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

Dear Minister:

Re: ECAPDEV Grant No. TF017003 for Project Preparation of the Irrigation Systems Modernization Project in Armenia (ISMP)

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/International Development Association ("World Bank"), acting as administrator of grant funds under the Multi-donor Europe and Central Asia Capacity Development Trust Fund (ECAPDEV TF) with initial pledge of resources from the Government of Russia, proposes to extend to the Recipient a grant from the ECAPDEV TF in an amount not to exceed four hundred ninety five thousand United States Dollars (US$ 495,000) ("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 preparation 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 Donor. 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 Donor 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 hereby 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. Upon receipt by the World Bank of this countersigned copy by the Recipient, this Agreement shall become effective as of the date of which the World Bank receives notice of completion of internal approval.

March 27, 2014
procedures under the laws of the Recipient; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank,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
As Trustee and Administrator of the ECAPDEV TF

By Henry Kerali
Henry Kerali
Regional Director
Europe and Central Asia Region

AGREED:
Republic of Armenia

By
Authorized Representative

Name Jagesh Khachatryan
Title Minister of Finance
Date: 13.05.2014

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
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; and the following terms have the meanings ascribed to them below:

(a) "Displaced Person" means a person who, on account of the execution of an activity under the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets, or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; “Displaced Persons” means all such persons.

(b) “ESMF” means the Environmental and Social Management Framework prepared by the Recipient, and satisfactory to the World Bank and the Eurasian Development Bank (as it may be amended from time to time with the approval of these institutions), containing: (i) guidance for identifying the main types of environmental and social risks that implementation of the ISMP may imply; (ii) description of considerable gaps and/or mismatches between the national legislation and the Bank’s safeguard policies pertaining ISMP, and guidance for implementing ISMP in agreement with both sets of rules; (iii) generic set of measures to mitigate expected negative environmental and social impacts of the ISMP; (iv) guidelines for (a) environmental and social screening of investments suggested for ISMP financing, (b) identifying the scope and extent of site-specific environmental and social studies to be undertaken towards preparation of individual investments under the ISMP, and (c) developing site-specific environmental and social documents for individual investments; and (v) arrangements for environmental and social monitoring of civil works under the ISMP, and for reporting on the outcomes of environmental and social supervision of the ISMP.

(c) “Resettlement Action Plan” means a resettlement action plan, acceptable to the Bank, for a site specific resettlement; to be prepared and implemented in a manner fully consistent with the Resettlement Policy Framework.”

(d) “RPF” means the Recipient’s “Resettlement Policy Framework”, satisfactory to the World Bank and the Eurasian Development Bank, to be prepared in accordance with Section 2.01 of this Annex to this Agreement defining the modalities for land use, acquisition, resettlement and rehabilitation of displaced persons under the Project and describing the policies, procedures, plans and actions (including Resettlement Action Plans), 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.
Article II
Project Execution

2.01. Grant Objectives and Description. The development objective of the proposed Grant is to improve project implementation readiness for the Irrigation System Modernization Project to be financed by the Anti-Crisis Fund CF of the Eurasian Development Bank and enhance capacity of the Water Projects Implementation Unit (WPIU) under the Ministry of Territorial Administration of Armenia to prepare and implement projects in terms of procurement, monitoring and evaluation.

The components of this ECAPDEV Grant have been structured as described below:

1. Component: Preparation of a Feasibility study and an Environmental and Social Management Framework for the Irrigation Systems Modernization Project

The feasibility study will aim to provide a solution for irrigation system that:

- improves Armenian irrigation system sustainability by:
  - lower operating and maintenance costs;
  - reduction in the present time of high water losses in irrigation systems;
  - improvement in energy efficiency in water delivery systems;
- corresponds to the existing land use patterns;
- meets social and environmental requirements; and
- enables co-management of irrigation systems.

For this purpose, the feasibility study will include:

- Investigation of technical state of irrigation systems proposed for inclusion into the Irrigation Systems Modernization Project;
- Investigation of coordination between water energy and irrigation sectors;
- Influence of water shortage on irrigation systems;
- Analysis of necessary conditions for drip and sprinkler irrigation comparatively to existing water supply patterns;
- Justification of proposed technical and construction solution, and equipment comparatively to other options; and
- Preliminary designs of the rehabilitation and upgrade of irrigation infrastructure.

Terms of Reference for detailed designs of the irrigation infrastructure selected for financing under Irrigation Systems Modernization Project.

