

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4838-AM

Financing Agreement

(Second Development Policy Operation)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 26, 2011

CREDIT NUMBER 4838-AM

FINANCING AGREEMENT

Agreement dated January 26, 2011, entered into between REPUBLIC OF ARMENIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore 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 in 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 thirteen million four hundred thousand Special Drawing Rights (SDR 13,400,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 15 and August 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:
- (a) The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 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 its Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance of the Republic of Armenia
1 Melik-Adamyán Street
Yerevan 0010
Republic of Armenia

Facsimile:

+374-10-524282

6.03. The Association's Address is:

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

Cable address:

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/ Vache Gabrielyan

Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By /s/ Jean-Michel Happi

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Recipient has ensured protection of social safety nets, pensions, and priority social spending programs for the poor and vulnerable by maintaining their shares in the 2010 State Budget (as compared to 2009) approved by Parliament on December 10, 2009 and by making available, via the Government Decrees # 275-N and 276-N dated March 25, 2010 and # 1238/N dated September 9, 2010, an additional 6.1 billion Armenian Drams for public spending for the poor and vulnerable.
2. The Recipient has strengthened the management and monitoring of social safety net programs to improve targeting efficiency and increase public awareness by establishing an inter-agency working group through a Government Protocol Decree #23, dated June 17, 2010 and by the Order of the Minister of Labor and Social Issues #N86-A/1 dated July 9, 2010.
3. The Recipient has issued Government Protocol Decree #38 dated September 30, 2010 adopting financing mechanisms to cover recurrent costs for the one-year school readiness program for 4.5-5.5 years old children.
4. The Recipient has issued a Government Protocol Decree #3 dated January 29, 2010 on Non-Communicable Diseases (NCDs) and launched performance-based contracting at primary health care level, including defined NCD services.
5. The Recipient has submitted to the National Assembly through Prime Minister's letter #01/23.6/14392-10 dated November 16, 2010 revisions to competition-related legislation which aims at strengthening the autonomy and enforcement capacity of the State Committee for Protection of Economic Competition (SCPEC), and harmonizing key elements of the legislation with international best practice.
6. The Recipient has conducted an assessment of the improvement in spectrum management and monitoring, has discussed it with all spectrum stakeholders, and submitted to the Bank the minutes of the Recipient's Board of the Broad Band and IT Security meeting of October 27, 2010, which includes key next steps in this area.

7. The Recipient has submitted to the National Assembly through a Prime Minister's letter #01/24.1/13011 dated November 10, 2010 a new Mining Code adhering to international best practice for fiscal, environmental, social, and licensing standards.
8. The Recipient has achieved satisfactory progress towards business process reengineering (BPR) by:
 - (a) Contracting an external firm to advise on the BPR (contract # 09/101) with KPMG dated February 26, 2010 and submitting to the Bank on November 1, 2010 their full draft report after formal discussions within the State Revenue Committee.
 - (b) Issuing a Government's Protocol Decree # 36 dated August 26, 2010 on the Relevant Legislative Changes to Streamlined Tax Registration Procedures and sending to Parliament by the Government letter # 01/23.2/1899-10 dated September 15, 2010.
 - (c) Developing a Concept Note on Risk-based Audit Selection and adopting it through Government Protocol Decree # 23 dated June 4, 2010.
 - (d) Submitting to the National Assembly through a Government letter # 01/23.2/3412-10 dated March 31, 2010 Amendments to Legislation or Procedures on the Review of high risk value added tax refund claims.
9. The Recipient has approved a Government Protocol Decree # 36 dated August 26, 2010, the necessary legislative framework for improving functioning of Green-Channel operation, including allowing the incorporation of the e-signature module to the trade world manager software.
10. The Recipient has approved by a Government Protocol Decree #42, dated October 28, 2010, a Public Finance Management (PFM) Reform Strategy.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing (except for amounts required to repay the Preparation Advance) is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	13,020,000
(2) Preparation Advance	380,000
TOTAL AMOUNT	13,400,000

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient, and (b) with the appropriateness of the Recipient's macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. the withdrawal from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon the deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is June 30, 2011.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15 Commencing February 15, 2021 to and including August 15, 2030:	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. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
2. “Loan Agreement” means the agreement between the Recipient and the Bank in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “Loan Agreement” includes all appendices, schedules and agreements supplemental to the Loan Agreement.
 3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
 4. “KPMG” means an international firm providing auditing, tax and advisory services.
 5. “Preparation Advance” means the advance referred to in Section 2.05 of the General Conditions (renumbered as such pursuant to paragraph 2 of Section II below), granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on July 2, 2009 and on behalf of the Recipient on July 21, 2009.
 6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 16, 2010 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
 7. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. 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 definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.