

CONFORMED COPY

CREDIT NUMBER 3893 AM

Development Credit Agreement

Municipal Water and Wastewater Project

between

THE REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 14, 2004



CREDIT NUMBER 3893 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 14, 2004, between the Republic of Armenia (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Armenia Water and Sanitation Company (AWSC) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to AWSC, as set forth in this Agreement; and

(C) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Agreement of even date herewith between the Association and AWSC (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Armenia Water and Sanitation Company" or "AWSC" means 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;

(b) "AWSC Service Area" means the area defined in Appendix 4 of the Management Contract;

(c) "Charter" means the charter of AWSC (as hereinafter) defined, dated January 14, 2004, Registration No. 005573 as amended to the date of this Agreement;

(d) "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;

(e) "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;

(f) "Drams" means the lawful currency of the Republic of Armenia;

(g) "Environmental Management Plan" means the plan, satisfactory to the Association, prepared and adopted by the Borrower, describing the environmental, mitigation, monitoring and institutional measures to be applied in the implementation of the Project;

(h) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(i) "Immediate Investment Program" or "IIP" means selected priority investments for the improvement, operation and maintenance of the water and wastewater system in the AWSC Service Areas;

(j) "KfW Service Areas" means the area for Kreditanstalt fur Wiederaufbau, as defined in Appendix 4 of the Management Contract.

(k) "Management Contract" means the performance-based management contract to be entered between the Borrower and an international management contractor for the management of water and wastewater services in the AWSC Service Area (as hereinafter defined);

(l) "Monitoring and Evaluation Indicators" means the agreed performance indicators set forth in a supplemental letter to the Credit Agreement of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(m) "Operations and Maintenance Procedure Manual" means a manual satisfactory to the Association, developed by the management contractor, approved by the CMB, and adopted by AWSC setting forth the operational, maintenance and administrative procedures for the implementation of the Project;

(n) "Project Agreement" means the agreement between the Association and AWSC (as hereinafter defined) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(o) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on August 13, 2001, and on behalf of the Borrower on September 18, 2001;

(p) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and AWSC pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(p) "Special Account" means the account referred to in Section 2.02(b) of this Agreement;

(q) "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;

(r) "Water Meters Revolving Fund" means a special revolving fund to be established, administered and maintained by AWSC (as hereinafter defined) for the purposes of financing water meters on credit;

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million four hundred thousand Special Drawing Rights (SDR 15,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the Redundancy Payments, reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be February 28, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set

as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1 commencing 2014, and ending February 1, 2044. Each installment to and including the installment payable on February 1, 2024, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Association shall consider the Borrower creditworthy for Association's lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided,

however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause AWSC to perform in accordance with the provisions of the Project Agreement all the obligations of AWSC therein set forth, shall take and cause to be taken all action, including the provision of funds to meet AWSC's expenses which cannot be met by revenues collected by AWSC, provision of facilities, services and other resources, necessary or appropriate to enable AWSC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall re-lend the proceeds of the Credit to AWSC under a subsidiary loan agreement to be entered into between the Borrower and AWSC, under terms and conditions, which shall have been approved by the Association, which shall include:

- (i) the principal amount of the Subsidiary Loan shall be repaid by AWSC to the Borrower in equal semi-annual installments over forty (40) years, including a grace period of ten (10) years;
- (ii) the principal amount of the Subsidiary Loan repayable by AWSC 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;
- (iii) 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 Borrower to the Association according to the provisions of Section 2.05 of this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. The Borrower shall open, pursuant to Section 6.01(d) of this Agreement, and thereafter maintain in a commercial bank acceptable to the Association, an account (Project Account), wherein it shall deposit an amount from its own resources sufficient to cover the portion of counterpart financing requirements for local expenditures for which the Borrower is responsible under the Project financing plan and which are projected to be made under the Project in the three months succeeding. The balance in the Project Account, as of the first day of each quarter, shall not be less than \$160,000 equivalent, or such other amount as may be approved by the Association on the basis of criteria agreed upon with the Borrower.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

- (a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such

later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, through CMU, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through CMU, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower through CMU shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in D.1(b) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. (a) Except as the Association shall otherwise agree, the Borrower shall ensure that AWSC shall not incur any debt, unless the net revenues of AWSC 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 AWSC for any succeeding fiscal year on all debt of AWSC, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term “debt” means any indebtedness of AWSC 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 Borrower’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 Borrower, 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified, namely, that:

(a) AWSC shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that AWSC will be able to perform its obligations under the Project Agreement.

