
CREDIT NUMBER 4102 AM

Development Credit Agreement

(Urban Heating Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *July 20*, 2005

CREDIT NUMBER 4102 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated *July 20*, 2005, between REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

(A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from the United Nations Development Programme (the UNDP) a grant in an amount of two million nine hundred fifty thousand Dollars (\$2,950,000) (the GEF Trust Fund Grant) to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the UNDP (the GEF Trust Fund Grant Agreement, Grant No. 00035799); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the

Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Board of Trustees” means the Board of Trustees of the R2E2 Fund, consisting of representatives from the Government, private sector and non-governmental organizations;

(b) “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Borrower and submitted to the Association on February 2, 2005, setting forth measures to mitigate any adverse impacts to the environment;

(c) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(d) “Grant” means the grant approved by the R2E2 Fund for the purpose of Part B.2 of the Project, in accordance with the Operational Manual and Schedule 6 to this Agreement;

(e) “Operational Manual” means the manual, satisfactory to the Association, setting forth the implementation rules and procedures for the Project, including selection criteria and provision of sub-loans and grants under Part B of the Project, as the same may be amended from time to time by agreement between the Association and the Borrower;

(f) “PFBP” means the Poverty Family Benefit Program, established by the Borrower in accordance with its Decree (No. 727) dated November 19, 1998;

(g) “PFI” means the participating financial institution which meets the eligibility criteria set forth in the Operational Manual, selected for the provision of the Sub-loans under Part B.1 of the Project;

(h) “Procurement Plan” means the Borrower’s procurement plan, dated May 12, 2005 covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of

Section 3.02 to this Agreement, to cover succeeding 18-month period (or longer) of Project implementation;

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on February 11, 2003, and on behalf of the Borrower on April 3, 2003;

(j) "R2E2 Fund" means the Renewable Resources and Energy Efficiency Fund, established according to the Government decree No 799-N, dated April 28, 2005, and to which any legal limitations set out in any regulations with regard to licensing and/or the Credit Organizations Law of the Borrower shall not apply, for the purpose of implementation of the Project;

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "Sub-loan" means a loan made or proposed to be made by the PFI to Sub-loan Beneficiary under Part B.1 of the Project, in accordance with the Sub-loan Agreement, the Operational Manual and Schedule 6 to this Agreement, and in compliance with the Subsidiary Loan Agreement;

(m) "Sub-loan Agreement" means an agreement entered into between a PFI and a Sub-loan Beneficiary for the purpose of financing an activity under Part B.1 of the Project, which is elaborated in the Operational Manual;

(n) "Sub-loan Beneficiary" means an individual or legal entity meeting the criteria outlined in the Operational Manual and Paragraph 4 (b) of the Schedule 6 to this Agreement;

(o) "Subsidiary Agreement" means the agreement entered into between the Borrower and R2E2 Fund pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time;

(p) "Subsidiary Loan" means a loan made or proposed to be made from the R2E2 Fund to the PFIs under Part B.1 of the Project; and

(q) "Subsidiary Loan Agreement" means an agreement between the R2E2 Fund and the PFI for the purpose of implementing Part B.1 of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million Special Drawing Rights (SDR 10,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Part A, B.2, C and D of the Project and to be financed out of the proceeds of the Credit; and
- (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by R2E2 Fund on account of withdrawals made under a Sub-loan and/or Grant to meet the reasonable cost of goods, works and services required for Part B of the Project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2015 and ending May 15, 2045. Each installment to and including the installment payable on May 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more

after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the R2E2 Fund with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Operational Manual, the Implementation Program set forth in Schedule 4 and the Terms and Conditions for Sub-loans and Grants set forth in Schedule 6 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit available to the R2E2 Fund under a subsidiary agreement to be entered into between the Borrower and R2E2 Fund, under terms and conditions which shall have been approved by the Association, including the following:

- (i) terms of a loan for Part B.1 of the Project;

- (ii) terms of an agency contract for Parts A, B2 and C of the Project;
and
- (iii) terms of an agent fee for Part D of the Project.

