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**CONFORMED COPY**

**CREDIT NUMBER 4514-AM**

# **Financing Agreement**

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

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated November 24, 2008**

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## **FINANCING AGREEMENT**

Agreement dated November 24, 2008, 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 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 twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 1 and August 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 United States Dollars.

### **ARTICLE III - PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions 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 Events of Suspension consist of the following:
- (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
  - (b) The Recipient or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Project Implementing Entity or for the suspension of its operation.
- 4.02. The Additional Event of Acceleration consists of the following: any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 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: the Subsidiary Loan Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: the Subsidiary Loan Agreement has been duly authorized or ratified by the Recipient and the Project

Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

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

- 6.02. The Recipient's Address is:

Ministry of Finance  
1 Melik-Adamyán 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/ Aristomene Varoudakis

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are to improve the quality of water and wastewater services in the Service Area of the Project Implementing Entity by providing efficient and sustainable water and wastewater services and strengthening the capacity and sustainability of Project Implementing Entity.

The Project consists of the Original Project with the modification set forth below:

#### Part A: Project Implementing Entity Management Strengthening

##### 1. Management Services

Supporting the improvement of the operation of the water supply and wastewater system in Service Area of the Project Implementing Entity by providing the financing for the continuation of a contract for an international management contractor that would, *inter alia*, improve the administration, operation and maintenance of Project Implementing Entity, conduct annual audits (including financial) of the Project Implementing Entity and the management contractor, and conduct training and ensure optimal use of its investment funds.

##### 2. Strengthening the Contract Management Unit

Assisting the Contract Management Unit (CMU) to monitor and supervise project implementation through the provision of consultants' services for, *inter alia*, conducting annual audits (including financial) of the CMU and providing the CMU with needed equipment, including vehicles.

##### 3. Future Private Sector Participation

Provision of consultants' services to prepare a strategy and an implementation plan for a lease contract for the Service Area of the Project Implementing Entity.

#### Part B: Project Implementing Entity Investments

##### 1. Strengthening the Capacity of the Project Implementing Entity

Supplying office equipment (including for communication), computer hardware, software and vehicles to Project Implementing Entity, including spare parts, machinery,

tools, and equipment for operations and providing consultants' services to conduct fixed assets inventory valuation of the Project Implementing Entity.

2. Improvement of a Central Training Facility

Improvement and provision of equipment for a central training and pre-qualification facility and assisting the facility to develop and implement training programs.

3. Rehabilitation of Laboratories

Rehabilitation and provision of equipment for chemical and biological laboratories for analyzing water abstracted and distributed to consumers.

4. Strengthening the Capacity of Condominiums

Installation of meters on block apartment buildings and apartments to assess water flow losses in distribution and intra-block networks with accuracy, internal network repairs, and developing a condominium investment program associated with water and wastewater services for the Recipient.

5. Operating Expenses

Provision of spare parts, materials, consumables and other accessories for the day-to-day operation and maintenance of the Project Implementing Entity water and wastewater systems.

Part C: Investments in Branch Systems

1. Investment Program

Provision of works, goods and consultants' services for: (a) the procurement and replacement of deteriorated treatment and chlorination equipment, pressure loggers, pipes and fittings, water meters and meter chambers; and (b) rehabilitation of pumping stations.

2. Investing in Project Implementing Entity branches

Designing, implementing, and supervising investment programs for the rehabilitation and reconstruction of water and wastewater systems in branches of the



Project Implementing Entity, including design and network rehabilitation of the water supply system of the city of Hrazdan.

3. Sector Offices

Provision of goods, works and services for the repair and rehabilitation of sector offices in branches.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall:

(a) delegate the responsibility for project management to Project Implementing Entity and the responsibility for ensuring that implementation activities comply with schedules and investment programs to the Company Management Board of the Project Implementing Entity; and

(b) designate the Water Sector Development Institute PIU of the State Committee of Water Economy as the Contract Monitoring Unit with the responsibility for, *inter alia*, screening investment programs, assigning them environmental categories, liaising with the management contractor and the Association on the proposed investment programs' compliance with the national legal and Association's environmental requirements.

2. (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.

3 In carrying out Part C of the Project, the Recipient, acting through 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.

4. The Recipient shall:

(a) review jointly with the management contractor on an annual basis, the financial status of the Project Implementing Entity, including its revenues and expenditures for the preceding and following semesters, and its projected financial performance and take the necessary measures, including tariff increases as required by national law, as well as improved revenue collections to ensure that the Project Implementing Entity meets its projected financial requirements; and

(b) adopt in its annual budget, the financial requirements of the Project Implementing Entity, which cannot be met by revenues collected by the Project Implementing Entity as assessed by the management contractor and approved by CMB.

**B. Subsidiary Loan Agreement**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a Subsidiary Loan Agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following (“Subsidiary Loan Agreement”):

(a) The principal amount of the Subsidiary Loan shall be repaid by the Project Implementing Entity to the Recipient in equal semi-annual installments over twenty (20) years, including a grace period of ten (10) years.

