

**Armenia Renewable Resources
And
Energy Efficiency Fund**

Operational Manual

April, 2010

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GLOSSARY OF ABBREVIATIONS

RA	Republic of Armenia
WB	World Bank
IDA	International Development Association
DCA	Development Credit Agreement
OM	Operational Manual
BOT	Board of Trustees
NGO	Non-Governmental Organization
EE	Energy Efficiency
RE	Renewable Energy
REP	Renewable Energy Project
FD	Fund Director
FM	Financial Manager
PC	Project Coordinator
GPOBA	Global Partnership on Output Based Aid
UHP	Urban Heating Project
HOA	Home Owner Association
CS	Consultancy Services
SA	Subsidiary Agreement
SLA	Sub-Loan Agreement
PFBP	Poverty Family Benefit Program
EMP	Environmental Management Plan
EIA	Environmental Impact Assessment

Preamble

Presently Armenia is within a transition period, where the lack of capital and weak capitalization of financial institutions challenges the funding of energy efficiency and renewable energy projects based on mechanisms applied in more developed financial markets.

The RA Law on Energy Efficiency and Renewable Energy adopted in November 2004 aims at establishing state policies to secure energy efficiency and broader use of renewable energy, thus improving the economic and energy security standards of the country and reducing anthropogenic impact on the environment. This law regulates the interrelations between the public authorities and local self-governing agencies as well as legal entities and individuals that perform activities in the energy efficiency and renewable energy field. According to Chapter II, Article 6 of the same law, the Armenia Renewable Resources and Energy Efficiency Fund, hereinafter referred to as **the R2E2 Fund** or **the Fund**, is defined as a financing mechanism to pursue the objectives of the law.

This Operational Manual (OM) lays out the principles and implementation rules governing the Fund. To that end, it gives guidance to all the key actors involved in the management, implementation and monitoring of energy efficiency and renewable energy projects. The OM targets at creating a comprehensive understanding of project principles and practice for all parties concerned and providing adequate collaboration background.

The OM sets forth the fundamental functions of the Fund, including the detailed scope of activities, financial instruments, governance structure, procurement and financial management systems. It establishes general guidelines on the activities herein and shall in no way be considered as a comprehensive regulation.

The contents of this OM, including the Appendixes hereto, may not be amended or removed without the Board of Trustees (BOT) resolution and prior approval of the major donors.

1 Fund

The R2E2 Fund, as a non-for-profit institution pursuing public interests, is an independent legal entity, acting separately from any governmental agency or institution, which performs its activity in compliance with the applicable Armenian legislation and the agreements concluded with its main donors.

The Fund is established by the RA Government Decree No799N of April 28, 2005 (Annex 1) with its legal registration dated November 21, 2005.

The Republic of Armenia is the founder of the Fund with the RA Prime Minister acting as the state government authority thereof.

1.1 Main Objectives

The main objectives of the Fund are to facilitate investments in EE and RE sectors and promote the development of EE and RE markets in Armenia.

The Fund shall pursue its objectives through active participation in the fields related to policy-making, removal of barriers, creation and development of opportunities for financial sector entities, development of energy services, establishment and strengthening of home owner associations, as well as through other activities targeted towards the improvement of national energy security, reduction of dependence on imported fuels and reduction of energy consumption in the economy.

The detailed objectives and main activities of the Fund are listed in the Fund Charter, attached as Annex 2 hereto.

1.2 Main Operational Principles

The Fund is governed by the following main principles:

- Public-private partnership;
- Acting as an independent and sovereign legal entity;
- Long-term financial sustainability;
- Promotion of safe and environmentally friendly technologies;
- Transparency in administration of financial resources;
- Ensuring equal financing opportunities for all applicants.

1.3 Sources of Funding

The activities of the Fund shall be financed from the sources hereunder:

- Donations/grants from international financial institutions;
- Financing from bilateral and multilateral donors;
- Financing allocated by the GOA;
- Own generated revenues;
- Other sources.

With the aim of achieving its institutional objectives, the Fund may seek to attract additional funding from other donors or governments.

1.4 Administrative governance

The Board of Trustees and the Fund Director are the governing bodies of the Fund.

1.4.1 The Board of Trustees

The BOT is the senior governing body of the Fund with ultimate authority to the overall strategic management in accordance with defined objectives and operational principles of the Fund.

The BOT is comprised of representatives of the public sector and qualified experts from both the private sector, NGO and public sectors with adequate capability and skills as well as experience in the respective field. The BOT representative list shall be defined by the Fund Charter. The BOT structure is attached as Annex 3 hereto. The list of the BOT members shall be approved by the RA Prime-Minister's resolution.

The private sector/NGO representatives for the BOT membership shall be agreed upon with the donors. The members of BOT shall be appointed for a period of two years with the possibility of extension. The BOT membership shall cease in cases specified in the Charter (Annex 2). Conflict of interest would be one of such cases.

Conflict of interest shall be interpreted but in no way limited to the following: any past, present or prospective economic, financial and private direct and/or indirect (through relatives or partners) interest, as well as ownership or other links with the Fund staff or companies, project developers and individuals involved in EE and RE projects financed directly by the Fund or through the PFI.

In addition the institution having assigned its employee as a member to the BOT may withdraw his/her membership provided the skills to ground their assignment are no longer deemed essential.

The private sector/NGO members of the BOT should represent the civil society such as academia, NGOs and private sector and meet the following requirements:

- At least five years of proven professional experience in the respective field;
- Extensive knowledge of the legal framework and business environment and sound professional relationships with key stakeholders in the market;
- Ability and willingness to commit necessary time to the Fund;
- Proven personal integrity and high professional reputation;
- Have no conflict of interest with the Fund.

The number of appointees from a single organization should not exceed one.

The Chairman of the BOT shall be selected by the BOT. The major responsibilities of the BOT Chairman are described in the Charter of the Fund under Annex 2 hereto.

In the absence of the Chairman his/her responsibilities shall be assumed by one of the BOT members, selected by the Board.

The BOT shall establish the strategy and operating rules of the Fund, appoint top management as well as approve the budget and specific investments thereof. The major authorities and responsibilities of the BOT are set forth under the Fund Charter (Annex 2) and this OM.

The BOT performs its activities through meetings, which take place on a regular basis, at least once a month. The meetings are called and chaired by the Chairman of the BOT. As required, extraordinary meetings may be convened. The meetings are convened based on the constitution of the required quorum. The BOT decisions on the projects implemented by the Fund, which are specified under this OM are considered OM amendments and constitute integral part of this OM. The amendments shall be included in OM, after having the World Bank approval.

The FD shall participate in the BOT meetings with an advisory right. The FD shall be responsible for the organizational issues related to the BOT meetings as well as the preparation of the relevant materials on the agenda and distribution of respective documents. The BOT meeting procedures are described in the Fund Charter (Annex 2) and BOT Rules of Procedures (Annex 4).

1.4.2 Fund Director

The FD shall be initially appointed by the Founder. The FD is appointed for the term of four years with the possibility of extension. The FD shall:

- Manage the activities of the Fund;
- Manage the assets of, including financial resources, and sign contracts on behalf of the Fund;
- Represent the Fund on the territory of the RA and abroad;
- Act without a power of attorney and provide a letter of attorney on behalf of the Fund;
- Sign agreements according to the established procedure (including, but not limited to grant, procurement, sub-loan, labor, and service agreements, etc);
- Open special, settlement, and other bank accounts in local and foreign currencies;
- Submit the internal regulations, administrative-organizational structure and the staff list of the Fund to the BOT for approval;
- Within the scope of his/her authority, issue decrees, assignments, instructions and supervise their performance;
- Employ and dismiss Fund staff;
- Reward as well as take disciplinary actions towards Fund employees;
- Administer project credits and grants;
- Carry out other responsibilities envisaged by law, the Charter and assignments of the Founder.

The FD can not perform any paid duties in other organizations without consent of the BOT.

1.5 Staff and organizational structure

The organizational structure of the Fund is attached as Annex 5 hereto. Any amendments to this structure shall be subject to approval of the BOT and donors' consent. Breakdown of the overall Fund staff is as follows: managerial staff, including the Fund Director, Financial Manager, Project Coordinators, specialists and support staff.

The managerial staff and the experts shall be the employees of the Fund and shall hold positions established by the Charter and in the Staff List and perform activities leading to the achievement of the institutional objectives.

The support staff of the Fund shall comprise of employees who will not directly contribute to the institutional objectives of the Fund. Competitive selection will not apply to support staff. The support staff shall be selected by the FD.

The managerial staff and experts shall be selected on a competitive basis by a special Evaluation Committee (Annex 6). The BOT shall establish the Evaluation Committee. The Evaluation Committee shall include representatives proposed by the Fund, respective agencies and other stakeholders.

The Fund shall publish job announcements, which should include job title, brief description of responsibilities, qualification criteria, list of required documents, and application deadline.

Based on response received the Fund shall carry out prequalification and short-listing of maximum 4 candidates who prominently fit the respective requirements.

The candidates' data along with the evaluation sheets shall be submitted to the Evaluation Committee. The assessment of each candidate shall be based on the total scores given by the Evaluation Committee. The candidate with the highest score will be selected.

The BOT shall approve candidates selected for managerial positions.

Based on the decisions of the Evaluation Committee and the BOT (in cases stipulated for under the regulation), the Fund Director shall proceed with the employment of the candidates in conformity with the RA Labor Code.

The Fund Management shall be responsible for the daily functioning of the Fund, which is comprised of a small professional team as follows:

1. Fund Director (FD) to undertake representative and administrative functions;
2. Financial Manager to be responsible for the financial reporting, accounting, financial management, internal control and disbursement;
3. Investments coordinator to oversee implementation of investments under the projects implemented by the Fund;
4. Technical assistance coordinator to oversee policy issues tackled by the Fund.

The scope of the functions and responsibilities of the Fund Staff are set forth in Annex 7 hereto.

In addition to permanent staff, the Fund can contract independent experts and consultants for technical/engineering, economic and environmental and other additional professional assistance within the course of projects implementation. Selection of external experts and consultants shall be carried out in compliance with the donor procurement policies and procedures, based on the approved procurement plan.

1.6 Projects Implemented by the Fund

General

The Fund implements projects in the EE and RE sectors in accordance with its Charter, founders resolutions and international agreements.

The projects herein may be financed from the RA State Budget and/or funds provided by the international organizations to the Republic of Armenia or otherwise through direct financing to the Fund in the form of credits or grants.

During implementation of its projects the Fund is governed by the RA Laws, rules and regulatory procedures of respective financing organizations as well as this OM.