(c) The Charter establishing AWSC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AWSC to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of AWSC or for the suspension of its operation.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Condition, namely, that:

(a) the Borrower has submitted to the Association a Subsidiary Loan Agreement executed on behalf of AWSC and the Borrower, satisfactory to the Association;

(b) the Borrower has submitted to the Association, a Management Contract, executed on behalf of AWSC and the international management contractor satisfactory to the Association and the Borrower;

(c) the Borrower has submitted to the Association, AWSC's debt and asset restructuring plan satisfactory to the Association; and

(d) the Borrower has opened the Project Account with a deposit of an initial amount of \$160,000 equivalent;

Section 6.02. The following are specified as additional matters within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that:

(a) the Management Contract has been duly authorized and executed by the parties thereto and is legally binding upon the parties in accordance with its terms;

(b) the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and AWSC and is legally binding upon the Borrower and AWSC in accordance with its terms; and

(c) the Project Agreement has been duly authorized or ratified by AWSC, and is legally binding upon AWSC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
1 Government House
Republic Square
Yerevan 375010
Republic of Armenia

Telex:	Facsimile:
243331 LADA SU	(3741) 151-069

For the Association:

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) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

THE REPUBLIC OF ARMENIA

By /s/ Arman Kirakossian

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Roger Robinson

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	2,157,500	60 %
(2) Goods	4,949,100	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services		
(a) Management Services under Part A.1 of the Project	5,142,300	100% foreign expenditures and 92% of local expenditures
(b) Other	1,738,500	
(4) Redundancy Payments	267,800	100% of disbursed amount
(5) Refunding of Project Preparation Advance	800,100	Amount due pursuant to Section 2.02(c) of this Agreement
(6) Operating Costs	121,600	90%
(7) Unallocated	223,100	
	<hr/>	
TOTAL	<u>15,400,000</u>	

For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Management Services" means the services provided by the international management contractor to ensure the efficient management of AWSC and the operation of the water supply and wastewater system under Part A.1 of the Project;

(d) the term “redundancy payments” means the expenditures incurred for financing the cost of providing compensation benefits and other services to assist retrenched employees in accordance with the personnel redundancy plan; and

(e) the term “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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect to payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$600,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) redundancy payments and operating expenses all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the quality of water and wastewater services in the Armenia Water and Sanitation Company (AWSC) Service Area by providing efficient and sustainable water and wastewater services and strengthening the capacity and sustainability of AWSC.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: AWSC Management Strengthening

1. Management Services

Supporting the improvement of the operation of the water supply and wastewater system in the AWSC Service Area by providing the financing for an international management contractor that would, *inter alia*, improve the administration, operation and maintenance of AWSC, conduct training and ensure optimal use of AWSC 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 and providing the CMU with needed equipment including vehicles.

Part B AWSC Investments

1. Strengthening the capacity of AWCS

Supplying office equipment (including for communication), computer hardware, software and vehicles to AWSC, including spare parts, machinery, tools, and equipment for operations and providing consultants' services to conduct annual audits (including financial) of AWSC, CMU and the management contractor.

2. Implementing a Redundancy Plan

Developing and implementing a personnel redundancy plan, including providing redundancy payments to personnel made redundant as a result of implementing the plan.

3. Establishment of a Central Training Facility

Establishing and equipping a central training and pre-qualification facility and assisting the facility to develop and implement a training program.

4. Establishment of Laboratories

Establishing and equipping two laboratories consisting of a central national laboratory for analyzing water abstracted and distributed to consumers and a water meters testing laboratory.

5. Water Meters Revolving Fund

Financing a water meters revolving fund for the sale of water meters on credit.

6. Strengthening the Capacity of Condominiums

Installing 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 Borrower.

7. Operating Expenses

Providing spare parts, materials, consumables and other accessories for the day-to-day operation and maintenance of the AWSC water and wastewater systems.

Part C Investments in Branch Systems

1. Immediate Investment Program

Implementing activities outlined in the Immediate Investment Program (IIP).

