Financing Agreement

(Lifeline Roads Improvements Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 26, 2009
CREDIT NUMBER 4549-AM

FINANCING AGREEMENT

Agreement dated February 26, 2009, between the REPUBLIC OF ARMENIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("ASSOCIATION"). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixteen million one hundred thousand Special Drawing Rights (SDR 16,100,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are January 15 and July 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III - PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the MoTC in accordance with the provisions of the Implementation Agreement, Operational Manual and Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS: TERMINATION

4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister of Finance of the Recipient.

5.02. The Recipient’s Address is:

1 Melik-Adamyan Street  
Yerevan 0010  
Republic of Armenia

Telex:  
243331 LADA SU

5.03. The Association’s Address is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By: /s/ Tigran Davtyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Aristome Varoudakis

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to upgrade selected sections of the lifeline road network and create temporary employment in road construction.

The Project consists of the following parts:

Part 1: Rehabilitation of the Recipient’s Lifeline Road Network

Provision of works and consultants’ services, including Project audit and incremental operating costs, for the rehabilitation of the lifeline network.

Part 2: Technical Assistance

Provision of vehicle for supervision, technical assistance and training to strengthen the ARD’s road management capacity.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient, through MoTC, shall maintain the PIU and ARD until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to them responsibility for overall management of Project implementation and coordination including:

   (a) preparation of disbursement applications under the Credit;

   (b) management of the Designated Account and Project Account;

   (c) maintenance of records and accounts related to the Project and arranging for the audit thereof;

   (d) preparation of bidding documents and participation in the administration of bidding procedures and of contracts under the Project;

   (e) preparation of Project Reports, including interim unaudited financial reports, and submission thereof to the Recipient and the Association in accordance with Section II.A. of this Schedule, the first such report to be furnished to the Association not later than May 15, 2009; and

   (f) management and supervision of all Project activities.

2. The Recipient, through MoTC, shall: (a) maintain the Implementation Agreement in form and content satisfactory to the Association, shall duly perform all its obligations under the Implementation Agreement and shall not assign, amend, abrogate or waive the Implementation Agreement without obtaining the prior approval of the Association; and (b) maintain the Operational Manual in form and content satisfactory to the Association, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Association.

3. The Recipient, through MoTC, shall ensure that civil works on any particular road section will not start, unless the EMP for respective road section, satisfactory to the Association, has been approved by Recipient, and shall not assign, amend, abrogate or waive any provision of EMP without prior review and approval of the Association.
4. The Recipient shall ensure that adequate budgetary resources are made available to the road sector for maintenance of Interstate and Republican roads in the Recipient’s annual budget.

5. The Recipient shall permit the use of standards recommended by the European Committee for Standardization on design and construction of roads and highways (in addition to the national standards) in the design and construction of road works under the Project.

6. The Recipient shall ensure that the Project activities will neither support nor result in the involuntary taking of land, nor will it support or result in the involuntary restriction of access to parks and protected areas. Any questions concerning the meaning of these terms will be determined based upon World Bank Operational Policy 4.12 on Involuntary Resettlement.

7. The Recipient, through MoTC, shall ensure that before the start of the Project implementation activities: (a) the Project Account is opened in a bank acceptable to the Association, and thirty percent (30%) of Recipient’s contribution to the Project is deposited; (b) the Financial Management Manual, acceptable to the Association, is approved; and (c) the financial management software, acceptable to the Association, is updated.

B. Anti-Corruption

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

C. Safeguards

1. (a) the Recipient, through MoTC, shall ensure that the Project is carried out in accordance with the provisions of EMF, and shall not assign, amend, abrogate or waive any provision of EMF without prior review and approval of the Association; and

   (b) the Recipient, through MoTC, shall ensure the complete implementation of the EMP in a manner acceptable to the Association, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient, through MoTC, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section
4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than four (4) months before the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient, through MoTC, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient, through MoTC, shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient, through MoTC, shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of
particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding of the Recipient may be used for procurement of goods and works for the Project, provided that the following provisions are complied with:</td>
</tr>
<tr>
<td>(i) 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;</td>
</tr>
<tr>
<td>(ii) pre-qualification shall be conducted for large and complex works projects;</td>
</tr>
<tr>
<td>(iii) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;</td>
</tr>
<tr>
<td>(iv) joint venture partners shall be jointly and severally liable for their obligations;</td>
</tr>
<tr>
<td>(v) estimated contract prices shall be advertised through the Procurement Plan;</td>
</tr>
<tr>
<td>(vi) no bids shall be rejected at bid opening;</td>
</tr>
<tr>
<td>(vii) no bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.61 of the Procurement Guidelines are met;</td>
</tr>
<tr>
<td>(viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and</td>
</tr>
<tr>
<td>(ix) advance Association approval is required for any substantial modifications in the contract scope/conditions during implementation.</td>
</tr>
</tbody>
</table>
C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Selection Based on Consultant’s Qualification</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
<tr>
<td>(f) Individual Consultants</td>
</tr>
</tbody>
</table>

D. **Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. **Withdrawal of the Proceeds of the Financing**

A. **General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the
amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works, Goods, Consultants Services, including Audit, Training, and Incremental Operating Costs</td>
<td>16,100,000</td>
<td>82%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>16,100,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR2,570,000 equivalent may be made for payments made prior to this date but on or after December 15, 2008, for Eligible Expenditures under Category (1).

2. The Closing Date is December 31, 2010.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15, commencing July 15, 2019 to and including January 15, 2029:</td>
<td>5%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions


2. “ARD” means the Armenian Roads Directorate, a State Non-Commercial Organization, established by the Recipient’s Government Decree # 1720-N dated December 2, 2004, which will be responsible for the technical aspects of the Project implementation.

3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

6. “Disbursement Letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV A.1 of Schedule 2 to this Agreement, as may be revised from time to time.

7. “EMF” means the environmental management framework, dated January 22, 2009, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.

8. “EMP” means an environmental management plan for a particular road section to be prepared by the Recipient, through MoTC, in accordance with the EMF and approved by the Association, describing environmental mitigation, monitoring and institutional measures for selected road section/s under the Project.

9. “Financial Management Manual” means the manual to be approved by the Recipient, through MoTC, pursuant to Section I.A.7 (b) of Schedule 2 to this Agreement, describing financial management rules and procedures to be used for the Project, including sample of documents; as the same may be amended from time to time with the agreement of the Association.

11. “MoTC” means the Recipient’s Ministry of Transport and Communications of the Recipient which is responsible for the overall implementation of the Project.

12. “Operational Manual” means the manual approved on January 23, 2009 by the Recipient, through MoTC, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient including procedures governing administrative, procurement, accounting, financial management, monitoring and evaluation arrangements for the Project; as the same may be amended from time to time with the agreement of the Association.

13. “Project Account” means the account referred to in Section I.A.7 (a) of Schedule 2 to this Agreement, maintained by the Recipient, through MoTC, in Drams and to be used for financing the Recipient’s contribution to the Project’s expenditures.

14. “PIU” means the Transport Project Implementation Unit, a State Institution, established by the Recipient’s Government Decree # 1930-N dated December 28, 2006 (reporting to MoTC) who will be responsible for day to day implementation of the Project.


16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 26, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient,
withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

... (l) Ineligibility. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07."