In the event of new projects to be implemented by the Fund, the OM shall be amended accordingly to duly reflect procedures and other requirements of the new projects. Any amendments and/or additions to the OM shall be subject to the prior consent of the WB, other major donors and, thereafter, approval of the BOT.

The Fund shall have separate systems in place for each of its projects and ensure separate budgeting, accounting, monitoring and reporting procedures for each of the projects.

2 WB Financed Urban Heating Project

2.1 UHP Objective and Components

Recognizing the importance of strengthening the capacity of the heating sector in urban areas of Armenia and sustainable provision of affordable and high quality heating services to consumers the RA Government adopted Urban Heating Strategy (UHS) under its Decree 1384-N as of September 5, 2002. The UHS provides the strategic framework for the short-, medium- and long-term development of the Armenian urban heating sector.

The RA Government and IDA signed the UHP DCA (4102-AM) on July 20, 2005. The DCA was approved by the RA Constitutional Court as of October 3, 2005 and the RA National Assembly ratified it on November 11, 2005.

The International Development Association (through the DCA) provided a credit in the amount of US\$ 15.0 million to the Republic of Armenia.

The objective of the Project is to increase the use of clean, efficient, safe and affordable heating technologies in multi-apartment buildings in Armenia. The project includes the following five components:

Component A. US\$ 1.0 million - Development of enabling environment for effective and safe provision of heating services including:

- Development of regulations, safety norms and standards, and certification of suppliers and equipment, including for natural gas supply;

- Improvement of legal and regulatory framework to make HOAs more functional and to foster market-based provision of heating services.
- Capacity building of heat service providers, local financial institutions, and HOAs;
- Implementation of broad information campaigns and public education programs;
- Establishment of special advisory center(s). ;
- Assistance in preparation of sub-loan projects.

Component B: US\$ 7.2 million investment financing for heating of residential buildings will be supported under two subcomponents:

B.1 Lending to project beneficiaries (US\$ 4.2 million)

It is estimated that about 7,000 households in multi-apartment buildings without access to operational heating services would benefit from these investments.

B.2 Capital grants to the poor (US\$ 3.0 million)

Eligible households will be identified based on their participation in the existing PFBP. It is estimated that roughly 10,000 poor households will be funded under this component.

Component C: School heating (US\$ 5.0 million).

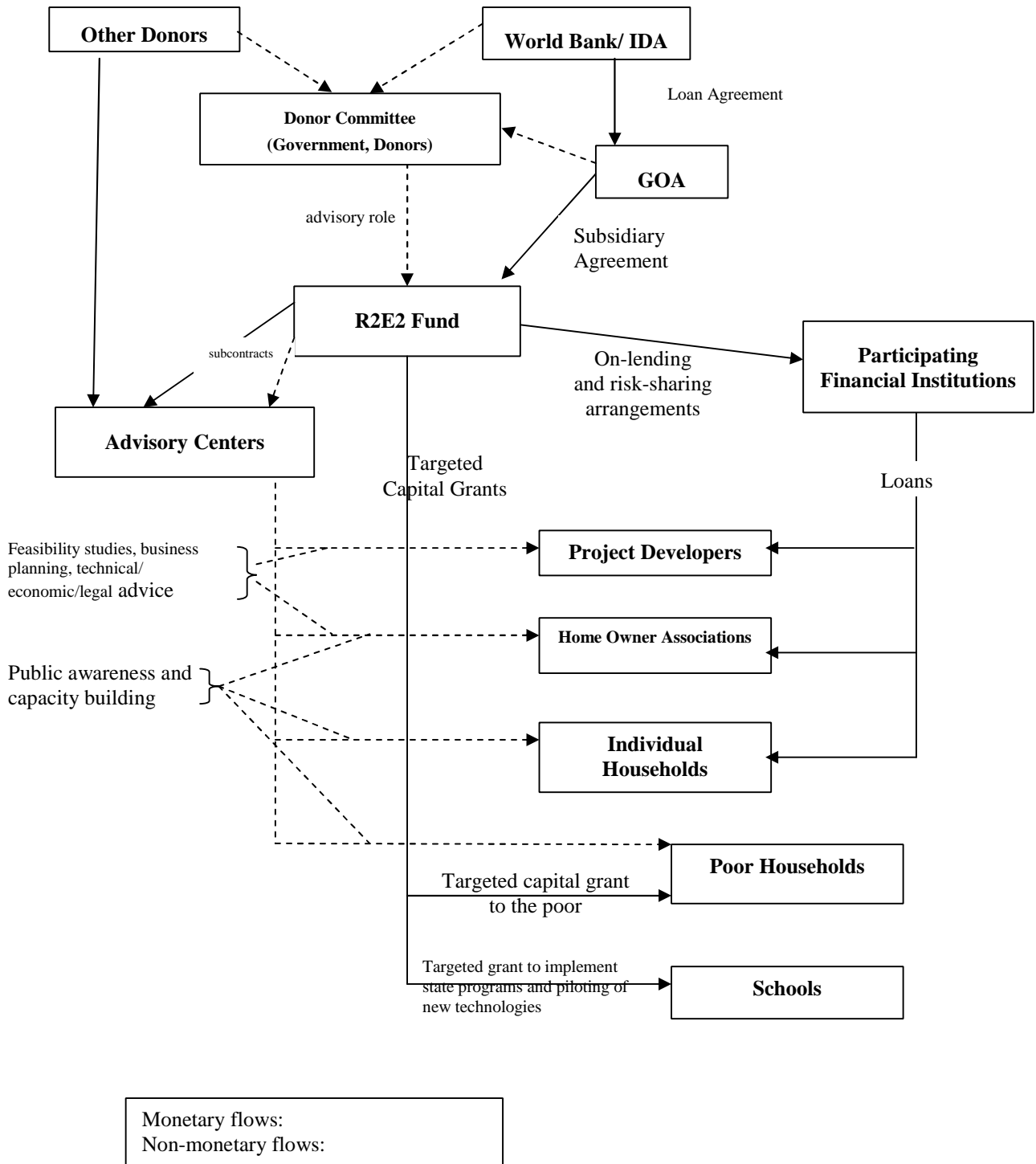
Roughly 100 urban schools will benefit from the installation and rehabilitation of heating systems within the scope of this component.

Component D: Support for project implementation (US\$ 0.8 million).

Component E: Project preparation (US\$ 1.0 million)

This component is identical with the project preparation facility.

This section sets forth the institutional set-up, focal points and procedures in place for WB supported UHP.



Donor Committee is comprised of the representatives of international or other financing organizations operating in the field of the Fund activities. The main objective of the Donor Committee is coordination of the activities of the projects financed from different sources of funding to ensure highest efficiency of implementation and to avoid possible replications. Donor Committee calls regular meetings and project managers, RA representatives or other participants may invited to them.

2.2 Technical assistance

The technical assistance targets at facilitation of investments in the heating sector through diverse mechanisms, specifically:

- Amendment of legal and regulatory framework;
- Public outreach campaigns;
- Direct advisory assistance;
- Training.

The overall consulting services under TA component shall be procured in accordance with the ***Guidelines: Selection and Employment of Consultants by World Bank Borrowers***, dated May 2004, and provisions of the DCA.

Consulting services shall be procured using the Bank's Standard RFP and sample contract. Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may comprise entirely of national consultants.

Consulting services estimated to cost more than US\$100,000 and over US\$15,000 for single source method shall be subject to WB's prior review.

2.2.1 Improvement of legal and regulatory framework

This sub-component will assist in removing existing legal and regulatory barriers that impede the effective and safe functioning of the heating sector. Specifically, a number of legal and regulatory gaps have been identified during Project preparation (particularly during the implementation of the pilot projects), including:

- Development of policies, norms and standards for natural gas supply and for safe installation of gas and heating infrastructure and supply of services, and certification of heating equipment. This should specify how the relationship between HRGA and the service providers and HRGA and consumers should be regulated and set standards to ensure adequate quality of service and other regulatory aspects of gas supply. In addition, this should include identification of the parties responsible for setting and enforcing standards, certification of heating and metering equipment, and development of standards based on solutions suitable for different types of buildings.
- Improvement of legal and regulatory framework to make HOAs more functional and to foster market-based provision of heating services, such as transfer of common property of buildings from municipalities to HOAs, granting of access by HOA representatives to

apartments to prevent misuse of the services and disconnect non-payers, more straightforward and simpler decision making and voting mechanisms with an increased role for apartment owners.

Additional proposals on the elimination of legal and regulatory barriers emerging from the deficiencies in the national legislation shall be submitted to the BOT with supporting rationale.

The BOT shall consider the proposals and verify their conformity with the UHP provisions as well as determine the available financial sources, thereafter take a decision on the expediency and feasibility of the proposed amendments. In case of positive decisions, the state agency concerned jointly with the Fund shall be instructed to prepare and submit to the BOT, within the scope of its authority, the respective terms of reference, cost estimates and bidding documents, with necessary amendments to the Procurement Plan agreed upon with the WB.

2.2.2 Public Outreach Campaigns

The Fund shall prepare a public outreach program and submit it to the BOT. The objective of the program will be to explain the benefits of available new heating technologies, the need and benefits of using environmentally clean and safe heating solutions, inform the public about safety norms and standards, benefits of the new approaches to community-led provision of communal services, institutional structure for building management, rights and obligations of members of collective organizations and legal matters. As part of the public awareness program, annual exhibits will be organized where safe and clean heating and energy efficiency equipment and technologies will be demonstrated.

The public outreach program shall be subject to annual review based on the previous year implementation outcomes. For the sustainable implementation of broad information campaigns and public education programs, the Fund may involve other organizations specializing in IEC services.

The Fund shall undertake measures to adapt to field-related IEC activities implemented by other organizations.

2.2.3 Direct Advisory Assistance

Project beneficiaries will receive assistance in a number of areas, such as preparation of business plans, introduction and promotion of efficient and cost-effective technical heating solutions in buildings, particularly common areas etc, necessary for developing “bankable” investment proposals, structuring financing for the projects and, as needed, managing the commercially sustainable operation of the heat supply.

The activities under this component shall be designed by the Fund and reflected in the procurement plan.

2.2.4 Training

Qualification training may be offered to the Fund staff, government officials and respective specialists of local financial institutions and project sub-borrowers. Capacity building training may also be offered to HOAs.

Areas of trainings cover project management, drafting and assessment of investment projects, usage of available up-to-date technologies, environmental issues, etc.

The Fund shall compile a training plan and submit it to the BOT.

In case of training offers beyond the training plan, the participation fee may be payable from the credit proceeds only upon the BOT approval.

