

CONFORMED COPY

CREDIT NUMBER 4548-AM

Financing Agreement

(Additional Financing for the Social Investment Fund III Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 26, 2009

CREDIT NUMBER 4548-AM

FINANCING AGREEMENT

Agreement dated February 26, 2009, entered into between REPUBLIC OF ARMENIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 this Agreement have the meanings ascribed to them in the General Conditions or the Original Financing Agreement or the Appendix to this Agreement.

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 five million two hundred thousand Special Drawing Rights (SDR 5,200,000) (variously, “Credit” and “Financing”) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 the 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, Article IV of the General Conditions, the Subsidiary Agreement and the Project Agreement.
- 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 - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, the ASIF's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the ASIF to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, the amendment to the Subsidiary Agreement has been executed on behalf of the Recipient and the ASIF.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance of the Recipient.

6.02. The Recipient's Address is:

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

Telex:

243331 LADA SU

6.03. 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)

1-202-477-6391

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

REPUBLIC OF ARMENIA

By: /s/ Tigran Davtyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Aristome Varoudakis

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; (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; and (c) creation of employment associated with the provision of community infrastructure and services.

The Project consists of the Component 1 of the Original Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional 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;

(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; and

(d) ensure that the procurement under the Project is granted with a waiver from the application of the Decree #765 dated December 22, 1999 for clearances of contracts up to a maximum amount of \$150,000.

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.

6. The Recipient shall, not later than thirty (30) days after the effectiveness of this Agreement, approve the updated Operational Manual, acceptable to the Association, and shall not assign, amend, abrogate or waive any provisions of the updated Operational Manual without prior review and approval of the Association.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the ASIF by amending the Subsidiary Agreement between the Recipient and the ASIF, under terms and conditions approved by the Association ("Implementation Agreement").

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and 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 four (4) months after the Closing Date.

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. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited 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. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) 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 Section.

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 Section.

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:

Procurement Method	
(a)	<p>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> <ul 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 past contract performance, financial, managerial and technical capabilities of bidders; (iv) joint venture partners shall be jointly and severally liable for their obligations; (v) estimated contract prices shall not be advertised; (vi) no bids shall be rejected at bid opening; (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 2.61 of the Procurement Guidelines are met; (viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and (ix) advance Association approval is required for any modifications in the contract scope/conditions during implementation.
(b)	Shopping
(c)	Community Participation. Works required for Component 1 may be

Procurement Method
procured in accordance with procedures acceptable to the Association.

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 Association 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 Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), 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 Credit 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 for the Component 1 of the Original Project	4,820,000	78%
(2) Goods for the Component 1 of the Original Project	200,000	78%
(3) Consultants’ services, including audit for the Component 1 of the Original Project	180,000	78%
TOTAL AMOUNT	<u>5,200,000</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, 2019 to and including October 1, 2028	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**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “ASIF’s Legislation” means the Decree No. 772-A, dated June 8, 2006, providing the authorization to the ASIF to manage the Project.
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 and revised in October 2006.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
6. “Original Financing Agreement” means the financing agreement for the Social Investment Fund III Project between the Recipient and the Association, dated November 1, 2006, as amended to the date of this Agreement (Credit No. 4238-AM).
7. “Original Project” means the Project described in the Original Financing Agreement.
8. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
9. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 23, 2009 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.
10. “Subsidiary Agreement” means the Subsidiary Agreement dated March 31, 2008, between the Recipient and the ASIF to be amended and referred to in Section I.B.1 of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the ASIF.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

