January 15, 2013

Mr. Vache Gabrielyan
Minister of Finance
Ministry of Finance
1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Re: Republic of Armenia: Grant for Community Agricultural Resource Management and Competitiveness Project - GEF MSP Grant No. TF013724

Dear Mr. Minister:

In response to the request for financial assistance made on behalf of Republic of Armenia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by the Global Environment Facility (GEF), proposes to extend to the Recipient ("Member Country"), a grant in an amount not to exceed nine hundred thousand United States Dollars (U.S.$900,000) ("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 GEF trust fund for which the World Bank receives periodic contributions from 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 GEF 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 receipt by the World Bank of: (i) a countersigned copy of this Agreement; and (ii) the EMP referred in Section 2.03.111 of this Agreement; all in form and substance satisfactory to the World Bank. This Agreement shall become effective as of the date on which the World Bank receives notice of 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procedures under the laws of the Recipient; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of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

By

Elene Imnadze
Acting Regional Director
South Caucasus Country Unit
Europe and Central Asia Region

AGREED:

REPUBLIC OF ARMENIA

By

Authorized Representative

Name: Mr. Vache Gabrielyan
Title: Minister of Finance
Date: 18.04.13

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
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

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) “Beneficiary” means a recipient of the Community Grant, referred to in Part 1(b) of the Project, selected according to the eligibility criteria and procedures set forth in the Operational Manual.

(b) “Environmental Management Plan” or “EMP” means the Recipient’s plan for the environmental management of the Original Project dated November 12, 2010, as updated according to this Agreement, referred to in Section 2.03. III.(a)(i) of this Agreement, setting forth, *inter alia*: (i) the modalities for environmental mitigation, monitoring and institutional measures to be applied in the implementation of the Project; and (ii) the Integrated Pest Management rules and procedures under the Project as such plan may be amended from time to time with the prior agreement of the World Bank.

(c) “Community Grants” means the grant to be provided under Part 1(b) of the Project out of the proceeds of the Grant, for procuring of goods, minor works and services for the carrying out of a Subproject, pursuant to the eligibility criteria, principles and procedures and implementation arrangements set forth in the Operational Manual and subject to specific terms and conditions set forth in the relevant Sub-grant Agreement.

(d) “Community Pasture/Livestock Management Plan” means the development strategy for an eligible community to regenerate the productive capacity for achieving sustainable resource management, to reduce pressure on overgrazed degraded areas and to increase quantity and quality of overall fodder production, including proposals for priority investments under Part 1(b) of the Project pursuant to the terms and conditions set forth in the Operational Manual.

(e) “Integrated Pest Management” or “IPM” refers to a mix of farmer-driven, ecologically based pest control practices, acceptable to the World Bank, that seek to reduce reliance on synthetic chemical pesticides. It involves: (i) managing pests (keeping them below economically damaging levels) rather than seeking to eradicate them; (ii) relying, to the extent possible, on nonchemical measures to keep pest populations low; and (iii) selecting and
applying pesticides, when they have to be used, in a way that minimizes adverse effects on beneficial organisms, humans, and the environment.

(f) “MASCs” means the Marz Agricultural Support Centers, joint stock companies, established through the Decree by the Minister of Agriculture of the Recipient (No. 283, dated August 1, 1997), responsible for coordination and implementation of advisory services under Part 2 (a) of the Project, under terms and conditions set forth in the Operational Manual.

(g) “Operational Manual” means the manual referred to in Section 2.03.I(b) to this Agreement as said manual may be updated and/or amended from time to time with the agreement of the World Bank.

(h) “Original Financing Agreement” means the financing agreement for the Community Agricultural Resource Management and Competitiveness Project (Credit No 4891-AM), between the Recipient and the International Development Association dated April 1, 2011.

(i) “Performance Indicators” means the indicators, acceptable to the World Bank, to be used in the monitoring and evaluation of the Project, as set forth in the Operational Manual

(j) “PIU” means Project Implementation Unit, a unit within the Recipient’s Ministry of Agriculture as referred to in Section 2.03.1(a) to this Agreement.

(k) “PUAs” or “Pasture User Associations” means the associations of pasture users within the Recipient’s territory.

(l) “Sub-grant Agreement” means any of the agreements to be entered into by the Recipient and a Beneficiary pursuant to Section 2.03.II(a) of this Agreement.

(m) “Subproject” means a specific set of activities, selected in accordance with the criteria and procedures specified in the Operational Manual, to be implemented by a Beneficiary according to the provisions set forth in Section 2.03.II and Section 2.03.III to this Agreement.

Article II
Project Execution

2.01. Project Objectives and Description. The objectives of the Project are to improve flows of agro-system services to sustain livelihoods of local communities and reduce pressures on natural resources from competing land uses in the wider landscape. The Project consists of the following parts:

Part 1: Community Pasture/Livestock Management System

(a) Provision of technical assistance and Training to develop the Community Pasture/Livestock Management Plans, including support for mobilization of the Pasture User Associations (PUAs) at village level and carrying out pasture assessments.
Provision of the Community Grants to Beneficiaries to implement the Community Pasture/Livestock Management Plans in accordance with eligibility criteria, selection principles, procedures and implementation arrangements, including reporting, monitoring and evaluation, as set forth in the Operational Manual.

**Part 2: Strengthening Support Services**

(a) Provision of technical assistance and Training to strengthen MASCs capacity in delivering advisory services and extension programs aimed primarily for livestock related activities of farmers, farmers associations, cooperatives and small scale processors.