2.3 On-lending

The objective of this component is the provision of sub-loans to the PFIs for on-lending to the UHP beneficiaries within the framework of Urban Heating Project.

Funds channeled by the Fund shall be utilized for financially viable projects related to heat generation and distribution in urban multi-apartment buildings; installation and procurement of heating systems for consumption purposes as well as gasification works with the purpose of heating. Specific types of investments eligible for funding shall be classified as follows:

a) Individual heating:

- Procurement and installation of gas heaters or boilers;
- Procurement and installation of metering and consumption controlling equipment;
- Gasification for heating purposes;
- Other investments to increase energy efficiency of apartments and buildings.

b) Centralized and autonomous heating:

- Production, procurement, installation of boilers;
- Rehabilitation and construction of external and internal distribution systems;
- Procurement and installation of metering and regulating equipment to measure and control heat;
- Other investments to increase energy efficiency of apartments and buildings, including insulation of roofs, windows and common spaces;
- Cogeneration of power and thermal energy.

The equipment shall comply with the safety and security standards established by the RA Legislation as well as additional technical specifications proposed by the Fund.

Any individual, self entrepreneur or legal entity, including the Home Owner Association, condominium, which is or willing to be engaged in the urban heating project of multi-apartment buildings in Armenia (including heat generation, transmission and distribution, installation, as well as heating related gasification works) may become a project beneficiary.

Lending to the Fund by the Republic of Armenia shall be carried out in the format and manner stipulated in the Subsidiary Agreement concluded between the RA Ministry of Finance and Economy and the Fund (Annex 9).

The Fund will provide financing to beneficiaries through on-lending to eligible PFIs. The PFI shall retain 100 percent credit risk for allocation of loan proceeds for financing of investment projects.

Direct lending by the Fund to project beneficiaries may be offered as a fall-back if there is insufficient interest from local financial institutions or otherwise in case of joint decision of WB and BOT on direct lending to project beneficiaries by the Fund.

The procurement under this component shall be conducted by the Sub-loan Borrowers based on the commercial practices acceptable to the World Bank as described in Annex 13 hereto. For projects that exceed the US\$ 5,000 the PFI shall ensure that Beneficiaries have obtained for goods and works procured through the credit proceeds: (i) at least two quotations if the amount is between US\$ 5,000 and US\$ 100,000; (ii) at least three quotations if the amount is over US \$100,000.

In case of lending for procurement of individual residential heating devices and materials required for their installation, the procurement is made from the suppliers, which have:

- Acceptable show room with access to the public;
- Professional staff for demonstration of technical features of proposed equipments;
- Provision of after sale services.

2.3.1 PFI Eligibility Criteria

PFI's could include commercial banks and/or non-bank financial intermediaries (credit institutions). PFI's should be required to meet the following criteria at all times:

Eligible Bank and non-bank PFI's should:

- 1) be at least 75% privately owned;
- 2) be interested and committed to servicing the range of clients and beneficiaries of the Project;
- 3) be in compliance with the criteria and prudential regulations as established by the CBA related to: (a) total and statutory capital adequacy; (b) exposure to maximal risk of a single, related, connected borrower and insider parties; (c) liquidity (only for banks);
- 4) have return on assets of at least 2% for the last two years;
- 5) have return on equity of at least 10% for the last two years;
- 6) have ratio of non-working assets to total assets not exceeding 3%;
- 7) have ratio of non-working loans to total loans not exceeding 4% for the last two quarters;
- 8) undergo an annual audit in accordance with the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) and have unqualified audit reports for the last two years;
- 9) have satisfactory internal control and audit procedures, including sound lending policies and procedures in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, etc.

2.3.2 PFI Selection Procedure

PFI's management should apply for participation in the Project by submitting an expression of interest supported by all relevant documents, including the latest available two annual financial statements and audit reports, and other information related to their prudential and regulatory compliance.

The PFI should also submit a disclaimer letter to the Fund authorizing the CBA to disclose information related to their prudential and regulatory compliance to comply with the provisions of the RA Law on Confidentiality in Banking. Information provided by the CBA should be made available to the World Bank Project Team and MOFE responsible officers. Information disclosure requirements should be limited to those necessary to enable the Fund and the World Bank to assess their eligibility in accordance with the above criteria.

The Fund shall examine the supporting documents attached to the PFI's expression of interest, with major focus on general creditworthiness and financial portfolio ratios. A special evaluation committee established for the PFI selection purpose by the BOT shall thereafter consider the PFI applications accompanied by the Fund experts' conclusion. After decision is reached by the evaluation committee the list of eligible PFIs shall be submitted to the BOT for approval. Once approved, the Sub-Loan Agreement, attached as Annex 10 hereto, shall be concluded between the Fund and selected PFI.

The Fund can proceed with the PFI selection twice a year.

Eighteen months after SLA signing, the Fund may, at its own discretion, specify other co-financing condition of the project for making new allocation from the credit line.

2.3.3 On-Lending Scheme

According to the financing mechanism on-lending to the PFIs shall be carried out in the form of a credit line. The total amount of the line of credit shall be US\$4,200,000 (four million two hundred thousand) equivalent, with total allocations to a single project not exceeding US\$500,000 (five hundred thousand).

The credit line shall be made available to the PFI on the SLA effective date with maturity of up to 7 (seven) years with up to \$300,000 (three hundred thousand) for a single withdrawal. There will not be any pre-specified credit line allocations for PFIs.

Given the specificity of beneficiaries and projects financed by the PFIs, the sub-loans shall be classified into the following two groups:

- sub-loans of less than US\$ 5,000 equivalent, to finance rehabilitation work of individual internal heating networks and (or) procurement of individual heating devices, internal gasification works;
- larger sub-loans in excess of US\$ 5,000, to be utilized for large-scale projects relating to the heating infrastructure installation or rehabilitation.

The sub-loans can be extended both in US\$ and AMD, as the PFIs may request. The repayment of the principal amount shall be made in the currency in which the loan was initially extended. The on-lending terms to the PFIs would be set based on the cost of funding for the financial institutions prevailing in the market:

- For US\$ denominated sub-loans, 6 months LIBOR plus 1 percent shall be charged;
- On-lending rates for AMD sub-loans shall be equal to the weighted average interest of 91-180 days deposits attracted from individuals as calculated by the CBA for Armenian banks. The

average rate for the past 6 months will be used, which may not be lower than US Dollar 6 months LIBOR.

The reference on-lending rates shall be set every six months, starting January 15 of each year, or the following business day. The interest rate is fixed for each tranche. To access the loan proceeds under the credit line the PFIs selected by the Fund and having entered into an SLA shall duly submit an application to the Fund in conformity with the established procedure.

2.3.3.1 Lending to projects estimated less than \$5000

Any withdrawal under the sub-loan shall be made against the PFI application to the Fund and thereafter, accompanied by the FM's conclusion, submitted to the Fund Management for approval. In case of approval within three working days following the submission of the application, Sup-Loan Memorandum shall be signed between the Fund and the PFI, with disclosure of names of the parties, loan amount, interest rate and maturity. Within three banking days following the Memorandum, the loan amount shall be transferred to the correspondent account of the PFI. The maturity of loan shall be up to 84 (eighty-four) months upon the effective date with the principal amount repayable at the end of the term. The PFI may carry out multi-time lending throughout the effective term, revolving the funds only for purposes of the project.

The Fund shall retain the right of recalling the allocated funds prior to the maturity date, on the grounds and terms set forth in Annex 10 hereto.

Given the targeted nature of the Project additional 2% per annum payable on the last date of each calendar month, shall apply towards the PFIs for allocated and undisbursed amounts. Furthermore, the Fund reserves the right of recalling portions of the allocated-and-undisbursed funds that remain 20 percent or more of the total allocated funds for three consecutive months.

The PFI shall, as a security for the liabilities assumed by Sub-loan Agreement, pledge the right to claim towards the Borrower (Project Beneficiary) within a month after on-lending to each Beneficiary in favor of the Fund, including the rights towards fulfillment of liability and outstanding interest, covering all expenses connected with pledging. As an additional security the PFI shall furnish to the Fund the evidence issued by the CBA on recording of non-acceptance collection monetary liabilities of its balances in the corresponding account in the CBA, based on which the Fund is authorized to collect overdue debt of the Borrower on non-acceptance basis from all existing correspondent accounts of the latter in the CBA.

The Borrower fully and individually bears the risk of complete or partial non-repayment by the Beneficiary who obtains credit from him. Occurrence of such event does not free the Borrower from fulfilling the liabilities towards the Fund under the Agreement.

2.3.3.2 Loans for sub-loan in the amount of \$5000 or more

To finance projects in amounts over \$5000, at least 30% co-financing by the Beneficiary shall be a lending condition.

Under the credit line, to obtain the loan amount, the PFI selected by the Fund and granted a Loan Agreement shall duly (application form is attached) submit an application to the Fund. For each Beneficiary, a separate application shall be submitted, in which the requested amount, term, name of beneficiary (name, surname), location (residence), project implementation site, credit objective,

security measures (estimated by an independent, certified evaluator based on comparison method) shall be specified. The FM shall submit the application with his/her decision to the Fund management.

Upon receiving an application from the PFI, the Fund shall, within 5 working days, inform on consistency or inconsistency of application with the requirements of the Agreement. In case of a positive response, the Lending memorandum shall be signed between the Lender and the PFI specifying names of parties, loan amount, currency, interest rate, maturity, name of Beneficiary.

According to the memorandum the loan shall be transferred to the correspondent account of Borrower within three banking days, provided the following requirements have been fulfilled:

- a) The Borrower has duly signed Credit Agreement with the Beneficiary and
- b) The Borrower has duly signed an agreement to secure Beneficiary obligation on the credit (collateral, warranty, bank guarantee), and
- c) The Pledge Agreement on the Borrower's right to claim towards the Beneficiary and towards the security measures was duly signed between the Borrower and the Lender.

The term of loan repayment shall match to repayment term of loan extended to the Borrower, but not more than 84 months. The principal amount shall be repaid in equal parts twice a year, on the 5th of May and 5th of November of every calendar year. Moreover, a grace period is granted for repayment of principal, within the period of which the repayment of principal is not made and the interest rate set forth in the Agreement is only paid. The grace period for loans with up to two years maturity shall be up to 6 months and for credits with two and more years maturity shall be up to one year. The grace period anticipated by this paragraph shall be applied in the Sub-loan Agreement signed with the Beneficiary by the PFI.

In cases specified in the Agreement (Annex 10), the Fund may submit to the Borrower a claim for execution of payment commitments before the due date.