(b) The principal amount of the Subsidiary Loan repayable by the Project Implementing Entity shall be the equivalent in Drams (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account in respect of the above-mentioned Categories.

(c) Interest shall be charged on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equivalent to the rate

payable by the Recipient to the Association according to the provisions of Section 2.05 of this Agreement.

2. The Recipient shall exercise its rights under the Subsidiary Loan 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 Loan 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.

**D. Safeguards**

The Recipient shall cause the Project Implementing Entity to 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 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 quarter, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. The Recipient shall: (a) prepare and furnish to 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 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 (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.
4. (a) Except as the Association shall otherwise agree, the Recipient shall ensure that 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**

#### **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:

<b>Procurement Method</b>	
(a)	National Competitive Bidding, subject to the following additional provisions: <ul style="list-style-type: none"> <li>(i) entities in which the Recipient 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;</li> <li>(ii) pre-qualification shall be conducted for large works projects;</li> <li>(iii) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;</li> <li>(iv) joint venture partners shall be jointly and severally liable for their obligations;</li> <li>(v) estimated contract prices shall not be advertised;</li> <li>(vi) no bids shall be rejected at bid opening;</li> <li>(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;</li> <li>(viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and</li> </ul>

(ix) advance Association approval is required for any modifications in the contract scope/conditions during implementation.
(b) Shopping
(c) Direct Contracting

**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.

<b>Procurement Method</b>
(a) Least Cost Selection
(b) Selection based on Consultants’ Qualifications
(c) 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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Works	3,150,000	80%
(2) Goods	4,600,000	65%
(3) Consultants' Services, including the Management Services	4,850,000	85% of Foreign Expenditures and 80% of Local Expenditures
(4) Operating Costs	200,000	75%
<b>TOTAL AMOUNT</b>	<u>12,800,000</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 December 31, 2011.

**SCHEDULE 3****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 1 and August 1, commencing February 1, 2019 to and including August 1, 2028:	5%

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\* 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. “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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Company Management Board” or “CMB” means a body consisting of stakeholders from the various government ministries, chaired by the Chairman of State Committee of Water Economy (SCWE), established pursuant to Decree No. 1693-N (November 6, 2003), and responsible for project management and supervision.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Bank in May 2004 and revised in October 2006.
5. “Contract Monitoring Unit” or “CMU” means the project implementation unit responsible for the coordination and monitoring of the Project established in the Water Sector Development and Institutional Improvements Project Implementation Unit of the State Committee of Water Economy, or any successor thereto.
6. “Drams” means the lawful currency of the Republic of Armenia.
7. “Environmental Management Plan” or “EMP” means the plan, satisfactory to the Association, prepared and adopted by the Recipient on September 17, 2008, describing the environmental mitigation, monitoring and institutional measures to be applied in the implementation of the Project.
8. “Foreign Expenditures” means expenditures in the currency of any country other than that of the Recipient for services supplied from the territory of any country other than that of the Recipient.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
10. “Local Expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient.

11. “Management Contract” means the performance-based management contract entered between the Recipient and an international management contractor dated July 2004, or any subsequent agreement acceptable to the Association, for the management of water and wastewater services in the Service Area of the Project Implementing Entity (as hereinafter defined).
12. "Management Services" means the services provided by the international management contractor to ensure the efficient management of the Project Implementing Entity and the operation of the water supply and wastewater system under Part A.1 of the Project.
13. “Operating Costs” means expenditures, as approved by the Association on the basis of budgets acceptable to the Association, with respect to the implementation of the Project by CMU on account of office supplies, utilities, office equipment, maintenance, and training.
14. “Operations and Maintenance Procedure Manual” means a manual satisfactory to the Association, developed by the management contractor, approved by the CMB, and adopted by the Project Implementing Entity, setting forth the operational, maintenance and administrative procedures for the implementation of the Project.
15. “Original Financing Agreement” means the development credit agreement for a Municipal Water and State Water Project between the Recipient and the Association, dated June 14, 2004, as amended to the date of this Agreement (Credit No. 3893 AM).
16. “Original Project” means the Project described in the Original Financing Agreement.
17. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 19, 2008, 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.
19. “Project Implementing Entity” means the Armenia Water and Sanitation Company (AWSC), which is a water and wastewater utilities state owned joint stock company, duly established and operating pursuant to the Republic of Armenia Government Decree No. 234 of April 1, 1999, or any successor thereto.

20. “Project Implementing Entity’s Legislation” means the charter of the Project Implementing Entity, dated January 14, 2004, Registration No. 005573, as amended to the date of this Agreement.
21. “Service Area of the Project Implementing Entity” means the area defined in Appendix 4 of the Management Contract.
22. “State Committee of Water Economy” or “SCWE” means a government agency responsible for water resources, irrigation, drinking water and wastewater services, duly established and operating in the Republic of Armenia pursuant to Government Resolution No. 92 of February 9, 2001, or any successor thereto.
23. “Subsidiary Loan” means the subsidiary loan provided under the Subsidiary Loan Agreement.
24. “Subsidiary Loan Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.