(d) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

(e) If the Borrower determines that the R2E2 Fund has used the funds provided under the Subsidiary Agreement inefficiently or outside the scope and purpose specified in the Subsidiary Agreement, the Borrower may request to return the amount of such funds, either in whole or in part, including the applicable interest calculated up to the payment with prior consultation and agreement with the Association.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with

consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraph 1 (a) of Schedule 4 to this Agreement, the Borrower shall

cause the R2E2 Fund to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project;

(b) the by-laws of the R2E2 Fund shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project;

(c) the GEF Trust Fund Grant Agreement shall have failed to become effective by December 31, 2005, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(d) (i) subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement; or (B) GEF Trust Fund Grant shall have become due and payable prior to the agreed maturity thereof; and

(ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified:

(a) any event specified in Section 5.01 (a), (b) and (c) of this Agreement shall occur; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Subsidiary Agreement has been executed on behalf of the Borrower and the R2E2 Fund; and

(b) The Board of Trustee has adopted the Operational Manual, satisfactory to the Association.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Loan Agreement

has been duly authorized or ratified by the Borrower and the R2E2 Fund and is legally binding upon the Borrower and the R2E2 Fund in accordance with its terms.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
1 Government House
Republic Square
Yerevan 375010
Republic of Armenia

Cable address:	Telex:	Facsimile:
	243331 LADA SU	(3741) 151-069

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By



Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and works		80%
(a) for school heating systems	3,330,000	
(b) for others	1,400,000	
(2) Consultants' services including audit	560,000	100%
(3) Training	30,000	100%
(4) Sub-loans	2,720,000	100%
(5) Grants	660,000	100%
(6) Incremental Operating Costs	530,000	100%
(7) Refunding of Project Preparation Advance	660,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	<u>110,000</u>	
TOTAL	<u>10,000,000</u>	

2. For the purposes of this Schedule, the term:

(a) "training" means expenditures incurred for the training activities, including costs of workshops, tuition, domestic and international travel and per diem of trainees; and

(b) "incremental operating costs" means operating costs incurred by the R2E2 Fund on account of Project implementation for communications, utilities, office supplies and maintenance, fuel, operation and maintenance of vehicles, salaries of staff, excluding those who are civil servants, and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 300,000, may be made in respect of Categories (1) (a), (2) and (6) on account of payments made for expenditures before that date but after May 1, 2005.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works costing less than \$100,000 equivalent per contract; (b) services of individual consultants costing less than \$20,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) training; (e) sub-loans; (f) grants; and (g) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase the use of clean, efficient, safe and affordable heating technologies in urban schools and multi-apartment buildings of the Borrower.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Community and Private Sector Mobilization

1. Improvement of legislative framework and development of regulations, safety standards and certification of suppliers and equipment regarding gas and heating services.
2. Capacity building of homeowners' associations, heat supply companies and local financial institutions for provision of communal heating systems to support Part B.1 below, implementation of public outreach and information campaigns, and technical assistance for the preparation of sub-loans under Part B.1 of the Project.

Part B: Financing of Heating and Related Infrastructure

1. Provision of Sub-loans for the purpose of expanding access to heating services for homeowners.
2. Provision of goods, works and grants to assist eligible poor household who are living in multi-residential apartments to gain access to improved heating services.

Part C: School Heating

Provision of goods, works and consultants' services to selected schools for installation and rehabilitation of gas-based local heating systems.

Part D: Project Implementation

Support to the R2E2 Fund for the effective implementation of the Project, including audits, through provision of goods, works and consultants' services.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$300,000 equivalent per contract and works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) no preference of any kind shall be given based on nationality of the bidder and/or origin of goods. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers and/or origin of goods shall not be applicable to procurement procedures under the Credit;

(b) 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;

- (c) post-qualification shall be conducted;
- (d) post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
- (e) joint venture partners shall be jointly and severally liable for their obligations;
- (f) estimated contract prices shall not be advertised; and
- (g) in handling the bids:
 - (i) bid prices shall be announced at bid opening. If a two envelope system is used, both envelopes shall be opened at bid opening and bid prices announced;
 - (ii) no bids can be rejected at bid opening;
 - (iii) bids shall not be rejected solely because they exceed the estimated price;
 - (iv) bids can be cancelled and new bids invited, only if the conditions of clause 2.61 of the Guidelines are met; and
 - (v) any bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Commercial Practices. Items estimated to cost less than \$300,000 equivalent per contract and to be financed under Sub-loans by the PFIs under Part B.1 of the Project, may be procured in accordance with commercial practices acceptable to the Association.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.
2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.
4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.
5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. 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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. The Borrower shall take or cause to be taken, all measures necessary for the carrying out of the EMP, in a timely manner.

3. The Borrower shall:

(a) by October 31 of each year, submit a draft annual business plan of the R2E2 Fund and its operational budget to the Association for its review; and

(b) by December 31 of each other, adopt the agreed budget for the Project.

4. The Borrower shall:

(a) by December 31, 2005, provide a space available to permanently ensure adequate accommodation for the R2E2 Fund; and

(b) ensure, until the completion of the Project, that the necessary resources, staff, powers or functions of the R2E2 Fund shall not be deprived in order not to affect materially and adversely the ability of the R2E2 Fund to perform any of its obligations to carry out the Project.