As an additional security measure the PFI shall furnish to the Fund evidence issued by the CBA on recording of non-acceptance collection monetary liabilities of its balances in the corresponding account in the CBA, based on which the Fund is authorized to collect overdue debt of the Borrower on non-acceptance basis from all existing correspondent accounts of the latter in the CBA.

Repayment proceeds from the PFI may be reinvested on a revolving basis for the purposes of the Project and according to the terms and conditions for providing a primary loan as specified in Para 2.3.3. of OM.

2.4 Capital Grants to the Poor

In addition to the UHP Component B2, the Global Partnership for Output Based Aide (GPOBA) has approved provision of a grant of US\$3.1 million directly to the Fund to finance the connection costs of gas and heat supply to the apartments of the poorest households. While implementing the components of the UHP and GPOBA grant project the same approach shall be applied for the utilization of both the credit and grant proceeds. In exceptional circumstances when market conditions do not allow competition the R2E2 Fund may, with prior review and approval of the World Bank, contract HRGA to perform Inter-apartment gas piping works through Direct Contract procurement method.

2.5 GPOBA Supported Gas and Heating Project

Background

The Global Partnership for Output Based Aid (GPOBA), a multi-donor trust fund administered by the World Bank, has provided funding of US\$ 3.1 million to provide capital grants to approximately 4,500 of the poorest households living in urban multi-apartment buildings to enable them to gain access to improved gas and heating services. The goal of the GPOBA is to provide increased access to reliable basic infrastructure and social services to the poor in developing countries through the wider use of Output-Based Aid (OBA) approaches.

In addition, component B2 of the Urban Heating Project (UHP) in the amount of US\$ 3 million together with the government co-financing of US \$ 530,000 will provide funding for the connection of additional 5,500 poorest households. Both GPOBA and UHP funds will use the scheme detailed below, which has been elaborated in close consultation with the relevant ministries, HaiRusGasArd CJSC (HRGA) and the civil society.

Nature of the Scheme

The proposed OBA scheme will provide a subsidy in the form of capital grants for the eligible poor households in Armenia for gas supply/heating for:

- i. **Individual gas-heater based solutions** involving connection of the apartments to the gas network and/or a safe gas heater.
- ii. **Local heating solutions** including the connection of the apartments to a building or block level boiler scheme.

The amount of the subsidy under both options will be determined based on the actual connection costs. The subsidy amount will be complemented with a fixed mandatory contribution. The grant mechanism will cover connection costs only necessary for a basic level of comfort and it will be based on a demand-driven approach whereby the poor households themselves or other eligible applicants on their behalf apply for the subsidy.

Eligibility Criteria and Targeting of Beneficiaries

The OBA scheme will be targeted using the main existing social protection program supporting low-income households in Armenia; the Poverty Family Benefit Program (PFBP). Households eligible for the grant will need to satisfy the following conditions:

- Reside in an apartment under their ownership and located in the multi-apartment building or have received the apartment they are registered at and continue to reside in as per residential area allocation orders according to the previous RA Law on Apartments prior to effectiveness of the RA Civil Code (dated January 1, 1999)
- Be enrolled in the PFBP.

- Provide mandatory cash contribution of AMD 15,000 (US \$30). The mandatory contribution requirement for the households that apply only for a gas-heater (and not gas installation) under the individual gas-heater based solution is AMD 7,500 (US \$15). This contribution may be provided either by the poor households or by other co-financing partners, such as municipalities, heat suppliers and non-poor households in the case of local boiler solutions, charities, NGOs, etc. The R2E2 Fund will create and administer a bank account specifically for the mandatory co-financing. The subsidy will be provided only when the contribution has been received and secured in this account

If the applicant decides to withdraw from the scheme the Fund will return the co-financing in the following manner:

- a. The full amount of co-financing if only design and/or verification works of chimney/vent system were implemented;
- b. Half of the co-financing (AMD 7,500) in case of the apartment connection to the gas network and heater installation (two gas usage points) if the construction and installation works were fully or partially completed;
- c. AMD 7,500 of the co-financing to the household if the heater is returned.

For **individual gas-heater based solutions** the following additional eligibility criteria will apply:

- The building should be connected to functioning gas network, which is allowed to use gas for heating purposes.
- The household should be enrolled in PFBP and have a score of 34.01 and more as at January 1. Depending on the project implementation process, the mentioned score, as well as the date of score calculation may be reconsidered with the decision of the BOT and with the prior agreement of the WB.

For **local heating solutions** the following additional eligibility criteria will apply:

- Evidence needs to be provided indicating that the majority of the apartment owners (over 50%) in the building have agreed to the local heating solution.

The list of poor enrolled in PFBP will be updated annually on January 1st based on the list of PFBP enrolled households provided by the Ministry of Labor and Social Protection. The applicant should be enrolled in the PFBP as at January 1 of the year of application.

Whenever there is a discrepancy between the data submitted by the Ministry of Labor and Social Protection and documents of households that have applied to the Fund, the Fund shall consider the references issued by the territorial bodies of the Social Services.

Exclusions from the scheme

Subsidy will not be available to:

- Apartments in central Yerevan, where property values are the highest in the country, whether the occupants are enrolled in PFBP or not;
- Households which do not own the apartment or rent it (excluding families which have received apartments (or the right to use the residential area) as per residential area

orders according to the previous RA Law on Apartments prior to effectiveness of the RA Civil Code (dated January 1, 1999)) and are registered and continue to reside in those apartments;

- Households that have a functioning district heating supply will not be eligible for the grant. However, there will not be restrictions on applications from households in areas that could be served by district heating (but that currently are not);
- Households with a functioning and safe gas heater that is compliant with Armenian standards will not be eligible for the grant. The R2E2 Fund will provide replacement gas heaters to poor households that have gas heaters that are not compliant with Armenian standards, provided that the contractor removes and destroys the non-compliant heater.
- Households that once received the grant within the framework of the grant project. Those households may not be involved in the project for the second time.

Scheme Administration

The R2E2 Fund will administer the scheme. The Fund will make available the staff necessary to carry out this task. The R2E2 Fund may outsource some of the administrative tasks that do not relate to fiduciary aspects of scheme implementation. The budget for the scheme's administrative costs will be financed from the grant fund and IDA credit.

The R2E2 Fund's administrative role will include:

- Publicising the grant scheme with households, home owner associations (HOA), municipalities and potential contractors;
- Receiving applications;
- Creating and administering the bank account for co-financing;
- Receiving co-financing;
- Issuing acceptance notifications;
- Carrying out tenders and selecting winning contractors;
- Signing and holding contracts with the HRGA, and selected heat suppliers;
- Verification of connections;
- Making payment to HRGA, and selected heat suppliers;
- Monitoring of results, outcomes, and impact of the scheme and their dissemination.

The Fund will administer all financial aspects of the scheme. Payment for all services will be made by the Fund to the contractors either through HRGA or through the heat suppliers and at no time will the eligible households receive money from the Fund.

Gas Supply and Usage Rules assign inspection and certification roles to HRGA. In addition, the scheme allocates performance risks to the service provider (HRGA in the case of individual gas-heater based solution). As a result, HRGA will play an important role in the implementation arrangements of the individual gas-heater based solutions:

- Certification of gas installation contractors selected according to the guidelines set in the Rules of Gas Supply and Usage;
- Prior to gas connection, initial inspection of apartments, verification that the technical conditions allow gas connection and identification of appropriate technical solutions (ventilation, type of heater, etc.). This information will be included in the bidding documents;
- Participation in the preparation of bidding documents and evaluation of bids for the procurements of gas heaters and design and installation services;
- Signing and holding contracts with the contractors for gas heaters and for design and installation works;
- Inspection and certification of design and installation works carried out by contractors within the apartment;
- Making payment to the contractors for gas heaters and for design and installation works;
- Providing periodic reports to the R2E2 Fund.

Sequence for the Operation of the Scheme

Individual gas-heater based solutions

1. The R2E2 Fund signs an Implementation Agreement with HRGA, which specifies the respective roles and responsibilities of HRGA and the R2E2 Fund in the administration of the scheme.
2. The R2E2 Fund presents the list of households enrolled in the PFBP obtained from the Ministry of Social Protection to HRGA to identify and exclude those households that are already connected to the gas network.
3. The R2E2 Fund widely publicizes the scheme among the public, HOA, and municipalities inviting them to apply.
4. The households, or HOAs or municipalities acting on the households' behalf, make the application to the R2E2 Fund. Where applications are made on behalf of the household, the HOAs or municipalities organize a number of application forms, obtain signed consent from households, and submit the applications to the R2E2 Fund.

5. Where applications are found to have been made for apartments that are confirmed as meeting the eligibility criteria applicants are requested to make a mandatory co-financing to the R2E2 Fund account.
6. Following confirmation of receipt of eligible households' mandatory contributions, the R2E2 Fund at the end of each quarter accepts the applications and sends acceptance notification to the households.
7. The Fund shall enter into a single source contract with HRGA for the provision of technical conditions, preparation of necessary design documents, verification of designs and provision of technical supervision over the implementation of installation works for the apartments of the Eligible Households selected to participate in the Project. The cost of the contract is determined and calculated based on the methodology approved by the RA Public Services Regulatory Commission, at a price agreed between the Parties.
8. At the end of each quarter or semi-annually, the R2E2 Fund jointly with HRGA organize tenders for the design and installation of pipework inside apartments and for the supply and installation of the gas heater for the accepted households. The technical conditions provided by HRGA are included in the specifications of the bidding documents.
9. Based on the list of accepted households, the selected design and installation contractor carries out the work in the apartments. Upon completion of the installation work, the contractor notifies HRGA to verify and accept the works.
10. Upon acceptance of the works, HRGA notifies the selected gas heater supplier of the apartments that are ready for heater delivery and installation.
11. Once the supplier has installed the heater, the R2E2 Fund does an independent verification of pipework installation and heater installation.

Local heating solutions

The OBA scheme for the local boiler solution will differ depending on whether the majority of the apartment owners have selected heat service provider, which can be an energy service company (ESCO) or the building HOA, or they have agreed to the local heating solution but heat supplier has not been selected.

Where heat supplier has not been selected the procedure will be as follows:

1. The R2E2 Fund widely publicizes the scheme among the public, and HOA inviting them to apply.
2. The HOAs or, in their absence, any other group representing the apartment complex collect signatures from households who agree to participate in the local heating scheme. If sufficient commitment (at least 50%) is gathered from the households, the HOAs or, in their absence, any other group representing the apartment complex, submits an application to the R2E2 Fund for subsidy support to connect the apartments of the poor.