The Environmental and Social Management Framework will:

- Identify the main types of environmental and social risks that implementation of the Irrigation System Modernization Project may imply;
- Describe considerable gaps and/or mismatches between the national legislation and the World Bank's safeguard policies pertaining ISMP; provide guidance for implementing ISMP in agreement with both sets of rules;
- Suggest a generic set of measures to mitigate expected negative environmental and social impacts of the Irrigation System Modernization Project;
• Produce guidelines for: (i) environmental and social screening of investments suggested for Irrigation System Modernization Project financing, (ii) identifying the scope and extent of site-specific environmental and social studies to be undertaken towards preparation of individual investments under the Irrigation System Modernization Project, and (iii) developing site-specific environmental and social documents for individual investments; and
• Set forth arrangements for: (i) environmental and social monitoring of civil works under the Irrigation System Modernization Project, and (ii) reporting on the outcomes of environmental and social supervision of the Irrigation System Modernization Project.

Mature drafts of ESMF and RPF will be disclosed in Armenian and English languages nation-wide and consultation meetings with all relevant stakeholders will be held prior to finalization of these documents. The Water Projects Implementation Unit (WPIU) under the State Committee of Water System (SCWS), acting on behalf of the Recipient, will organize electronic publication of ESMF and RPF ensuring their accessibility to relevant audience, will hold a consultation meeting, document its outcomes, and revise documents to reflect received feedback as feasible.

2.  Component: Development of institutional and technical capability studies of the Water User Associations (WUAs)

The Grant would finance international and technical support to:

• Organizational and institutional assessment of the irrigation system (water law analysis, organizational structure of irrigation systems, rights and duties of every agent (WUAs, WUA federation, authorities, farmers), farmers' readiness to pay for water resources, water fees collection, proportion of water delivery costs and fees);
• Studies of the retrospective institutional development and technical capability of WUAs with proposals for the future development of the irrigation sector structural reforms;
• Design of sub-component to enhance co-management of irrigation systems; and
• Design of sub-component to support pilot federation of WUAs.

This component will include close consultations of the Project preparation team of the Recipient with stakeholders, such as the Ministry of Territorial Administration, the Ministry of Agriculture, WUAs, individual water users, and vulnerable population, to have a more complete and in-depth look into the appropriate demand. As a result, there will be a prepared Action Plan and Design which will incorporate best international practices. Additionally, as part of this component, training to WPIU institutional specialists will be provided to ensure quality of institutional development process.

3.  Component: Preparation of additional project documents for the Irrigation Systems Modernization Project

Under this component technical assistance will be provided for preparing Draft Project Paper for Irrigation Systems Modernization Project. This will include:

• Calculations of project needs (raw materials, energy, labor and financial resources);
• Study of agricultural patterns, agricultural subsidies and land law (land property rights, their influence on farmers' incentives);
• Economic feasibility assessment;
• Fiscal and macroeconomic efficiency assessment;
• Project risks and mitigation measures identification (including water and energy shortage risk); and
• Project time schedule development.

Technical assistance will be also provided to develop guidelines and proposals for Procurement packages, including Procurement Plan, and Monitoring and Evaluation Plan. Additionally, this component will include the provision of training to WPIU to strengthen its operational capacity, particularly in the areas procurement, application of environmental and social safeguards, and monitoring and evaluation.

4. Component: Financial audit of the Grant

This component will finance an audit of the use of the funds under the Grant at the end of the implementation stage. The audit will be performed by a qualified auditing firm according to the international standards.

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 existing Water Projects Implementation Unit (WPIU), within State Committee of Water System of Armenia under the Ministry of Territorial Administration. The Recipient shall carry out the Project 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. Donor Visit. 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 to visit any part of the Recipient’s territory for purposes related to the Project.

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.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report 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 its 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.
2.06. **Procurement.** All goods, works, non-consulting services, and/or 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: 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”), and 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 Bank in accordance with the Procurement Guidelines and 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) Article III of 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 100% of Eligible Expenditures consisting of Consultant Services, Goods, and Training, exclusive of Taxes.

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Grant Funds (USD)</th>
<th>Percentage of Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consultants' services</td>
<td>450,000</td>
<td>100%</td>
</tr>
<tr>
<td>2. Goods</td>
<td>23,500</td>
<td>100%</td>
</tr>
<tr>
<td>3. Training</td>
<td>21,500</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>495,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
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For the purposes of this paragraph, the term:

(i) “Training” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services).

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 December 22, 2014.
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 the 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: +374-60-700358

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

Facsimile: 1-202-477-6391