructure and services in poor communities, and for the most vulnerable groups in response to critical emerging needs; and (b) promoting complementary institutional capacity building at the community and municipal level so as to improve the quality and sustainability of service delivery and municipal investments, increase accountability, and enhance greater stakeholder empowerment at the local level.

The Project consists of the following parts:

Component 1: Community Investments

- A. Carrying out Microprojects for the reconstruction or rehabilitation of schools, health clinics, community-based centers, small-scale water supply systems, sewerage, special schools for arts, music and sports, rural electrification systems, minor irrigation works and other infrastructure in accordance with the provisions of the Operational Manual.
- B. Carrying out Microprojects for the school heating systems and science laboratory construction and/or rehabilitation.
- C. Provision of school furniture, library furniture and equipment, science laboratory furniture and equipment and teaching materials.
- D. Provision of services for Microprojects' design and supervision, including technical assistance, advisory services, training and logistical support to: (i) help implement a decentralized participatory framework involving selected municipalities and communities in Microproject outreach and promotion; and (ii) complete the community mapping and profiling exercise.

Component 2: Local Level Institutional Strengthening, Monitoring and Evaluation

- A. Provision of technical assistance, training and support services to local governments in such areas as financial management, budgeting and asset management so as to increase the competences and accountability of municipal administration in support of the Recipient's decentralization initiatives.
- B. Carrying out of special studies, technical assessment, workshops and study tours to support and enhance monitoring and evaluation of Project activities at the local level.

Component 3: Project Management, Monitoring and Evaluation

Provision of institutional support to the ASIF, for its operation, financial audits and the maintenance of the management information system.

SCHEDULE 2**Project Execution****Section I. Institutional and Other Arrangements**

1. The Recipient shall, during the execution of the Project:
 - (a) maintain the ASIF with the structure, staff and other resources satisfactory to the Association;
 - (b) ensure that the ASIF's operations shall be carried out in accordance with the procedures set forth or referred to in the Operational Manual; and
 - (c) ensure that any significant modifications to the ASIF's statute or by-laws and any changes in the appointment, or to the terms of employment, of the Executive Director and the Department Heads of the ASIF shall be agreed upon with the Association.

2. The Recipient shall:
 - (a) ensure, through the ASIF, that Microprojects shall be identified, appraised, approved, implemented and evaluated in accordance with the procedures set forth or referred to in the Operational Manual;
 - (b) ensure that a Project Implementing Agency shall carry out a Microproject in accordance with the terms and conditions set forth in the Framework Agreement; and
 - (c) carry out, on an annual basis, under terms of reference satisfactory to the Association: (i) an independent technical and procurement review of implementation of Microprojects, focusing on the adherence to guidelines and procedures set forth in the Operational Manual, quality of works, training and technical assistance programs and community related procurement; and (ii) an assessment of the Project impact on beneficiaries.

3. The Recipient shall cause the ASIF to:
 - (a) submit annual work programs and budget to the Association for its review and approval; and
 - (b) submit to the Association quarterly progress reports and annual progress reports, on Project implementation, satisfactory to the Association, including assessments of Microproject's cost effectiveness and regional targeting.

4. The Recipient shall take or cause to be taken, all measures necessary for the carrying out of the EMP in a timely manner.
5. Without limitation upon the provisions of Section 3.01 and except as the Recipient and the Association shall otherwise agree, the Recipient shall maintain a balance in the Project Account, until the completion of the Project, with the amount adequate for the subsequent three (3) months of Project implementation.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2011.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
<p>(a) National Competitive Bidding of the Recipient may be used for procurement of goods and works for the Project, provided that the following provisions are complied with:</p> <ol style="list-style-type: none"> (i) entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and operate under commercial law; (ii) pre-qualification shall be conducted for large works projects; (iii) pre- and post-qualification criteria shall only pertain to

<p>past contract performance, financial, managerial and technical capabilities of bidders;</p> <p>(iv) joint venture partners shall be jointly and severally liable for their obligations;</p> <p>(v) estimated contract prices shall not be advertised;</p> <p>(vi) no bids shall be rejected at bid opening;</p> <p>(vii) no bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.60 of the Procurement Guidelines are met;</p> <p>(viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and</p> <p>(ix) advance Association approval is required for any modifications in the contract scope/conditions during implementation.</p>
<p>(b) Shopping</p>
<p>(c) Procurement from U.N. Agencies</p>
<p>(d) Community Participation</p> <p>Works required for Component 1.A may be procured in accordance with procedures acceptable to the Association.</p>

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Single-source Selection
(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Works	11,194,000	78%
(2) Goods	2,366,000	78%
(3) Consultants' services and training	1,386,000	78%
(4) Operating costs	940,000	50%
(5) Refund of Project Preparation Advance	1,014,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	<u>16,900,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2011.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 1 and October 1:	
commencing April 1, 2017 to and including October 1, 2026	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “ASIF” means the Armenian Social Investment Fund established pursuant to Decree No. 162 dated April 11, 2000, and has received authorization to manage the Project pursuant to Decree No. 772-A dated June 8, 2006.
2. “ASIF III Project Technical Committee” means the inter-agency committee to provide guidance and direction to the ASIF so as to: (a) develop and carry out the institutional and technical framework for the municipal financial management training program; and (b) ensure effective coordination and implementation of activities relating to such a program.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
5. “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Recipient and submitted to the Association on July 13, 2006, which is incorporated into the Operational Manual, setting forth measures to mitigate any adverse impacts to the environment;
6. “Framework Agreement” means an agreement to be entered into between the ASIF and a Project Implementing Agency, for purposes of carrying out a Microproject on terms and conditions specified in the Operational Manual, as the same may be amended from time to time.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
8. “Microproject” means a subproject eligible, in accordance with the provisions of the Operational Manual for financing out of the proceeds of the Credit, and in respect of which the ASIF has entered into a Framework Agreement.
9. “Operating Costs” means the incremental expenses incurred by the ASIF on account of Project implementation, including staff salaries, except for those who are civil servants, office equipment, communications, local travel, utilities, audits, printing and publication, translation and interpretation expenses, office supplies, fuel, vehicle insurance and inspection, office and vehicle maintenance and repair, and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association.

10. “Operational Manual” means the manual, satisfactory to the Association, containing eligible criteria and appraisal, approval and supervision rules and procedures for Microprojects, as well as other administrative rules to be followed by the ASIF, as the same may be amended from time to time by agreement between the Association and the ASIF.
11. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated July 14, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Project Account” means the account referred to in Section 4.01 (b) of this Agreement, maintained by the Recipient in Drams and to be used for financing the Recipient’s contribution to the Project’s expenditures;
14. “Project Implementing Agency” means a community-based organization, including representatives of local government, responsible for carrying out Microprojects.
15. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on May 18, 2006 and on behalf of the Recipient on June 30, 2006.
16. “Training” means the provision of training to pilot a decentralized participation framework involving selected municipalities and communities, municipal training in basic financial management and study tours to provide training and learning opportunities to the technical staff of the ASIF in the area of local development, institution building and monitoring and evaluation.