

CONFORMED COPY

CREDIT NUMBER 2824 AM

Development Credit Agreement

Structural Adjustment Credit

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 4, 1996

CREDIT NUMBER 2824 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 4, 1996, between REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated January 25, 1996 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program and requesting assistance from the Association in the financing of urgently needed imports and services required during such execution;

(B) the Borrower has undertaken to carry out a Structural Adjustment Technical Assistance Project in support of the Program under a Structural Adjustment Technical Assistance Credit Agreement between the Borrower and the Association of even date herewith; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit upon the terms and conditions set forth in this 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, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, is modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement."

(b) The last sentence of Section 3.02 is deleted.

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw from the Credit Account the proceeds of the Credit in accordance with the provisions of the Development Credit Agreement and of these General Conditions. Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Association or for goods produced in such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations"; and

(d) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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

(a) "Armenergo" means the Armenia State Electricity Company established pursuant to Decree No. 148-GM of the Borrower's Ministry of Energy and Fuel, dated December 26, 1995 and includes any successor or successors thereto;

(b) "Armgas" means the Armenia State Gas Company established pursuant to the Government Decree No. 99, dated March 2, 1994 and includes any successor or successors thereto;

(c) "Bankruptcy Law" means the bankruptcy law of the Borrower dated June 15, 1995;

(d) "CBA" means the Central Bank of Armenia and includes any successor or successors thereto;

(e) "Environmentally Hazardous Goods" means goods manufactured, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(f) "Savings Bank" means the Savings Bank of Armenia and includes any successor or successors thereto; and

(g) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986).

## 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 forty million four hundred thousand Special Drawing Rights (SDR 40,400,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit

Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 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 and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing March 15, 2006 and ending September 15, 2030. Each installment to and including the installment payable on September 15, 2015 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever:

- (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and
- (ii) the Association shall consider the Borrower creditworthy for Association 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall 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 shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents, or customs certificates, as appropriate) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual

audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Termination

Section 5.01. 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 Conditions:

- (a) a Company Law shall have been adopted by the Borrower's legislature; and
- (b) the 1996 Privatization Program shall have been adopted by the Borrower's legislature.

Section 5.02. 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 VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
1 Government House  
Republic Square  
Yerevan 375010  
Armenia

Telex:

243331 LADA SU

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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.

REPUBLIC OF ARMENIA

By /s/ Rouben Shougarian

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Credit may be withdrawn from the Credit Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups or any successor groups or sub-groups under future revisions to the SITC, as designated by the Association by notice to the Borrower;

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

(b) expenditures in the currency of the Borrower or for goods supplied from

the territory of the Borrower;

(c) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance, or which the Association shall have financed or agreed to finance under another loan;

(d) expenditures for goods intended for a military or para-military purpose or for luxury consumption;

(e) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed eight million eight hundred thousand Special Drawing Rights (SDR 8,080,000) may be made on account of payments made for expenditures before such date but after November 1, 1995;

(f) expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(g) expenditures for goods procured under contracts costing less than \$5,000 equivalent; and

(h) expenditures for Environmentally Hazardous Goods.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than \$1,000,000 equivalent may be permitted by the Association upon the basis of statements of expenditure under such terms and conditions as the Association shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Credit after the aggregate of the proceeds of the Credit withdrawn from the Credit Account and the total amount of such commitments shall have reached the equivalent of SDR 20,200,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(a) with the progress achieved by the Borrower in carrying out the Program;

(b) that the actions described in Schedule 3 to this Agreement have been taken; and

(c) that the macro-economic policy framework of the Borrower is consistent with the objectives of the Program as measured on the basis of indicators satisfactory to the Bank.

5. If, after the exchange of views described in paragraph 4 above, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

## SCHEDULE 2

### Procurement

#### Section I. Procurement of Goods

##### Part A: General

Goods 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 (the Guidelines) and the following provisions of this Section, as applicable.

##### Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the

Guidelines, subject to the provisions of paragraphs 2.63, 2.64 and 2.65 thereof.

Part C: Other Procurement Procedures

Borrower's Commercial Practices

1. Goods estimated to cost less than \$1,000,000 equivalent per contract may be procured:

(a) by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, under contracts awarded in accordance with such procedures, provided that such procedures shall have been found acceptable by the Association; and

(b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation comparison of quotations from suppliers from at least two countries, except that direct contracting procedures acceptable to the Association may be used where considered appropriate under paragraph 3.5 of the Guidelines.

Traded Commodities

2. Subject to the prior approval of the Association, commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Association, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Prior Review

With respect to each contract to be awarded under Part B, the procedures set forth in paragraphs 2.3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

SCHEDULE 3

Actions Referred to in Paragraph 4 (b)  
of Schedule 1 to this Agreement

1. The Borrower has furnished to the Association a satisfactory evidence showing that Armenergo's total collection rate for payments from customers has been: (i) during the period from January 1, 1996 to July 1, 1996, sixty percent (60%) of total electricity supplied by it; and (ii) during the period from January 1, 1996 to December 31, 1996, seventy-five percent (75%) of total electricity supplied.

2. The Borrower has maintained the average electricity tariffs charged by Armenergo enabling Armenergo to cover operating and maintenance costs.

3. Achievement of progress satisfactory to the Association in implementing the Borrower's privatization program.

4. The eleven enterprises selected upon agreement with the Association and placed in the Borrower's enterprise restructuring program have been undergone their final offer for privatization or liquidation proceedings for these enterprises have been initiated.

5. Enactment of legislation amending the Bankruptcy Law to provide, inter alia, for debtor reorganization and enactment of an insolvency law for banks which shall include administration and liquidation procedures for banks.

6. Adoption by the CBA and the Borrower of a restructuring program for the Savings Bank satisfactory to the Association.

7. Submission to the Association of satisfactory evidence that overdue amounts for the purchase of gas and other goods in the gas account maintained by Armgas for gas



purchases have not, at any time from the date of this Agreement, exceeded the cash balance available in such account.

8. Adoption by the Borrower of a health financing strategy satisfactory to the Association.

9. The Borrower has finalized the report presenting the status of primary, secondary and technical education facilities.