(b) Provision of technical assistance and Training for improving public awareness on sustainable land management, through, *inter alia*: (i) preparing and disseminating methodological materials (including manuals, brochures, posters); (ii) creating and maintaining a special web window on the Project website dedicated to sustainable land and pasture management; and (iii) organizing two national information dissemination seminars on these issues.

**Part 3: Project Management and Monitoring and Evaluation**

Provision of technical assistance and Training to the PIU to support in the implementation of Project activities, monitoring and evaluation and reporting.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the PIU, under its Ministry of Agriculture, in accordance with: (a) the provisions of 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. **Implementation Arrangements**

I. **Institutional and Other Arrangements**

For the purposes of the implementation of the Project:

(a) The Recipient, through the PIU, shall create and maintain, throughout Project implementation, a Project Implementation Unit (PIU), with composition acceptable to the World Bank.

(b) The Recipient shall carry out the Project in accordance with a manual (the “Operational Manual”), satisfactory in form and substance to the World Bank which shall include, *inter alia*: (a) a detailed description of the Project activities; (b) the administrative, financial, accounting, auditing, procurement and disbursement procedures for the implementation of the Project, including the relevant standard documents and the Procurement Plan; (c) the plan for the monitoring, evaluation and supervision of the Project, including the Performance Indicators; (d) the criteria and procedures for the selection and implementation of Subprojects; (e) the criteria and procedures for identification and selection of the
Beneficiaries; and (f) the description of the mechanism for the provision of Community Grants.

(c) The Recipient shall ensure that the Project shall be carried out in accordance with the Operational Manual, and except as the World Bank shall otherwise agree, the Recipient shall not amend or waive any provision of the Operational Manual if, in the opinion of the World Bank, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

II. Subprojects

(a) Prior to the provision of Community Grants, the Recipient shall enter into an agreement with each Beneficiary (the “Sub-grant Agreement”), under terms and conditions acceptable to the World Bank, including, inter alia:

1. the obligation of the Recipient to make available, on a grant basis of the proceeds of the Grant allocated for the implementation of a given Subproject to the corresponding Beneficiary with due diligence and efficiency;

2. the right of the Recipient to take remedial actions against the pertinent Beneficiary in case that said Beneficiary shall have failed to comply with any of its obligations under the pertinent Sub-grant Agreement with respect to any Subproject (which actions may include, inter alia, the partial or total suspension and/or cancellation of the proceeds of the Sub-grant (as the case may be));

3. the obligation of the Beneficiaries to:

i. carry out its Subproject: (A) with due diligence and efficiency and in accordance with sound technical economic, financial, managerial, environmental, health and social standards and practices, satisfactory to the World Bank; and (B) in accordance with the EMP, the provisions of the Anti-Corruption Guidelines, the provisions of the Sub-grant Agreement, this Agreement, and those set forth in the Operational Manual.

ii. ensure that implementation of Subprojects does not degrade natural habitats and cultural properties, does not cause deforestation, adhere to the principles of Integrated Pest Management, and ensure rational and safe handling and application of pesticides as required;

iii. procure Training, goods, minor works and consultants' services, as the case may be, in accordance with the provisions of Section 2.07 of this Agreement;
iv. maintain adequate records and accounts, and make available such documentation to the Recipient and the World Bank, and any other information that the Recipient may request in order to comply with its obligations under Section 2.05 of this Agreement;

v. select Subproject proposals in accordance with eligibility criteria, principles, rules and procedures set forth in the Operational Manual.

vi. use the Sub-grant exclusively for the purposes of the respective Subproject; and

vii. take or permit to be taken all actions to enable the Recipient to comply with its obligations referred to in the Sub-grant Agreement and this Agreement.

(b) The Recipient shall exercise its rights and carry out its obligations under each Sub-grant Agreement in such manner as to protect the interest of the Recipient and the World Bank and to accomplish the purposes and objectives of the Grant. Except as the World Bank may otherwise agree, the Recipient, shall not assign, amend, abrogate or waive or fail to enforce any Sub-grant Agreement or any provision thereof. In case of any conflict between the terms of any Sub-grant Agreement and those of this Agreement, the terms of this Agreement shall prevail.

III. Safeguards

(a) The Recipient shall carry out the Project, and shall ensure that the Beneficiaries carry out the Subprojects: (i) in accordance with the provisions of the EMP; (ii) ensuring that no activity shall be undertaken under the Project (including Subprojects) involving the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land.

(b) The Recipient shall not assign, amend, abrogate or waive the EMP or any provision thereof, without the prior approval of the World Bank.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. 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 year, and shall be furnished to the World Bank not later than forty five (45) days 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.

2.06. 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.

(b) 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 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 for the Project 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.

2.07. Procurement

(a) General. All goods, works, non-consulting services and 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) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) 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

(iii) 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 and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
(c) **Particular Methods of Procurement of Goods and Non-consulting Services.**

Except as the World Bank may otherwise agree, goods, works and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) **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 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 of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) **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.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** (a) The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and (iii) 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>(1) Consultants' services and Training under the Project</td>
<td>415,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Community Grants under Part I(b) of the</td>
<td>485,000</td>
<td>100%</td>
</tr>
</tbody>
</table>
(b) For the purposes of this Section the term “Training” means the expenses incurred by the PIU in connection with carrying out training under the Project, including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and related supplies.

(c) The Recipient shall bear all taxes, duties impositions and other charges in connection with transactions and operations within the scope of the Agreement.

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 three years and six months after the date that the World Bank receives notice of completion of internal procedures of this Agreement by the Recipient.

Article IV
Recipient’s Representative; Addresses

4.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

4.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile:

+374-10-524282

4.03. 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
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: Telex: Facsimile: