Financing Agreement

(First Development Policy Financing)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 8, 2013
FINANCING AGREEMENT

Agreement dated November 8, 2013, entered into between REPUBLIC OF ARMENIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (b) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 the amount of forty one million United States Dollars ($41,000,000) (variously, "Credit" and "Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule I 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment; and (b) three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment; and (b) zero percent (0%) per annum.

2.06. The Payment Dates are May 15 and November 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is United States Dollars.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

(b) The Recipient shall have failed to perform any of its obligations under the Loan Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

(b) The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.

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

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is Minister of Finance.

6.02. The Recipient’s Address is:
Ministry of Finance of the Republic of Armenia
1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Facsimile:
+374-10-524282

6.03. The Association’s Address is:

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

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

REPUBLIC OF ARMENIA

By

[Signature]
Authorized Representative

Name: Davit Sargsyan
Title: Minister of Finance

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative

Name: Alexander Astrakhsatryan
Title: Acting Country Manager
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

Pillar I: Strengthening Competitiveness

Inspection Reform

1. The Recipient has merged two inspection agencies (Labor Inspectorate and Anti-Epidemiology Inspectorate) aiming to reduce the burden of inspections on businesses pursuant to Government Decree No. 857 dated July 25, 2013.

Credit Reporting, Collateral, and Bankruptcy Law Reform

2. The Recipient, through its Central Bank, has implemented a series of measures to enhance the operation of the credit registry and reporting systems, including (i) issuance of specific requirements regarding consumer credits notified to all banks and credit organizations in Armenia, (ii) amendments to the Charter of Financial System Stability and Development Consumer Protection Unit clarifying the role of said unit in relation to credit report matters; (iii) the limitation of the CBA’s credit register functions starting on January 1, 2014; (iv) clarifying and consolidating the responsibility for credit reporting systems oversight by (a) amending the charters of Supervision, Legal, and Financial Stability Departments; (b) defining the role of the Consumer Rights Protection Unit, and (c) establishing the responsibility for unified oversight and enforcement for all financial institutions in the “Licensing and Supervision Committee”; as evidenced by CBA’s Chairman Decisions No 1/599A dated July 16, 2013 and No 1/710L dated August 8, 2013; and CBA Circular dated July 4, 2013.

Civil Service Reform

3. The Recipient, in the government session of July 25, 2013, has adopted a draft Law on Amendments to the Civil Service Law designed to enhance the flexibility of recruitment, promotion of professional staff, and discontinue the mandatory periodical attestations, and submitted it to Parliament for approval on August 2, 2013.

Air Connectivity

4. The Recipient: (a) through Government Protocol Decree No. 22 dated June 6, 2013 has adopted a new policy on aviation; (b) has published in the General Department of Civil Aviation (GDCA) website air services agreements and respective amendments aiming to raise transparency in the aviation sector; and (c) has completed and published a study on policy options for the liberalization of the air transport sector.

Financial Sector Development
5. The Recipient, in the Government session of August 22, 2013, has adopted a draft Law on Amendments to the Law on Funded Pensions and submitted it to Parliament for approval on August 28, 2013; and the Central Bank, through its Governing Board meeting held on September 9, 2013 has issued clarifications to some of the provisions of Article 44 of said law to enhance pension fund asset management.

**Pillar II: Enhancing Fiscal, Social and Environmental Sustainability**

**Tax Revenue Mobilization**

6. The Recipient, through Government Protocol Decree No.29, Item 33 dated July 25, 2013 (i) has adopted the “Guidelines on Strategic Principles for Review of Tax and Customs Legislation”, including the review of tax exemptions and excise rates with the aim of identifying areas for improving revenue collection; and (ii) has approved a medium-term strategy on amendments to the tax and customs legislation.

**Social Assistance**

7. The Recipient, through Government Decree No. 1859 –N, dated December 29, 2011, has improved the targeting accuracy and coverage of the Family Benefits Program through improvements in the targeting formula.

**Mainstream Environmental Sustainability in the Mining Sector**

8. The Recipient, through its Ministry of Environment, has developed and adopted a new draft Law on Environmental Impact Assessment in line with good international practices and it submitted to Parliament for approval on August 2, 2013.

**Section II. Availability of Financing Proceeds**

A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in $US)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>$41,000,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>$41,000,000</td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the
Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is March 31, 2014.
SCHEDULE 2

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 May 15 and November 15:</td>
<td></td>
</tr>
<tr>
<td>commencing Nov 15 2018 to and including May 15 2028.</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing Nov 15 2028 to and including May 15 2038</td>
<td>3.35%</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

1. "Basis Adjustment" means the Association’s standard basis adjustment for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.

2. "Excluded Expenditure" means any expenditure:
   
   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

   (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

   (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

3. “Loan Agreement” means the agreement between the Recipient and the Bank in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “Loan Agreement” includes all appendices, schedules and agreements supplemental to the Loan Agreement.

4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

5. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 12, 2013 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

6. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule I to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. “Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.
(b) **Interest Charge.** The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. Sections 4.01 (**Project Execution Generally**), and 4.09 (**Financial Management; Financial Statements; Audits**) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to **Use of Goods, Works and Services**) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   … (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.07. Program Monitoring and Evaluation

   … (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. 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 definition of the term “Eligible Expenditure” is modified to read as follows:

   “‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

   (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
(c) The term "Financing Payment" is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

(d) A new term called "Interest Charge" is added to read as follows:

"Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

(e) The term "Payment Date" is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

(f) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

"Program" means the program referred to in the Financing Agreement in support of which the Financing is made. All references to "Project" throughout these General Conditions are deemed to be references to "Program".

(g) The term "Service Charge" is modified by replacing the reference to Section 3.02 with Section 3.02 (a).