

CONFORMED COPY

CREDIT NUMBER 3153 AM

Development Credit Agreement

(Third Structural Adjustment Credit)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 23, 1998

CREDIT NUMBER 3153 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 23, 1998, between the REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated November 21, 1998 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 support of the Program during the execution thereof; and

(B) 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 in three tranches as hereinafter provided;

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 December 2, 1997), 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 program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made."

(b) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly numbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996, and 'Participating Countries' means, collectively, all such countries."

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account 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 Participating Country or for goods produced in, or services supplied from, 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."

(e) The last sentence of Section 5.03 is deleted;

(f) Section 9.06 (c) is modified to read:

"(c) 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, 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."; and

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) "Ardshinbank" means a commercial bank operating in accordance with its Charter, dated January 10, 1998; registration No. 48;

(b) "Armenergo" means a duly established state-owned closed joint-stock company operating in accordance with its Charter, dated January 22, 1998; registration No. 27314000069;

(c) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement;

(d) "Dram" means the lawful currency of the Borrower;

(e) "Energy Regulatory Commission" means a regulatory agency in the energy sector established pursuant to the President's Decree No. 717, dated April 3, 1997;

(f) "IAS" means International Accounting Standards published by the International Accounting Standards Committee;

(g) "Irrigation Sector Financial Rehabilitation Plan" means the Borrower's plan for structural reforms and financial sustainability in the irrigation sector, approved by the Government Decree No. 741, dated November 24, 1998;

(h) "OME" means Operations and Maintenance Enterprise "Vorogum", a duly established state-owned closed joint-stock company operating in accordance with its

Charter of June 2, 1998; registration No. 28614000377;

(i) "Power Sector Financial Rehabilitation Plan" means the Borrower's plan for improving financial sustainability of the power sector approved by Governmental Decree No. 555, dated September 7, 1998;

(j) "Savings Bank" means a duly established commercial bank operating in accordance with its Charter, dated October 26, 1998; registration No. 64; and

(k) "Yerevan Distribution Company" means a duly established state-owned closed joint-stock company operating in accordance with its Charter, dated January 14, 1998; registration No. 27314001857.

## 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-six million two hundred thousand Special Drawing Rights (SDR 46,200,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited in the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account:

(i) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 10,500,000, 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 the carrying out of the Program;

(B) that the actions described in Section I of Schedule 2 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(ii) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 27,500,000, 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 the carrying out of the Program;

(B) that the actions described in Section II of Schedule 2 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is

consistent with the objectives of the Program;

(e) If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (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.

Section 2.03. The Closing Date shall be June 30, 2000 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 (60) 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 cancelled; 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 1 and September 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 March 1 and September 1 commencing March 1, 2009 and ending September 1, 2033. Each installment to and including the installment payable on September 1, 2018 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association 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 (6) 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 (5) 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 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 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comments 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 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

### 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

#### Effective Date; 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) the Borrower has approved a privatization action plan for electricity distribution companies, acceptable to the Association; and

(b) the Borrower has entered into a contract with privatization advisors, acceptable to the Association, to assist with the implementation of the plan referred to in paragraph (a) above.

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 and Economy of the Borrower is designated

as the 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 and Economy  
1, Government House  
Republic Square  
Yerevan, 375010  
Republic of Armenia

Telex:

24333 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:

248423 (MCI) or  
64145 (MCI)

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/ Ruben Shugarian

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Acting Regional Vice President  
Europe and Central Asia

#### SCHEDULE 1

##### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by

the Association by notice to the Borrower:

Group	Subgroup	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 semiprecious stones, unworked or worked
fuel for	718	718.7 Nuclear reactors, and parts thereof; elements (cartridges), non-irradiated, nuclear reactors
	728	728.43 Tobacco processing machinery
	897	897.3 Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
	971	- Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not Participating Country or for goods procured in, or services supplied from, such territories, or (b) 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; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

#### SCHEDULE 2

##### Section I: Actions Referred to in Section 2.02 (d)(i)(B) of this Agreement

1. The Borrower has issued a Government Decree which: (a) confirms institutional responsibilities of various governmental agencies for preparation of a Medium Term Expenditure Framework (MTEF) for the years 2000-2002; and (b) approves a timetable and procedures for preparation, deliberations and approval of the MTEF.