- 20 -

5. The Borrower shall ensure that the Board of Trustee shall coordinate the operation and activities of the GEF Trust Fund Grant in order to implement the Project effectively.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Procedures and Eligibility Criteria under Part B and C of the Project

Part A: Procedures and Eligibility Criteria for Sub-loans under Part B.1 of the Project

1. An application for a Subsidiary Loan in a form satisfactory to the Association and containing all necessary information shall be submitted to the R2E2 Fund.
2. The R2E2 Fund shall review the application and ensure its compliance with the eligibility criteria set forth in the Operational Manual.
3. Each application for a Subsidiary Loan is subject to approval by the R2E2 Fund.
4. The R2E2 Fund shall enter into a Subsidiary Loan Agreement with each PFI which shall contain, without limitation, the terms and conditions set forth below:
 - (a) A Subsidiary Loan to each PFI shall be made in Dollars or the currency of the Borrower, and each tranche shall be limited to \$300,000 equivalent.
 - (b) Subsidiary Loans shall be available to any private firms, companies owned by municipalities, homeowners' associations and individuals, meeting the criteria outlined in the Operational Manual, for the purpose of improving heating services in residential buildings.
 - (c) The principal amount and the interest of each Subsidiary Loan shall be repaid by a PFI to the R2E2 Fund according to the terms and conditions stipulated in the Operational Manual.
 - (d) Repayment proceeds from the PFIs may be reinvested on a revolving basis for the purposes of the Project and according to the terms and conditions stipulated in the Operational Manual.
 - (e) The R2E2 Fund shall undertake to ensure that the Subsidiary Loans are sufficiently secured in conformity with the legislation of the Borrower as specified in the Operational Manual.
 - (f) The R2E2 Fund shall have the right to withdraw the debt of the PFI from accounts of the PFI in the Central Bank of the Borrower, if the PFI has delayed performance of repayment of its Subsidiary Loan and/or its interest.
5. Following the execution of the Subsidiary Loan Agreement, the PFI shall enter into a Sub-loan Agreement with each of the Sub-loan Beneficiary, as set forth in the Operational Manual.

Part B: Procedures and Eligibility Criteria under Part B.2 of the Project

1. Grants

(a) Grants shall be available to any of the entities listed in Part A.4 (b) above, as long as it can prove that establishment of the heating systems under Part B.2 of the Project includes a household enrolled in the PFB.

(b) The R2E2 Fund, in consultations with the Ministry of Labor and Social Issues, shall review applications monthly, and shall forward the recommendation to its Board of Trustee for its final approval.

(c) Once the Grant is approved according to the criteria set forth in the Operational Manual, a Grant Agreement between the R2E2 Fund and the recipient of the Grant shall be concluded, and each such Agreement shall require the recipient to, inter alia:

- (i) ensure that the Grant funds are used exclusively for the purposes approved by the R2E2 Fund and specified in the Grant Agreement;
- (ii) maintain a financial management system, including records in a format acceptable to the R2E2 Fund, reflecting the operations, resources and expenditures to the Grant;
- (iii) procure the works, goods and services to be financed out of the proceeds of the Grant in accordance with the Operational Manual, which is consistent with the commercial practices acceptable to the Association;
- (iv) allow the staff members of the R2E2 Fund and the Social Services Center of the Borrower to monitor and inspect the sites, works and goods financed by the Grant; and
- (v) agree to have the Grant suspended or terminated upon the recipient's failure to perform the obligations set forth in the Grant Agreement, and be legally obligated, upon termination, to reimburse the R2E2 Fund any Grant amount already received.

2. Goods and works

(a) Goods and works under Part B.2 of the Project shall be available to any of urban households enrolled in the PFBP who meet the eligibility criteria defined in the

Operational Manual, for connection of the individual apartment to the gas and/or heating system.

(b) The R2E2 Fund, in consultations with the Ministry of Labor and Social Issues, shall review applications semi-annually, and shall forward the recommendation to its Board of Trustee for its final approval.

(c) The beneficiary for goods and works under Part B.2 of the Project shall contribute five (5) % of total estimated cost in accordance with the procedure set out in the Operational Manual.

(d) The beneficiary for goods and works under Part B.2 of the Project shall allow the staff members of the R2E2 Fund and the Social Services Center of the Borrower to monitor and inspect the sites, works and goods financed by the Grant.

Part C: Procedures for Selection of Schools under Part C of the Project

1. A list of urban schools outside Yerevan shall be available from local authorities and the R2E2 Fund shall meet semi-annually and recommend schools for its Board of Trustee's final approval, based on the selection criteria stipulated in the Operational Manual, including the technical capacity of the schools and cost-effectiveness.

2. If the funds are available after all the eligible schools outside Yerevan have been considered, schools in Yerevan may be considered for eligibility.

