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**CONFORMED COPY**

**CREDIT NUMBER 4514-AM**

# **Project Agreement**

**(Additional Financing for Municipal Water and Wastewater Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**ARMENIA WATER AND SANITATION COMPANY**

**Dated November 24, 2008**

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## **PROJECT AGREEMENT**

Agreement dated November 24, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and ARMENIA WATER AND SANITATION COMPANY (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF ARMENIA (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

### **ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

### **ARTICLE II - PROJECT**

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III - REPRESENTATIVE; ADDRESSES**

- 3.01. The Project Implementing Entity’s Representative is its General Director.
- 3.02. The Association’s Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Armenia Water and Sanitation Company  
8 A Vardanants Blind Alley  
Yerevan, 375200  
Republic of Armenia

Telephone:	Facsimile:
(374-10) 540-120	(374-10) 540-760

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Aristomene Varoudakis  
Authorized Representative

ARMENIA WATER AND SANITATION COMPANY

By: /s/ Patrick Lorin  
Authorized Representative

## **SCHEDULE**

### **Execution of the Project**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. (a) For purposes of implementing Part A.1 of the Project, the Project Implementing Entity shall extend the Management Contract acceptable to the Association with an international management contractor with the responsibility for managing the Project Implementing Entity and conducting a range of services including but not limited to preparation and implementation of programs referred to in the Management Contract.

(b) The Project Implementing Entity shall exercise its right to the Management Contract in such manner as to protect the interest of the Association and the Recipient and ensure that: (i) all the necessary licenses and permits required for the management contractor to carry out the activities under the Management Contract have been obtained; and (ii) any changes in the level or structure of tariffs for water and wastewater services are implemented in accordance with the relevant national policies and legal requirements.

2. In carrying out Part C of the Project, the Project Implementing Entity shall ensure that:

(a) the investments selected meet the criteria set out in the Management Contract; and

(b) all measures necessary and satisfactory to the Association for the carrying out of the EMP are taken in a timely manner and appropriately documented in the progress reports referred to in paragraph 2(a) of Part A of Section II of this Schedule and if necessary, adjustments which the Association and the Recipient deem appropriate may be made in the EMP to protect human health and the environment.

##### **B. Anti-Corruption**

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

**C. Safeguards**

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the EMP in a timely manner.

**Section II. Project Monitoring, Reporting and Evaluation****A. Project Reports**

1. The Project Implementing Entity 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 such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later one month after the end of the period covered by such report.
2. The Project Implementing Entity shall: (a) prepare and furnish to the Recipient and the Association, on or about March 30, 2010, a report 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 (b) review with the Association, by June 30, 2010, or such later date as the Association shall request, the report referred to in paragraph (a) 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.

**B. Financial Management, Financial Reports and Audits**

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

3. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not incur any debt, unless the net revenues of the Project Implementing Entity for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt service requirements of the Project Implementing Entity for any succeeding fiscal year on all debt of the Project Implementing Entity, including the debt to be incurred.
- (b) For the purposes of this Section:
- (i) The term “debt” means any indebtedness of the Project Implementing Entity maturing by its terms more than one (1) year after the date on which it is originally incurred.
  - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
  - (iii) The term “net revenues” means the difference between:
    - (A) the sum of revenues from all sources related to operations adjusted to take account of the Recipient’s rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve (12) month period to which such revenues relate and net non-operating income; and
    - (B) the sum of all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
  - (iv) The term “net non-operating income” means the difference between:
    - (A) revenues from all sources other than those related to operations; and

- (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
  
- (v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on debt.
  
- (vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

**Section III. Procurement**

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.