Financing Agreement

(Additional Financing for the Rural Enterprise and Small-Scale Commercial Agriculture Development Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 26, 2009
CREDIT NUMBER 4547-AM

FINANCING AGREEMENT

Agreement dated February 26, 2009, entered into between REPUBLIC OF ARMENIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 Original Financing Agreement 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 one million three hundred thousand Special Drawing Rights (SDR 1,300,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 PIU in accordance with the provisions of the 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  
Republic Square  
Yerevan 375010  
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 support the development of the Borrower’s small and medium-scale rural businesses by: (a) improving the ability of farmers and rural entrepreneurs to access markets; and (b) stimulating market-oriented private and public investments in rural areas.

The Project consists of Parts C and D of the Original Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

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

   (a) preparation of disbursement applications under the Credit;

   (b) management of the Designated 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 administration of bidding procedures and of contracts under the Project;

   (e) preparation of Project 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 seven (7) months after the effectiveness of this Agreement; and

   (f) management and supervision of all Project activities.

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

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the EMP.
Section II.  Project Monitoring, Reporting and Evaluation

A.  Project Reports

1.  The Recipient 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 semester, and shall be furnished to the Association not later than one month 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 after the Closing Date.

B.  Financial Management, Financial Reports and Audits

1.  The Recipient 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 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 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, subject to the following additional provisions:</td>
</tr>
<tr>
<td>(i) entities in which the Recipient 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 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 not be advertised;</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 modifications in the contract scope/conditions during implementation.</td>
</tr>
<tr>
<td>(b) Shopping</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) Selection Based on Consultants’ Qualification</td>
</tr>
<tr>
<td>(b) Single Source Selection</td>
</tr>
<tr>
<td>(c) Commercial Practices</td>
</tr>
<tr>
<td>(d) 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) Consultants Services and Incremental Operating Costs</td>
<td>100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Grants under Part C of the Original Project</td>
<td>1,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,300,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term:

(a) “Consultants’ Services” means fees and allowances for consultants (individuals or firms) hired to support the Project components through technical reviews and evaluation, committee work, support to solve specific problems of advisory system and for farm management advice, monitoring and evaluation services and impact assessments and any other technical assistance as may be agreed upon by the Association;

(b) “Grants” means financing of Community Grants under Part C of the Project, in accordance with the Operational Manual and Schedule 6 to the Original Financing Agreement; and

(c) “Incremental Operating Costs” means incremental expenses incurred with respect to the implementation of the Project, including costs of office and vehicle
maintenance, utilities, minor office equipment, minor office repairs, office rent, salaries and eligible social charges of staff in the PIU, translation services, communication and printing, transportation, local business trip expenditures, the PIU staff training, banking charges and any other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association.

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 SDR 500,000 equivalent may be made for payments made prior to this date but on or after January 1, 2009, for Eligible Expenditures under Category (1) and (2).

2. The Closing Date is May 30, 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 June 15 and December 15</td>
<td></td>
</tr>
<tr>
<td>commencing June 15, 2019, to and including December 15, 2028</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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “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.

5. “Original Financing Agreement” means the development credit agreement for the Rural Enterprise and Small-Scale Commercial Agriculture Development Project between the Recipient and the Association, dated July 20, 2005 as amended to the date of this Agreement (Credit No. 4095 AM).

6. “Original Project” means the Project described in the Original Financing Agreement.


8. “Procurement Plan” means the Recipient’s procurement plan for the Project, updated and agreed between the Association and the Recipient on January 23, 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.”