February 12, 2014

Mr. Davit Sargsyan
Minister
Ministry of Finance
1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Re: Republic of Armenia: Grant No. TF016604
Grant for the Preparation of the Electricity Transmission Network Improvement Project

Dear Mr. Minister:

In response to the request for financial assistance made on behalf of the Republic of Armenia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association ("World Bank"), acting as administrator of grant funds provided by various donors ("Donors"), proposes to extend to the Recipient a grant in an amount not to exceed six hundred seventy thousand United States Dollars (US$670,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. This agreement shall become effective upon: (i) receipt by the World Bank of this countersigned copy; (ii) the signing and effectiveness of the Subsidiary Agreement referred to in Section 2.03 (a) of the Annex to this Agreement duly signed by the parties thereto; and (iii) receipt by the World Bank of the Recipient notice of the completion of internal approval procedures under the laws of the Recipient; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned
copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

By Henry Kerali
Regional Director
South Caucasus Country Department
Europe and Central Asia Region

AGREED:

REPUBLIC OF ARMENIA

By Authorized Representative

Name Davit Sargsyan
Title Minister of Finance
Date: 04.04.2014

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
(3) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011
(5) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers", dated January 2011
Article I
Standard Conditions; Definitions


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

(a) “Environmental and Social Impact Assessment report” or “ESIA report” means the report, acceptable to the World Bank, prepared in accordance with the Environmental and Social Management Framework for projects likely to have significant environmental impacts, which contains the policy, legal and administrative framework within which the environmental and social impact assessment is carried out, background information on the biological and physical environment in and around the Project sites, description of environmental and social risks at the construction and operation phases of the project-supported investments, analysis of alternatives, measures for mitigating the environmental and social risks, and arrangements for monitoring application of the prescribed mitigation measures, including budget and such term includes all schedules and annexes to the ESIA report.

(b) “Environmental and Social Management Framework” or “ESMF” means the Recipient’s framework acceptable to the World Bank to be prepared in accordance with Section 2.01 of the Annex to this Agreement, setting forth the modalities for environmental and social screening and procedures/actions for the preparation and implementation of environmental and social impacts assessments and environmental and social management plans under the Project, and such term includes all schedules and annexes to the ESMF.

(c) “Environmental and Social Management Plan” or “ESMP” means an environmental management and social management plan, acceptable to the World Bank, prepared in accordance with the Environmental and Social Management Framework for projects with potential adverse environmental and social impacts, and which contains details of the magnitude of the environmental and social impacts, as well as the specific actions, measures and policies designed to facilitate the achievement of the objective of the Environmental and Social Management Framework, including the budget and cost estimates, and sources of funding, along with the institutional and procedural measures needed to implement such actions, measures and policies, and such term includes all schedules and annexes to the ESMP.

(d) “EPSO” means the Electric Power System Operator, a closed joint stock company, established pursuant to the Government Decrees No. 779-A, dated May 2, 2003, and registered in the State Register of the Republic of Armenia.

(e) “ETNIP” means Electricity Transmission Network Improvement Project, which the Project supports to prepare.

(f) “HVEN” means the High Voltage Electric Networks, a closed joint stock company, established pursuant to the Government Decrees No. 450 dated July 20, 1998 and No. 709, dated November 23, 1999, and registered in the State Register of the Republic of Armenia.

(g) “Resettlement Policy Framework” means the Recipient’s framework satisfactory to the World Bank, to be prepared in accordance with Section 2.01 of the Annex to this Agreement, defining the
modalities for land acquisition, resettlement and rehabilitation of displaced persons under the Project and describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the World Bank.

(h) “Safeguard Documents” means collectively the Environmental and Social Management Framework, the Resettlement Policy Framework, the respective Environmental and Social Management Plans, and the respective Environmental and Social Impact Assessment reports.

(i) “Subsidiary Agreement” means the agreement referred to in Section 2.03 (a) of this Agreement, satisfactory to the World Bank, and entered into between the Recipient and HVEN for the carrying out of the Project.

(j) “Training” means reasonable expenditures (other than those for consultants’ services) incurred by the Recipient in connection with the carrying out of training activities, including travel costs and per diem of workshop facilitators and participants; rental of training facilities, preparation, acquisition, reproduction and distribution of training and workshop materials.

(k) “Yerevan TPP” means the Yerevan Thermal Power Plant, a closed joint stock company, established pursuant to the Government Decrees No. 169, dated March 19, 1999, and registered in the State Register of the Republic of Armenia.