3. Where applications are found to have been made for apartments that are confirmed as meeting the eligibility criteria, applicants are requested to make a mandatory contribution to the R2E2 Fund account for the households eligible for the subsidy.
4. Following confirmation of receipt of eligible households' mandatory contributions, the R2E2 Fund sends acceptance notification to the households.
5. The R2E2 Fund organizes tenders for ESCOs.
6. Upon completion of the installation of the local heating system and delivery of heat supply, the selected ESCO notifies the R2E2 Fund.
7. The R2E2 Fund does an independent verification of the delivery of heat supply and reviews the service contract signed between the eligible households and the ESCO to ensure that connection costs are not included in the tariff.

Where heat supplier has been selected the procedure will be as follows:

1. The R2E2 Fund widely publicizes the scheme among the public, and HOA inviting them to apply.
2. The HOAs or, in their absence, any other group representing the apartment complex who have been able to gather sufficient (at least 50%) commitment from the households of the apartment complex submits an application to the R2E2 Fund for subsidy support to connect the apartments of the poor.
3. Where applications are found to have been made for apartments that are confirmed as meeting the eligibility criteria, applicants are requested to make a mandatory co-financing to the R2E2 Fund account.
4. Following confirmation of receipt of eligible households' mandatory contributions, the R2E2 Fund sends acceptance notification to the households and to the heat supplier.
5. The heat supplier selects the contractors for the connection of the apartments of the eligible poor to the local heating system, or in the absence of the local heating system, for the installation of the local heating system based on the established commercial practices.
6. Upon completion of the installation of the local heating system and delivery of heat supply, the heat supplier notifies the R2E2 Fund.
7. The R2E2 Fund does an independent verification of the delivery of heat supply and reviews the service contract signed between the eligible households and the heat supplier to ensure that connection costs are not included in the tariff.

Financial Management and Disbursement Arrangements

Funds flow: The GPOBA grant funds will flow from the World Bank, either (a) via a Designated Account, which will be replenished by withdrawal applications or (b) via direct payment by withdrawal application. The further flow of funds from the R2E2 Fund will be through: (i) HRGA for the connection of the poor to the gas network under the individual gas heater-based solution; (ii) local heat suppliers for the connection of the poor under the local heating solution. HRGA will make payments to the contractors that will connect the apartments of the eligible poor to the gas network and install a gas heater while heat suppliers will make payments to the contractors that will connect the apartments to the local boiler scheme. HRGA and heat suppliers can authorize the R2E2 Fund to make payments directly to the contractors. Please see below the information on disbursement triggers.

Accounting policies and procedures: The accounting books and records of the R2E2 Fund will be maintained on an accrual basis and project financial statements, including quarterly Financial Monitoring Reports, will be presented in US dollars.

External Audit: The audit of the project will be conducted by independent auditors acceptable to the Bank and under terms of reference (TORs) acceptable to the Bank. A list of audit firms eligible to perform audits of World Bank financed projects in CIS countries is available and updated regularly. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year and also at the closing of the project. The project financial statements will be based on the quarterly Financial Monitoring Reports (FMRs) and will include: (i) Balance Sheet, (ii) Summary of sources and uses of funds; (iii) Summary of uses of funds by project components; (iv) SOE summary schedule, (v) Statement of the Designated Account, and (vi) notes to the financial statements.

Reporting and Monitoring: Project management-oriented FMRs will be used for project monitoring and supervision. HRGA will be reporting to the R2E2 Fund on a quarterly basis with the description of the connections made during the quarter by cities.

Disbursement Arrangements: The grant funds will be disbursed over a period of three years. Disbursements will be in accordance with the Disbursement Letter and based on the new Country Financing Parameters for the Republic of Armenia, and disbursed under the World Bank's disbursements methods (reimbursements with full documentation, statements of expenditure (SOEs), direct payments to third parties and special commitments.)

Designated Account: The R2E2 Fund will maintain a Designated Account and if necessary one sub-account to the Designated Accounts (Transit Account) in a commercial bank acceptable to the Bank to finance project expenditures from the GPOBA grant. The authorized allocation of the Designated Accounts will be set at US\$200,000 which will be used primarily for the operating costs of the R2E2 Fund and for local heating solution subsidy payments. Minimum value of applications for reimbursement and direct payment is US\$40,000.

Other Supporting Documentation: The required supporting documentation will include the invoices presented by the HRGA and heat suppliers based on the number of connections made, the independent inspections certificates evidencing installation of works by the service providers and billing records evidencing the satisfactory gas or heat delivery to households by the service providers. The supporting documents will be retained by the R2E2 Fund, until at least one year after the World Bank has received the audit report for the fiscal year in which the last withdrawal from

the Grant Account was made. The documentation will be made available for review by the auditors and by visiting World Bank staff upon request.

Taxation: In accordance with the Country Financing Parameters of Armenia the World Bank can finance all reasonable taxes and duties required by the Armenian legislation.

Foreign exchange risk: The foreign exchange risk associated with the contracts will be borne by the R2E2 Fund.

Procurement Arrangements

Procurements under the proposed scheme will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Grant Agreement and the Development Credit Agreement. The R2E2 Fund and HRGA will jointly do the procurements under the scheme. The R2E2 Fund will prepare a Procurement Plan agreed with the World Bank and approved by the Board of Trustees of the R2E2 Fund that will include the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame for each contract. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Works and equipment will be procured using the Bank's Standard Bidding Documents (ICB, NCB, minor works, shopping), or through "rate" contracts, allowing flexibility in providing services to multiple individual beneficiaries.

Individual gas-heater based solutions: The R2E2 Fund jointly with HRGA will conduct competitive tenders for two distinct services:

- i. Design and installation services of the internal gas pipework (from the meter to the heater). Contracts for the design and installation services will be tendered on a regional/municipality basis. However there will be no restriction for one company submitting bids for more than one contract. The bidding documents will include specifications for construction works as defined by the Armenian legislation and regulations as well as technical description of works (based on the technical specifications provided by HRGA). The specifications, among others, will include requirements for the compliance of the installations services with the environmental norms specified under Armenian legislation as well as requirements stipulated in the Environmental Management Plan for the Urban Heating Project. The bidders will be asked to quote connection costs per apartment.
- ii. Supply and installation of gas heaters. The bidding will be a request for companies to supply gas heaters that meet the technical specifications provided by HRGA, and comply with Armenian gas and safety standards and specified international standards or their equivalent.

The R2E2 Fund will release payments to HRGA for gas heaters and for design and installation services according to the following schedule: (i) 20% advance payment upon gas company's signing of contract with the service contractors; (ii) 70% after the gas is delivered to the apartments of the eligible households. The R2E2 Fund or an independent entity hired by it will certify this; (iii) 10%

after 12 months of satisfactory service delivery as certified by the R2E2 Fund or an independent entity hired by it. The service will be considered satisfactory (and hence last 10% of payment released) if, at the absence of non-payment by the gas subscriber, gas supply is available and there are no leakages. The service will also be considered satisfactory if the gas network inside the apartment allows delivery of gas however the service has been cut-off due to non-payment. The last 10% payment may be released earlier (during the second installment) if HRGA secures a bank guarantee for an equivalent amount from a commercial bank acceptable to the R2E2 Fund.

HRGA will be free to determine the payment schedule for the contractors, which however, may not be stricter (i.e. withhold more than 10% of funds for 12 months or withhold last 10% payment for more than 12 months) than the schedule according to which the R2E2 Fund releases payments to it.

Local heating solutions: Where the heat supplier has not been selected, the R2E2 Fund will organize bidding for the supply of heating services at a building or building block level. The bidding documents will include requirements for the installation works to be in compliance with the environmental norms specified under Armenian legislation as well as requirements stipulated in the Environmental Management Plan for the Urban Heating Project. The bidders for heat supply services will be asked to quote connection costs per apartment. The bidding documents will further specify that the heat tariff will be capped at the level of tariff set by the Public Services Regulatory Commission for larger heating schemes (district heating). Least connection cost per apartment will be the selection criteria for the tender. The heat supplier may include the connection costs in the heat tariff for the non-poor households.

Where the building apartment owners have already selected a heat supplier, the capital grants for the connection of the eligible household to the local heating system in the buildings will be based on the actual cost of connection to the heating system and construction/ rehabilitation within-the-apartment infrastructure but shall not exceed US \$500 per apartment. The contractors for implementing these works will be selected by the heat supplier based on the established commercial practices. The contractor may be requested to provide the breakdown of connection costs.

In both cases, the R2E2 Fund will release payments to the heat suppliers for the connection of the eligible households in two installments: (i) 90% upon verification by the R2E2 Fund or an independent entity hired by it that the apartments of the eligible households have been connected to the local heating scheme and that heat supply is being delivered; (ii) 10% after 12 months of satisfactory service delivery as certified by the R2E2 Fund or an independent entity hired by it. The service will be considered satisfactory (and hence last 10% of payment released) if, at the absence of non-payment by the household, adequate heat supply is available. The service will also be considered satisfactory if the heat supply can be made available however the service has been cut-off due to non-payment.

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 \$2,000,000 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 scheme;
- (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 envelop 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 World Bank agrees meet the requirements of clauses 3.6-3.7 of Procurement Guidelines 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 by the heat suppliers may be procured in accordance with commercial practices acceptable to the World Bank as specified in Annex 13 of Operational Manual.

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 World Bank 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 World Bank 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.

Scheme Monitoring and Evaluation

The R2E2 Fund will have the overall responsibility for the scheme administration and for the monitoring of outcomes.

Two types of monitoring are required:

- Monitoring of installation and operation to ensure, among other things, that the heaters and boilers are installed properly in apartments of eligible households. This will be carried out by the R2E2 Fund based on the progress reports presented by HRGA.
- Results, outcomes and impact of the scheme, particularly the GPOBA monitoring and tracking indicators on output, access, targeting, affordability and sustainability, service quality and aid efficiency as detailed below.

Questionnaires will be sent to a representative sample of beneficiaries to measure, inter-alia results, outcomes and impacts, as described below.

Results (twice a year) such as:

- number of applicants for capital grants for heaters/boilers (for individual heating and local boilers separately)
- number of approved applications for capital grants for heaters/boilers (for individual heating and local boilers separately)
- number of connections to poor households (for individual heating and local boilers separately)
- number of poor households that have received service for 12 months.
- adequacy of the heater size, location, design
- subsidy per connection for individual heating (range of subsidies awarded, and average subsidy for all connections)
- subsidy per connection for local boilers (range of subsidies awarded, and average subsidy)
- average project cost on a per connection basis for those households that have received 12 months service
- the number of complaints received from targeted beneficiaries
- the number of complaints about unfairness or other concerns received from those who are not beneficiaries
- compliance level with the expected time-frames for connection

This information will also be collected by the R2E2 Fund in conjunction with the RSSCs (ultimately through MLSI).