2. The Borrower and the Energy Regulatory Commission have completed a review with the Association of the implementation of the Power Sector Financial Rehabilitation Plan and the Borrower has: (a) announced measures to ensure financial sustainability of the power sector enterprises; (b) implemented a debt restructuring plan for the domestic debt accumulated by power, gas and heat enterprises as of November 1, 1998; and (c) achieved satisfactory progress in improving payments collection by power distribution companies in accordance with the targets established in the Power Sector Financial Rehabilitation Plan.

3. The Energy Regulatory Commission has issued licenses to all enterprises in the electricity sector in accordance with the Energy Law dated September 1, 1997.
4. The Borrower has approved and issued an offering memorandum for privatization of the Yerevan Distribution Company.
5. The Borrower has publicly announced its district heating strategy, including subsidy cutting measures for the 1999-2000 heating season, satisfactory to the Association.
6. The Borrower has: (a) achieved satisfactory progress in the implementation of the Irrigation Sector Financial Rehabilitation Plan, including achieving a cost recovery level of thirty-six percent (36%) for the irrigation sector (as such level is determined based on the methodology acceptable to the Association) for the 1999 irrigation season; and (b) completed a study of the organization and management of OME and has issued a decree defining a new organizational and management structure for OME, based on the conclusions of the said study.
7. The Borrower has completed privatization of Ardshinbank or initiated bankruptcy proceedings for the said bank in accordance with the applicable laws of the Borrower.
8. The Borrower has completed liquidation of at least five (5) enterprises included in the Prime Minister's Decree No. 663, dated November 18, 1998; and has started the liquidation, through an official publication of the notice of liquidation, of at least 20 more enterprises included in said Decree.
9. The Borrower has approved a plan, satisfactory to the Association, for piloting of school decentralization and rationalization, including a new funding mechanism for schools.
10. The Borrower has approved and published a plan for hospital rationalization, acceptable to the Association. 11. The Borrower has submitted to the Parliament a draft Law on State Benefits, acceptable to the Association.

Section II: Actions Referred to in Section 2.02  
(d)(ii)(B) of this Agreement:

1. The Borrower has adopted the first Medium Term Expenditure Framework (MTEF) for the period of 2000-2002, acceptable to the Association.
2. The Borrower and the Energy Regulatory Commission have completed a second review with the Association of the implementation of the Power Sector Financial Rehabilitation Plan and the Borrower has: (a) achieved satisfactory progress in implementing the measures to ensure financial sustainability of the power sector enterprises including, but not limited to, adjustment of energy tariffs; (b) furnished to the Association satisfactory evidence that all power sector enterprises revalued their assets in accordance with the methodology acceptable to the Association; (c) achieved satisfactory progress in improving payments collection by power distribution companies in accordance with the targets established in the Power Sector Financial Rehabilitation Plan; and (d) furnished to the Association satisfactory evidence that an audit of the 1998 financial statements of Armenergo, the Yerevan Distribution Company and one additional power distribution enterprise had been completed.
3. The Borrower has completed bid evaluation for the privatization of the Yerevan Distribution Company and has started negotiations for its privatization; and has issued offering memoranda for at least three (3) other power distribution companies selected upon agreement with the Association.
4. The Borrower has furnished to the Association satisfactory evidence that the rate of collection for payments to OME from customers for irrigation water has reached at least sixty-five percent (65%) of total irrigation water supplied during the 1999 irrigation season.
5. The Borrower has introduced a differentiated irrigation water tariff for the 2000 irrigation season at the rate enabling the Borrower to achieve a cost recovery level of forty-eight per cent (48%) in the irrigation sector (as such level is determined based on the methodology acceptable to the Association) in the 2000 irrigation season.
6. The Borrower has achieved satisfactory progress in implementing the Prime Minister's Decree No. 663, dated November 18, 1998, including: (a) at least fifteen (15) enterprises included in said Decree, in addition to the enterprises referred to



in paragraph 10 of Section I of this Schedule, have been liquidated; and (b) all the enterprises included in said Decree have been either privatized or the liquidation process with respect to these enterprises has started.

7. The Borrower has submitted to the Association satisfactory evidence that state-owned public enterprises, selected upon agreement with the Association, have used IAS-consistent standards for the preparation of their financial statements for the fiscal year of 1999.

8. The Borrower has achieved satisfactory progress in the implementation of pilot programs for school decentralization and rationalization.

9. The Borrower has achieved satisfactory progress in strengthening sustainability of the existing pension system.