Article II
Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project are to: (a) enhance the readiness of the High Voltage Electric Networks (HVEN) and Yerevan Thermal Power Plant (TPP) to implement ETNIP; (b) strengthen the capacity of HVEN and Yerevan TPP. The Project consists of the following parts:

Part 1: Preparation of Investment Scope of ETNIP and Technical Grid Studies

(a) Identifying potential priority investment needs including economic and financial justification of the proposed investments to be supported under the Project based on the comprehensive economic and financial analysis.

(b) Preparation of design, technical specifications and bidding documents.

(c) Developing a detailed implementation schedule to ensure timely implementation of investments under the ETNIP.

(d) Conducting technical studies to improve reliability, safety and security of the power system, including studies required for EPSO.
Part 2: Preparation of Safeguards Documents

(a) Providing support to HVEN and to Yerevan TPP to prepare, disclose and discuss the Safeguards Documents for ETNIP.

(b) Identifying gender impacts and designing relevant mitigation measures to promote gender sensitivity within ETNIP.

Part 3: Training and Scoping of Technical Assistance under ETNIP

(a) Providing training to HVEN and Yerevan TPP staff on technical, fiduciary, and safeguards aspects of Project preparation and implementation.

(b) Supporting the scoping of the technical assistance under ETNIP.

Part 4: Preparation of Operational Manuals

(a) Preparation of the operational manuals to guide HVEN and Yerevan TPP in the implementation of their respective components of ETNIP.

Part 5: Financial Audit

Conducting an audit on the use of the Grant funds.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by HVEN in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements.

(a) For purposes of carrying out the Project, the Recipient, shall enter into an agreement (“Subsidiary Agreement”) with HVEN, under terms and conditions satisfactory to the World Bank, which shall include inter alia: (i) the obligation of the Recipient to promptly provide the funds, facilities, services and other resources required by HVEN to implement the Project; and (ii) the obligation of HVEN to:

(A) use the Grant funds in accordance with the terms and conditions of this Agreement, and in conformity with administrative, technical, financial, procurement, auditing, environmental and social standards and practices;

(B) furnish all information covering the implementation of Project activities and the use of the proceeds of the Grant, as the World Bank shall reasonably request;

(C) carry out procurement and contractual aspects required for the implementation of the Project activities and the maintenance of all relevant procurement documentation, all in accordance with the provisions of Section 2.06 of this Agreement;

(D) ensure compliance with financial management procedures detailed in Section 2.05 of this Agreement;
(E) ensure compliance with the Anti-Corruption Guidelines in the implementation of the Project; and

(F) take all actions necessary to enable the Recipient to comply with its obligations under this Agreement.

(b) The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and except as the World Bank shall otherwise agree, the Recipient shall not change, assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any provision thereof. In the event of any inconsistency between the provisions of the Subsidiary Agreement and the provisions of this Agreement, the provisions of this Agreement shall prevail.

c) The Recipient shall or shall cause HVEN to maintain at all times during Project implementation professional staff in adequate numbers (including a Project coordinator, a procurement specialist and a financial management specialist) with terms of reference, qualifications and functions acceptable to the World Bank, to perform all Project’s related functions including, inter alia, providing day-to-day management of Grant activities.

d) The Recipient shall ensure and/or cause HVEN to ensure that the terms of reference for any technical assistance provided under the Project include a provision, satisfactory to the World Bank, mandating that the Recipient shall observe and incorporate, and/or cause HVEN to observe and incorporate, the substantive policy standards contained in the World Bank Safeguard Policies into the relevant Safeguard Documents, actions, policies and/or measures referred to herein.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(a) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank

(c) The Recipient shall have the Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

(d) The Recipient shall cause HVEN to have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than six months after the end of such period.

2.06. **Procurement.**

(a) **General.** All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(ii) The provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

(c) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality Based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

(e) All consulting services required for the Project and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (“Consultant Guidelines”).

2.07. Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Grant shall be included in the procurement plan prepared by the Recipient and approved by the World Bank in accordance with the Consultant Guidelines, prior to initiating the procurement process for any such contract.
Article III
Withdrawal of Grant Proceeds

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultants’ services (including audit), and Training</td>
<td>670,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>670,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is March 15, 2015.

Article IV
Additional Remedies

4.01. **Additional Events of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following: the Recipient or HVEN has failed to perform any obligation under the Subsidiary Agreement.

Article V
Recipient’s Representative; Addresses

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.
5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance  
1 Melik-Adamyan Street  
Yerevan 0010  
Republic of Armenia

Facsimile:

+374-10-524282

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD/INDEVAS  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391