Outcomes (annually):

- the satisfaction of the households with the work done
- changes in the heat source used
- changes in equipment used
- whether households actually use the installed heaters for heating
- before and after (change in) average temperature in apartments, in say January
- satisfaction with the heating the households receive given the design and heaters received
- Square meters heated
- Preference, post-grant, for another heat option
- Extent of compliance with ongoing payments

Impacts (after the end of the project), for example:

- improvements in health
- change in heating-related expenditures and affordability
- (change in) the number of deaths, injuries and damage to buildings caused by gas and CO poisoning, fires and explosions among the beneficiary group
- unintended consequences (positive and negative, this could be an open ended question)
- percent of total eligible households that are receiving access through the OBA capital grants ("access" defined as connections)
- percent of total population that is being covered through the capital grants program

Monitoring for outcomes and impact will be awarded to an independent NGO. On the basis of the collected information a mid term review will be conducted 18 months after the commencement of the scheme to assess its effectiveness and, if necessary, revisions will be made to it.

2.6 School Heating Rehabilitation

Within the framework of UHP and on behalf of the government the Fund shall finance investments on a grant basis for installation and rehabilitation of gas-based local heating systems and whetherrization works (with costs not exceeding 10 percent of total investment costs) for schools.

Under this component all urban schools outside Yerevan will be eligible for financing, provided their technical condition is satisfactory, including availability of gas, water and electricity supply in the area, and have suitable engineering design.

The schools shall be selected based on the cost-effectiveness of the investment per student as well as poverty, climatic and geographical priorities. If funds remain after financing of investments in all eligible urban schools, the additional funds shall be provided to schools in Yerevan.

With the aim of elaborating the annual list of schools, the Fund shall carry out preliminary evaluation of schools based on the following qualification criteria:

- **Location.** Under this criterion the priority shall be given to the schools located in poor and/or severe climatic locations;
- **Technical conditions.** Under this criterion the school buildings with less than 2nd category emergency shall be selected;
- **Gas supply system availability.** Availability of a functioning gas pipeline within 150m proximity.

The schools that meet the qualification criteria shall be selected based on the cost-effectiveness of the investment per student.

Upon completion of the preliminary evaluation, the list of schools shall be submitted to the BOT. Upon approval, a Mutual Commitment Agreement attached as Annex 11 hereto shall be signed between the schools and the Fund which sets forth the responsibilities of the parties hereof.

Procurement under this component shall be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", both dated May 2004, and the provisions of the DCA. The terms of bidding shall be determined based on the type and the estimated price of the contract and indicated in the Procurement Plan, agreed upon with the WB and approved by the BOT.

Contractors that will perform the heating system rehabilitation of schools shall be selected by the Fund based on bidding. Scope of contract will include engineering design and drawings, supply and installation of required equipment, commissioning of heating system.

After completion of works the result of works is transferred to the school by the Fund and recorded in form of the corresponding documents.

2.7 Reporting and Monitoring¹

The preparation and presentation of internal reports and documents is the integral part of the Fund management and performance processes with the FM assuming the responsibility thereof. The documents herein shall be submitted to the BOT and WB according to the following schedule:

Report	Frequency	Receiving Agency
Five-year Business Strategy	Updated once every three years	BOT upon WB review
Business Plan	Annually, by October 31	BOT upon WB review
Auditor's Report	Annually, within the first 6 months of the year end	WB upon BOT approval
Operational Budget	Annually, by October 31	BOT upon WB review
Implementation Progress Report	Quarterly, within 45 days following the end of each quarter	WB
Financial Monitoring Reports (FMRs)	Quarterly, within 45 days following the end of each quarter	WB and BOT

By the end of each year the FM shall prepare the respective Annual Report and submit to the respective agency as per the above schedule. The Annual Report shall be based on the actual financial and operational output for the year. This shall also involve the evaluation of financial performance against the *Business Plan* and the *Operational Budget*.

Business Strategy

FM prepares the five-year business strategy of the Fund. The Business Strategy defines proposed strategy approach to the organization of activities and development of the Fund taking into consideration strategic goals and principles initially adopted.

The strategic goals of the Fund are:

- facilitate investments in Renewable Energy and Energy Efficiency sectors;
- promote the development of EE and RE market in Armenia;
- reduce adverse anthropogenic impacts on the environment and human health;
- develop activities related to energy safety, increase in reliability of energy system.

Business Strategy includes budget covering expenses of the Fund for the first five years of activity. The five-year budget is prepared in accordance with the initial defined criteria related to the performance indicators which attempt to keep certain level of self-financing for each year. Business strategy shall be approved by the BOT. It shall be updated after every three year.

Business Plan

Each year the FM shall draft the Business Plan (BP) of the Fund.

¹ This section could apply to all projects not only the heating Project.

The BP shall be drafted by October 31 of each year and shall cover the Fund's operations for the next year. This document shall describe the level of performance and financial outcomes of the Fund as well as its intended commitment to the achievement of substantial results. The Business Plan shall include:

- Field of activity;
- Analysis of parties concerned, including project beneficiaries, co-financing partners, governmental and other agencies;
- Number of newly planned EE and RE projects;
- Cost of estimates;
- Details on technical assistance initiatives planned;
- Operational Budget

Each year the FM shall prepare the Operational Budget (OB) of the Fund. It shall involve the budgeted levels of revenues and costs for the following year. In particular, the Operational Budget shall focus on the following:

- Budgeted level of revenues;
- Budgeted level of technical assistance costs;
- Budgeted operational costs of the Fund;
- Budgeted remuneration.

The FM shall discuss the above-mentioned figures with the Fund Director. Once the OB is ready, it should be submitted for the BOT approval. Any change and addition assumed by the BOT shall be involved in the final version of the OB. Thus, the OB shall be submitted to respective authorized bodies so as to include it in the state budget of the following year. Any discrepancy between the total of OB and the total of the respective project that is involved in the RA Law on State Budget will be reported to the BOT to receive further instructions for changes or to request additional funding from the RA Government. The application for additional financing shall be submitted to the GoA in accordance with the RA Legislation. The current year budget shall be monitored monthly. The Interim Report of project components shall be presented to the Ministry of Finance of the RA.

Implementation Progress and Monitoring Reports

The Implementation Progress Reports (IPR) are the instruments for monitoring and evaluation of the Fund's activity by the FD against the pre-established performance indicators. The data for the IPRs is sourced from the individual project monitoring reports prepared by the EE and RE Coordinators as part of the individual project monitoring.

The following indicators are calculated and reflected in the IPRs for monitoring purposes of the Heating project:

Technical indicators

- Percentage of households in multi-apartment buildings with safe gas or hot water based heating;
- Cumulative number of targeted schools with classroom temperature above 15C and no idle classroom-days resulting from inadequate heating;
- Reduced incidence of CO₂ poisoning, heaters and explosions per 10,000 gas connection;
- Number of poor households who received capital grants for gas or hot water based heating services;
- Number of schools with improved heating services;

Financial indicators

- Aggregate dollar amount of projects for EE and RE financed by the Fund/PFIs and co-financed by beneficiaries;
- Cumulative Fund leverage ratio (based on actual disbursements and funds attracted);
- Self-financing ratio;
- Default rate;
- Payout record;
- Payment recovery.

Institutional Indicators

- Number of private entities engaged in EE and RE sectors;
- Number of FIs engaged in on-lending under EE/RE projects.

Financial Monitoring Reports (FMR)

The Financial Monitoring Reports (FMRs) are the instruments for monitoring and evaluation of the Fund's financial activity, progress and status by the WB and the BOT. The detailed content and format of the FMRs are described in the Financial Management Manual of this OM under Annex 18.

2.8 Environmental Screening and Assessment

The projects proposed for implementation by the Fund and/or on-lending to participating financing institutions (PFIs) will undergo environmental screening for compliance with the EMP attached as Annex 12 hereto. All projects financed by the Fund will be carried out in accordance with the environmental legal and regulatory framework in force in Armenia. Projects to be financed by the Fund are expected to be environmentally friendly, reducing energy consumption and thereby emissions.

The projects submitted shall undergo assessment for revealing of potential environmental risks, operational impacts and the overall opportunities for complying with the environmental requirements of the RA and the donors.

Project Classification

The World Bank's environmental category assigned to the UHP is "Financial Intermediary" (FI). In an FI project, specific subprojects are identified during implementation and the responsibility for environmental due diligence of subprojects lies with the FI. In the case of the projects financed by the Fund the responsibility for environmental due diligence shall lie with the PFI, which acts as FI.

The overall subprojects proposed for implementation under the Fund shall undergo environmental screening and assessment, throughout the life of the project. The Fund shall apply EMP criteria for the assessment of individual subprojects. According to these criteria the projects shall be broken down into the following three categories:

- **Category A:** Projects that may result in significant or irreversible negative environmental impact. For this project, the applicant shall compile an Environmental Assessment (EA), including an Environmental Impact Assessment (EIA) and Environmental Management Plan (EMP).
- **Category B:** Projects that may have moderate environmental impacts for which mitigating measures can be designed. Generally, the applicant shall only be required to prepare a simplified EMP.
- **Category C:** Projects that have no or only negligible anticipated direct or indirect environmental impact. No EIA shall be required from the applicant.

The environmental assessment of projects shall run in compliance with the following requirements:

- Every subproject proposal will include an environmental questionnaire to be filled-in per the format attached under EMP hereto (Annex 12) and the documents required by the Armenian Laws for environmental permits.
- The environmental assessment of the project shall be agreed upon with the respective government agency in line with the RA Environmental Legislation and EIA. The content and format of the EIA is established by the Armenian legislation.
- The applicant will further provide evidence that the company has valid operating or construction permits and no environmental liabilities in terms of pollution fees and fines. In case the applicant does not have a valid authorization, the applicant has to provide evidence of the company's application for the required authorizations, and of the current status of the authorization process.
- The PFI or the Fund may request additional information if required. The PFI or the Fund shall carry out the assessment of the environmental risks and potential impact and thereafter assign the respective category to the project.
- During the whole duration of the sub-loan agreement, the PFI or the Fund shall carry out periodic monitoring and evaluation of the environmental performance of the client.

The Fund shall have one technical expert with environmental background to provide assistance to all EE and RE Project Coordinators and Fund Director on environmental management aspects of the projects proposed for financing under the Fund.

The Fund Director shall submit to the BOT periodic reports on the implementation of its environmental procedures and on the environmental performance of its credit portfolio. Upon the BOT approval, these reports shall be submitted to the World Bank, as promptly as possible, but no later than ninety (90) days following the end of each fiscal year. The Environmental Supervision and Performance Report shall include the following:

- The results of the Fund's screening and review procedures;
- A description of any investment not currently in compliance with environmental and social requirements as per its remedy action plan and of the actions the Fund has taken or intends to take to remedy the situation.

