Loan Agreement

(Additional Financing for the Lifeline Roads Improvement Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 4, 2009
LOAN AGREEMENT

Agreement dated September 4, 2009, between REPUBLIC OF ARMENIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank 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 - LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty six million six hundred thousand Dollars ($36,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

2.05. The Payment Dates are May 1 and November 1 in each year.
2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III - PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the MoTC in accordance with the provisions of the amended Implementation Agreement, Operational Manual and the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - 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 Borrower’s Representative is Minister of Finance of the Borrower.
5.02. The Borrower’s Address is:

1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Facsimile:
+374-10-524282

5.03. The Bank’s Address is:

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

Cable address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 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 BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Aristomene Varoudakis
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to upgrade selected sections of the lifeline road network and create temporary employment in road construction.

The Project consists of the following additional parts to the Original Project:

Part A: Rehabilitation of selected sections of lifeline roads

Provision of works, goods, consultants’ services including Project audit and Incremental Operating Costs, for the rehabilitation of selected sections of lifeline roads and the implementation of the “safe villages” pilot program.

Part B: Technical Assistance

Provision of technical assistance and training to the PIU and ARD to develop a road safety audit manual, road safety audit guidelines, and detailed designs for future road projects, and the provision of laboratory and testing equipment and vehicles for supervision.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower, through MoTC, shall maintain the PIU and ARD until completion of the Project, with staff, resources and terms of reference satisfactory to the Bank, and assign to them responsibility for overall management of Project implementation and coordination including:

   (a) preparation of disbursement applications under the Loan;

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

   (e) preparation of Project Reports and submission thereof to the Borrower and the Bank in accordance with Section II.A of this Schedule; and

   (f) management and supervision of all Project activities.

2. The Borrower, through MoTC, shall: (a) maintain the Implementation Agreement in form and content satisfactory to the Bank, shall duly perform all its obligations under the Implementation Agreement and shall not assign, amend, abrogate or waive the Implementation Agreement without obtaining the prior approval of the Bank; and (b) maintain the Operational Manual in form and content satisfactory to the Bank, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Bank.

3. The Borrower shall ensure that adequate budgetary resources are made available to the road sector for maintenance of Interstate and Republican roads in the Borrower’s annual budget.

4. The Borrower shall permit the use of standards recommended by the European Committee for Standardization on design and construction of roads and highways (in addition to the national standards) in the design and construction of road works under the Project.
5. The Borrower shall ensure that the Project activities will neither support nor result in the involuntary taking of land, nor will it support or result in the involuntary restriction of access to parks and protected areas. Any questions concerning the meaning of these terms will be determined based upon World Bank Operational Policy 4.12 on Involuntary Resettlement.

6. The Borrower shall ensure that adequate budgetary resources are made available for the Project in the Borrower’s annual budget for the duration of the Project.

7. The Borrower shall, not later than two weeks after the ratification of this Agreement by the Borrower’s Parliament, open a Project Account in a bank acceptable to the Bank and deposit therein twenty percent (20%) of Borrower’s contribution to the Project.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. Except as the Bank shall otherwise agree, the Borrower, through MoTC, shall: (a) apply for the activities under Part A of the Project the criteria, policies, procedures and arrangements set out in the EMF; and (b) not amend or waive, or permit to be amended or waived the EMF, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project.

2. The Borrower, through MoTC, shall:

   (a) ensure that: (i) civil works on any particular section of the road selected under Part A of the Project will not start, unless an EMP for that road section, satisfactory to the Bank, has been prepared by the Borrower and disclosed locally, and on the MoTC website, not later than thirty (30) days before the beginning of the works; and (ii) the arrangements are made to for public review and comment of the EMP, any comments received have been responded to in a manner acceptable to the Bank, and the final approved version of the EMP has been disclosed locally; and (iii) any provision of EMPs is not assigned, amended, abrogated or waived without prior review and approval of the Bank;

   (b) ensure that all activities undertaken for the purpose of carrying out of Part A of the Project comply with environmental standards and guidelines satisfactory to the Bank;

   (c) ensure that the selection of any road section under Part A of the Project is carried out in accordance with the provisions of the EMP;
(d) ensure the complete implementation of the EMPs in a manner acceptable to the Bank, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of Part A of the Project; and

(e) ensure that MoTC has appointed competent staff in adequate numbers and with such responsibilities and functions acceptable to the Bank as shall enable the MoTC to manage, coordinate and monitor the implementation of the EMPs.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 5.08 (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 Bank not later than four (4) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall prepare and furnish to the Bank 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 Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank 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 Loan 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 Loan 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 Bank 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 of the Recipient may be used for procurement of goods and works for the Project, provided that the following provisions are complied with:</td>
</tr>
<tr>
<td>(i) entities in which the Republic of Armenia 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 and complex 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 be advertised through the Procurement Plan;</td>
</tr>
<tr>
<td>(vi) no bids shall be rejected at bid opening;</td>
</tr>
</tbody>
</table>
### Procurement Method

<table>
<thead>
<tr>
<th></th>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(vii)</td>
<td>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)</td>
<td>all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and</td>
</tr>
<tr>
<td>(ix)</td>
<td>advance Bank approval is required for any substantial modifications in the contract scope/conditions during implementation.</td>
</tr>
<tr>
<td>(b)</td>
<td>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 the 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></th>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Quality Based Selection</td>
</tr>
<tr>
<td>(b)</td>
<td>Selection Based on Fixed Budget</td>
</tr>
<tr>
<td>(c)</td>
<td>Least Cost Selection</td>
</tr>
<tr>
<td>(d)</td>
<td>Selection Based on Consultant’s Qualification</td>
</tr>
<tr>
<td>(e)</td>
<td>Single Source Selection</td>
</tr>
<tr>
<td>(f)</td>
<td>Individual Consultants</td>
</tr>
</tbody>
</table>
D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank 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 Loan (“Category”), the allocation of the amounts of the Loan 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 Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants’ Services, Training, Incremental Operating Costs for the Project, including audit</td>
<td>36,508,500</td>
<td>80%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>91,500</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>36,600,000</td>
<td></td>
</tr>
</tbody>
</table>
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 $4,000,000 may be made for payments made prior to this date but on or after July 15, 2009, for Eligible Expenditures under Category (1).

2. The Closing Date is December 31, 2011.
SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 1 and November 1 beginning November 1, 2019 through November 1, 2033</td>
<td>3.33%</td>
</tr>
<tr>
<td>On May 1, 2034</td>
<td>3.43%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
APPENDIX

Section I. Definitions


2. “ARD” means the Armenian Roads Directorate, a State Non-Commercial Organization, established by the Borrower’s Government Decree #1720-N dated December 2, 2004, which will be responsible for the technical aspects of the Project implementation.

3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “Disbursement Letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV A.1 of Schedule 2 to this Agreement, as may be revised from time to time.

6. “EMF” means the updated environmental management framework, dated January 22, 2009, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.

7. “EMP/s” means an environmental management plan for a particular road section to be prepared by the Borrower, through MoTC, in accordance with the EMF and approved by Borrower and the Bank pursuant to Section C.2 (a) of Schedule 2 to this Agreement, describing environmental mitigation, monitoring and institutional measures for selected road section/s under the Project.

8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.

10. “Incremental Operating Costs” means the incremental expenses incurred by the PIU on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, travel and salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the Bank.

11. “MoTC” means the Borrower’s Ministry of Transport and Communications of the Borrower which is responsible for the overall implementation of the Project.

12. “Operational Manual” means the updated manual approved on July 14, 2009 by the Borrower, through MoTC, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower, including procedures governing administrative, procurement, accounting, financial management, monitoring and evaluation arrangements for the Project; as the same may be amended from time to time with the agreement of the Bank.


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

15. “PIU” means the Transport Project Implementation Unit, a State Institution, established by the Borrower’s Government Decree # 1930-N dated December 28, 2006 (reporting to MoTC) who will be responsible for day to day implementation of the Project.


17. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated July 14, 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.

18. “Project Account” means the account referred to in Section I.A.7 of Schedule 2 to this Agreement, maintained by the Borrower, through MoTC, in Drams and to be used for financing the Borrower’s contribution to the Project’s expenditures.

19. “Training” means expenses incurred by the Borrower and the PIU in connection with carrying out training activities 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.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

   “Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

   (a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan 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 Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

   “Section 7.02. Suspension by the Bank

   ... (l) Ineligibility. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or 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 Bank or the Association.”

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.”

(b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”