2. Investing in AWSC branches

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

* * *

The Project is expected to be completed by September 30 , 2008.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) General

Works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the Guidelines, the bidding process shall comply with the procedures set-forth below:

- (i) no preference of any kind shall be given based on nationality of the bidder and/or origin of goods. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers and/or origin of goods shall not be applicable to procurement procedures under the Credit;
- (ii) 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;
- (iii) pre-qualification shall be conducted for large works projects;
- (iv) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
- (v) joint venture partners shall be jointly and severally liable for their obligations;
- (vi) estimated contract prices shall not be advertised; and
- (vii) in handling the bids:
 - (a) bid prices shall be announced at bid opening. If a two envelope system is used, both envelopes shall be opened at bid opening and bid prices announced;
 - (b) no bids can be rejected at bid opening;
 - (c) bids shall not be rejected solely because they exceed the estimated price;

- (d) bids can be cancelled and new bids invited, only if the conditions of clause 2.60 of the Guidelines are met; and
- (e) any bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Goods that meet the criteria set forth in paragraph 3.9 of the guidelines, estimated to cost less than \$100,000 equivalent per contract may be procured from IAPSO or other U.N. Agencies providing similar goods or services in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts or contracts based on unit prices defined in Bill of Quantities, awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) all contracts procured in accordance with international competitive bidding procedures; and (ii) the first two contracts procured in accordance with national competitive bidding procedures; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts procured in accordance with international shopping procedures; (ii) the first two contracts procured in accordance with national shopping procedures; and (iii) the small works contracts, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002, (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for auditing under Part B.1(b) of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training and other services meeting the requirement of Paragraph 3.7 of the Guidelines, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for monitoring and construction assignments under Parts A.2 and Part C of the Project, estimated to cost less than \$50,000 shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates the terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Part A. Management of the Project

The Borrower shall:

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

(b) designate the Water Sector Development Institute PIU of the State Committee of Water Economy as the Contract Monitoring Unit (CMU) 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.

Part B: Management Contract

1. For purposes of implementing Part A.1 of the Project, AWSC shall enter into a Management Contract acceptable to the Association with an international management contractor with the responsibility for managing AWSC and conducting a range of services including but not limited to developing and implementing a standard Operations and Maintenance Procedures Manual for all facilities and infrastructure; a public awareness program and a professional health and safety program, technical and management training, water safety and power consumption plans; computerized systems for a range of databases and documents for procurement and installation of water meters.

2. AWSC shall exercise its right to the Management Contract in such manner as to protect the interest of the Association and the Borrower.

3. In order to promote effective implementation of the Management Contract, the Borrower shall ensure that:

(a) the decree delineating the KfW Service Area from the AWSC Service Area has been passed prior to the management contractor's commencing of implementing obligations under the Management Contract;

(b) all the necessary licenses and permits required for the management contractor to carry out the activities under the Management Contract have been obtained; and

(c) 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.

Part C: Redundancy Program

In implementing Part B(2) of the Project, the Borrower shall ensure that all AWSC staff declared redundant as a result of implementing the Project, are paid the redundancy payments and wages in arrears as outlined in the redundancy plan.

Part D: Project Monitoring and Evaluation

1. The Borrower acting through AWCS shall ensure that the Contract Management Unit:

(a) maintains policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with Monitoring and Evaluation Indicators satisfactory to the Association; and

(b) prepares, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 protection of the environment and the achievement of the objectives thereof during the period following such date.

2. In carrying out Part C of the Project, the Borrower acting through AWSC shall ensure:

(a) that IIP has been approved by the international management contractor and the Company Management Board prior to commencing the procurement for the Project;

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

(c) 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 1(b) of this Schedule and if necessary, adjustments which the Association and the Borrower deem appropriate may be made in the EMP to protect human health and the environment.

3. The Borrower shall:

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

(b) adopt in its annual budget AWSC's financial requirements which cannot be met by revenues collected by AWSC as assessed by the management contractor and approved by CMB.

4. The Borrower shall, not later than January 31, 2007, or such later date as the Association shall request, review with the Association, the report referred to in paragraph D.1(b) 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible categories” means Categories 1-6 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the

General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.