Within the scope of the UHP the Fund shall in no way finance any projects, which require detailed and in-depth environmental studies and elaborate mitigation measures, therefore, priority shall be given to the projects with relatively moderate implementation requirements.

3 WB Supported Renewable Energy Project

On March 29, 2006 the World Bank approved **Renewable Energy Project** (REP) for Armenia. The total amount of the project is US\$ 8 million, including a US\$ 5 million International Development Association (IDA) credit, and a US\$3 million grant from the Global Environment Facility (GEF/IBRD). The respective credit and grant agreements were signed on April 7, 2006.

This project will assist the government to increase privately owned and operated power generation utilizing renewable energy and to reduce greenhouse gas (carbon dioxide) emissions by overcoming barriers to the development of renewable energy.

While the overall legal and regulatory framework in Armenia is supportive to the development of renewable resources, private investments in renewable projects are impeded by a number of legal, regulatory, informational, financial, and institutional barriers. The REP will provide assistance to remove the existing barriers and debt financing, as well as technical, legal, managerial and business support to a selected number of renewable projects.

GEF's involvement will help remove some of the barriers and create a sustainable arrangement upon exit. GEF's role in the project will be to overcome barriers to the development of renewable energy resources through commercially sustainable activities. Without GEF participation, private developers may not be able to develop and finance projects that benefit project partners and the country at large. Also, without GEF, there would be a lack of resources to build knowledge about renewable energy among private investors, FIs, policy-makers, and other stakeholders. GEF support will lead to sustainable financing of renewables resulting in long-term reductions of greenhouse gas emissions.

This section sets forth the implementation principles and procedures applicable to the WB supported REP.

3.1 Institutional structure

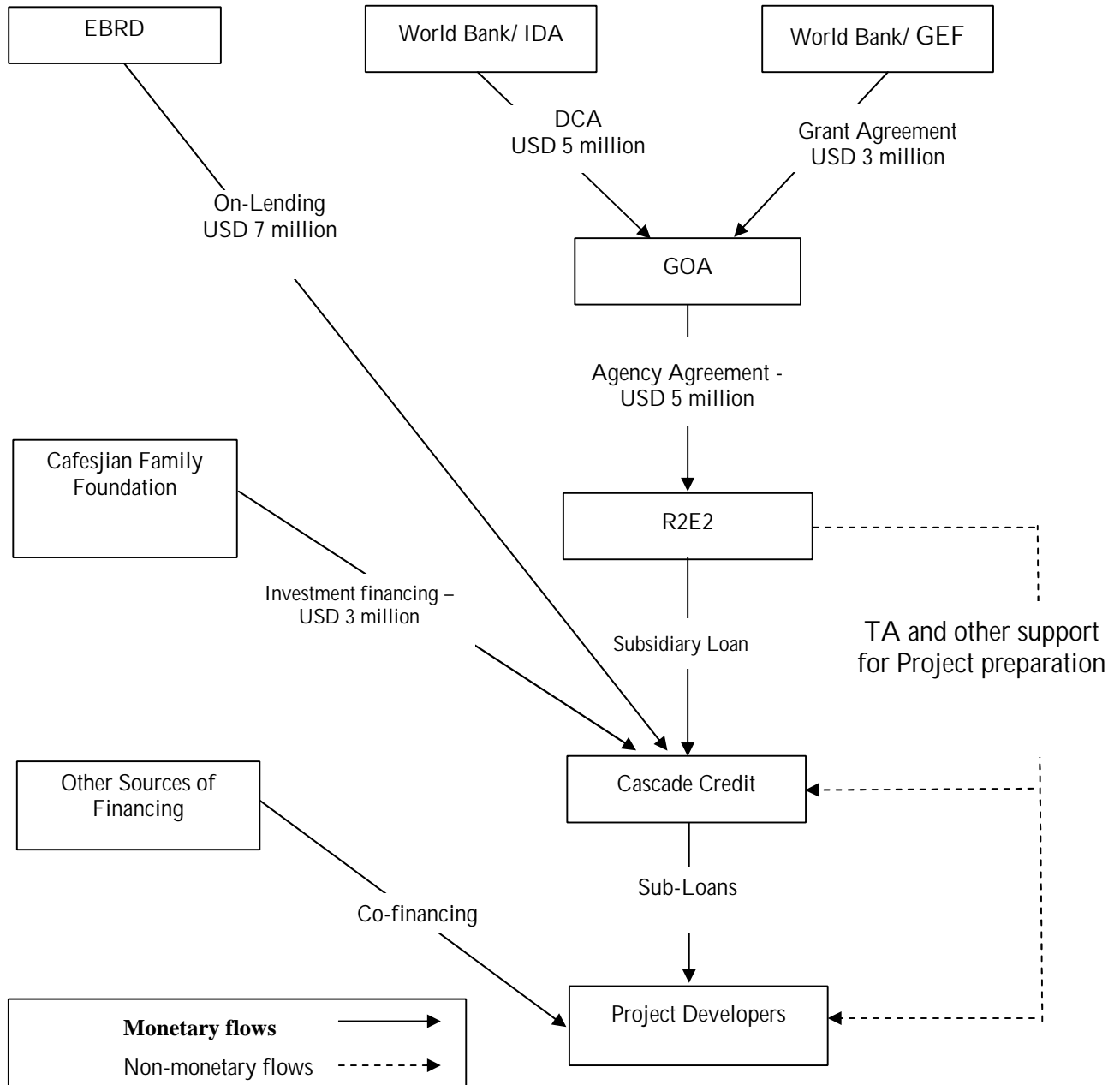
The IDA credit proceeds, which the Fund will utilize for on-lending activities, shall be extended based on the Agency Agreement entered into between the Republic of Armenia and R2E2 Fund

(Annex 14), and the grant proceeds of the Project shall be provided to the Fund in the form of a grant pursuant to the Grant Agreement signed between the RA and the Fund (Annex 15).

For investment financing the IDA has provided USD 5 (five) million, Cafesjyan Family Foundation, which is the founder of “Cascade Credit” Universal Credit Organization (hereinafter “CC”), has made a co-financing of USD 3 million through increasing the statutory capital of CC. As a co-financing to REP, CC has attracted USD 7 million from the European Bank for Reconstruction and Development (hereinafter EBRD) under the Framework Agreement signed on May 23, 2006.

Within the scope of REP the Fund shall offer TA and other support to the potential investors as well as to the PFI staff involved in provision of sub-loans.

The institutional set-up of the REP is as follows:



3.2 Objective and components of the Project

The objective of the REP is to increase privately owned and operated power generation utilizing renewable energy.

The Project shall be implemented through the following components:

- A) Development of renewable energy framework;
- B) Financing of investments in renewable energy sub-projects.

A) Development of Renewable Energy Framework

This component involves technical assistance to the investors for removing barriers and implementing the RE sector development activities. It covers the following areas:

- 1) Improvement of legal and regulatory framework and capacity building for state agencies, in the following directions:**
 - (a) policy planning with regard to renewable energy issues;
 - (b) design, evaluation, licensing, assessment and monitoring of renewable energy projects through the provision of goods, services and training.

Specific activities to be supported for streamlining laws and regulations include:

- Working out regulations, norms, and procedures to promote to the renewable energy development;
- Revising the existing legislation and regulations to improve and streamline procedures for transparent and fair allocation of resources (e.g. land rights, water permits, licenses);
- Developing regulations, norms, and procedures for safe, efficient, and technically and economically feasible use of water and irrigation pipes and canals for electricity generation purposes;
- Developing sub-legislation to operationalize the RA Law on Renewable Energy and Energy Efficiency;
- Improving the tariff setting mechanism for existing and newly constructed renewables, specifically small hydro power plants operating on artificial water flows to eliminate uncertainties and attract project financing;
- Reviewing dispatching rules of the system operator for acceptance of small renewables to the grid.

Capacity building activities offered to state agencies will involve training and other TA as well as limited logistical support for:

- RA Ministry of Energy, on policy planning issues of renewables and available new technologies;
- Public Services Regulatory Commission on advanced tariff design methodologies, licensing, and evaluating technical and financial feasibility of renewable projects;
- RA Ministry of Energy, Water Resources Management Board under the Ministry of Natural Protection, and meteorological services on tools and methods for identifying, assessing and monitoring renewable capacity.

Besides, limited hardware and software shall be provided to the PSRC and the MOE.

2) Support in facilitating investments in renewable energy sub-projects, including:

- Supporting field surveys and monitoring of potential renewable resources, including rivers, water reservoirs, water and irrigation pipes and canals to identify financially viable sites, and to update the existing Energy Development Scheme through small hydro power plants;
- Development of a comprehensive Integrated Database and a related open-source Geographic Information System (GIS) that will contain comprehensive information on available renewable energy resources (hydro, wind, solar, biomass, geothermal), multi-year monitoring data of wind, hydro, and solar resources, optimal scheme of hydropower potential utilization, necessary transport, power, and other infrastructure, and socio-economic data. These will provide easy and quick access to local and foreign investors for identifying investment opportunities, preparing feasibility studies and monitoring potential renewable projects.
- Development of the R2E2 Fund website and web portal that will provide access to the Integrated Database and the GIS, and contain information on Armenian power sector, its main indicators and structure, power sector legislation, rules and regulations, procedures for obtaining necessary licenses, permits, and other required documents;
- TA to potential investors for project preparation, including preparation of business plans, feasibility studies, and preliminary designs. This will enable to reduce costs and ultimately risks associated with developing small renewable projects and allow implementing otherwise marginally feasible projects. In addition, this TA should strengthen the capacity of the local consulting industry. The R2E2 Fund would have adequate experience to assist in relatively effortless project preparations. More complicated TA may be provided in the form of matching or conditional grants under the condition of certain co-financing from project developers.

The TA shall be offered to potential investors that are engaged in private businesses for construction of new wind power or small hydro power plants and rehabilitation of the existing plants.

TA shall be provided according to the following procedure:

- The developer approaches CC for a loan;
- Developer submits project brief based on which CC determines its level of interest
 - *In parallel, the developer may submit the same package to R2E2 Fund; experts within the R2E2 Fund may offer an independent and non-binding assessment to the developer and CC.*
- If CC is interested, both parties sign confidentiality agreement; more detail information may be requested and provided to CC.
- Based on project due diligence, CC decides to:
 - Lend; if the project well-prepared and viable;
 - Reject; if the project is clearly not viable or not suitable with the fund's objectives;
 - Alternatively, CC may determine that more analysis needs to be done and/or more information needs to be provided, and may request such info from the developer.
- The developer decides if it can provide the requested information or needs assistance from the R2E2 Fund; in the latter case, the developer requests R2E2 Fund's assistance.
- The R2E2 Fund determines if and what type of support it will provide.
- A cost estimate for the support is developed (not expected to exceed \$20,000 per project); the R2E2 Fund agrees with the developer on scope, schedule, responsibilities and co-funding (minimum 20% co-funding is required).
- The R2E2 Fund employs one of its consultants to finalize (together with the developer) the technical/economic/financial assessment of the project.
- If the project meets certain viability criteria, a decision is made if a business plan should be developed; the business plan is developed preferably by the developer; alternatively, it is developed by the R2E2 Fund consultant working closely with the developer.
- CC is consulted with regard to the viability of the project before proceeding with the development of the business plan.
- Based on the technical/economic/financial assessment of the project and the business plan, CC takes a decision whether or not to fund the project.

3) Preparation of long-term strategies and support of initiatives for mobilization of additional financing for the RE sector development.

Support will be provided to the R2E2 Fund and upon necessity to the beneficiary financing institution in developing a long-term strategy for the replenishment of funds and mobilization of additional financing as well as for development of a long-term strategy for the replenishment of funds, through the following activities:

- Organization of study tours and conferences for;
 - a) Potential investors on the unique features of renewable technologies (with specific focus on modern and efficient technologies), technical aspects of renewables, financing techniques, preparation of business plans, mobilization of financing and methods to develop such projects;
 - b) PFI loan officers, particularly on assessment of renewable energy projects, environmental screening, provision of methodology for adequate risk analysis (e.g. portfolio management software, scoring systems, etc.);
 - c) Engineering and consulting firms on technological features of renewables, and associated tools used in preparing engineering designs, business plans and carrying out technical and financial audit of renewable projects.

Design and piloting of different financial instruments to accelerate lending to sub-borrowers, replenish funds and enhance the leveraging impact of the Project. These instruments may involve risk sharing arrangements like partial risk guarantees, asset backed securities (ABS), etc. In addition, a review of the legislation regulating security markets will be conducted and, if necessary, amendments made to remove possible impediments and provide sufficient comfort to investors. If successful, ABS would allow selling pools of renewable sub-loans to a trust, which might be within the R2E2 Fund or as a separate entity that can be mutually managed by the R2E2 Fund and CC. The trust would repackage these sub-loans as interest bearing securities and actually issue them which could be easily circulated on the market.

4) Support to the R2E2 Fund and the PFI for the effective implementation and monitoring of the Project, including provision of goods, services and training.

Under this sub-component, TA, equipment, works and logistical support will be offered to the R2E2 Fund and the PFI, CC, for implementation and monitoring, including the cost of technical experts, resident advisors, office equipment and furniture, staff salary, costs of audits, transportation, communication, staff trainings: This sub-component also involves:

- Monitoring of exploration and exploitation of renewable resources, and CO₂ emission reduction;
- TA to the R2E2 Fund to establish adequate institutional arrangements for the intermediation of clean development mechanism (CDM) transactions. This is necessary since the sub-projects will be many and small in size and without support of the R2E2 Fund the transaction costs will be high;

- Collection, analysis and dissemination of lessons learnt, including compilation of a detailed report, organization of national and regional conferences, and preparation of a documentary film summarizing lessons of project implementation in Armenia.

5) Project monitoring and evaluation

To ensure the monitoring and evaluation of the REP outcome and output indicators, the R2E2 Fund shall carry out implementation progress monitoring as well as monitoring of outcomes, results and impact of REP.

REP implementation progress monitoring shall be based on the data and information obtained from the CC, PSRC and National Dispatch Center. The reports received by the CC shall comprise data about Project beneficiaries (Sub-Borrower) and their relations with the CC (if such exists), brief description of projects implemented (including installed capacity, quality of equipment procured by Sub-Borrowers and verification that the procured equipment is unused, compliance with procurement procedures), amount of sub-loans, funds provided by the CC or other entities, sub-loan terms, interest rates, redemption process.

The environmental expert of the R2E2 Fund shall also conduct environmental monitoring to ensure compliance with the requirements of EMP.

By the order of FD, the experts of the R2E2 Fund may conduct site visits together with the CC or separately during the period agreed with Sub-Borrower. During the site visits, the progress of works anticipated by the project should be observed.

Based upon collected data and reports, the R2E2 Fund shall prepare quarterly and annual reports to submit to the BOT and the WB.

Implementation progress monitoring shall be based on the data obtained from CC, PSRC and National Power Dispatch Center. The Fund will collate these data and together with its own reports submit them periodically to the BOT and the World Bank.

A management information system will be developed by the R2E2 Fund to assemble the on-lending data, covering, *inter alia*, the project pipeline, amounts invested, loans not requiring guarantees, cost-sharing with financing partners, cost-effectiveness of sub-projects, defaults, fund reflows, energy saved and GHG reduction. The summary of this information will be submitted quarterly to the BOT and the World Bank.

The monitoring of REP outcome indicators, namely shall be carried out one year after the effectiveness of the REP and annually thereafter. The outcome indicators to be monitored include:

- Installed capacity of renewables connected to the power grid
- Renewable generation added to the generation mix
- Carbon dioxide emission reductions

Monitoring of results and impact will be carried out upon the completion of REP. It will enable to monitor and track each of the REP components by their actual technical-economic indicators, organizational and institutional issues; to summarize the project actual outcomes and outputs against

the targets set in the REP, reveal the weaknesses and barriers and provide for sufficient measures to tackle such issues.

B) Financing of investments in RE sub-projects

The objective of this component is to enable the private investors, engaged in construction of new SHPPs or SWPPs and rehabilitation of the operated power generation, to access financing for the development and implementation of renewable energy projects.

The REP Beneficiary may be any legal entity that is not state owned and is engaged or intends to engage in any economic activity that involves construction of new wind power or small hydro power plants and rehabilitation of the existing plants, and holds construction and/or operating license issued by the Public Services Regulatory Commission.

The following eligibility criteria for sub-borrowers and sub-projects will apply to ensure financial viability of the sub-projects and adequate financial and legal standing of the sub-borrowers:

- Projects being financed should increase renewable energy generation (refinancing of existing plants would not qualify for financing);
- Sub-borrowers shall contribute at least 30% of total project costs as an equity finance;
- Sub-borrowers shall obtain all licenses required by the legislation (construction of new HPPs, etc.), land rights and water permit;
- Sub-borrowers shall represent companies with more than fifty percent (50%) private ownership of share capital;
- The installed capacity of hydro and wind power plants shall be below 10 megawatts;
- The financing for sub-loan shall not exceed US \$2 million.

CC can not extend loans to sub-projects/beneficiaries that are already financed (except for the cases when the financing of sub-projects is connected with expenses incurred as a result of price and/or currency fluctuations) and/or have a relation with the CC or affiliated persons (acknowledged by the Legislation of the RA regulating the activity of the CC). The CC, or its affiliates or affiliated legal entities should not have equity in the sub-projects until the sub-loans are not completely repaid. The exception from this may be the cases when means backing the sub-loan are disposed of.

The on-lending to CC will be carried out based on the Subsidiary Loan Agreement that the Fund shall enter into with (Annex 16). CC will pool IDA funds, contribute the funds leveraged from EBRD as well as its own co-financing and thereafter extend sub-loans to beneficiaries in conformity with the established procedure, by entering into a sub-loan agreement with the beneficiaries (Annex 17).

CC shall continuously comply with the following eligibility criteria throughout the Subsidiary Loan Agreement effectiveness:

- a) in a satisfactory manner comply with the requirements of all the normative legal acts of the Republic of Armenia governing the activities of credit organizations;
- b) undergo an annual audit in conformity with the international auditing and accounting standards;
- c) ensure co-financing to the Projects in the proportion established by the Subsidiary Loan Agreement.

The Subsidiary Loan will be offered to CC through a credit line. The total amount of the credit line shall not exceed US\$5,000,000 (five million). The credit line shall be available for CC for 60 months after the effective date of the agreement entered into between the Fund and CC.

Under the credit line, the subsidiary loans may be provided in AMD or USD as CC may request. The repayments are made in the currency of allocation, except for the interest (penalty) payments which are made in AMD. The interest rates of the subsidiary loan are set as follows:

- For **USD** denominated Subsidiary Loan - 6 months LIBOR plus 1%. In terms of this Agreement LIBOR means London inter-bank offered rates of major banks for deposits in US Dollars. The reference page for LIBOR is the page LIBOR01 on Reuters Service (or such other page that may replace page LIBOR01 on Reuters Service for the purpose of displaying London inter-bank offered rates for deposits in US Dollars);
- For AMD denominated Subsidiary Loan - the weighted average interest rate for 91-180 days deposits placed by individuals, calculated for the Armenian banks by the Central Bank of the RA, pursuant to the published rates for the last 6 (six) months but not lower than 6 months LIBOR.

The interest rate is established on January 15 and June 15 of each year, and the interest rate applicable to the CC for each single Sub-Loan shall remain fixed for the entire maturity period.

The maturity of the Subsidiary Loan shall match the maturity of the Sub-Loan extended by CC to the Sub-Borrower but shall not exceed 96 (ninety six) months. The principal amount of the Subsidiary Loan shall be repaid in equal installments twice a year, on the 17th of May and 17th of November of every calendar year or on the first banking day following the specified dates if those are non-banking days. Further, a grace period shall be allowed for the repayment of the principal amount within which no repayment of principal is made and only the interest set forth in the Agreement is paid. The grace period shall be maximum 24 (twenty four) months. The grace period covered in this paragraph shall be stipulated in the Sub-Loan Agreement signed between the CC and the Sub-Borrower.

B.1 Reallocation of REP project funds in a revolving principle

a) Objective

Under the project, the amounts repaid by the Cascade Bank may be reallocated in a revolving principle for the project objectives in accordance with the below given terms and conditions.

The objective is technical assistance to potential investors that are engaged in private businesses for construction of renewable resources based plants and rehabilitation of the existing plants. Under the project, the proceeds of the Fund shall be extended to the PFIs (Participating Financial Institutions) for on-lending the investors.

b) PFI Eligibility Criteria

PFIs could include commercial banks and/or non-bank financial intermediaries (credit institutions). PFIs should be required to meet the following criteria at all times:

Eligible Bank and non-bank PFIs should:

- 10) be at least 75% privately owned;*
- 11) be interested and committed to servicing the range of clients and beneficiaries of the Project;*
- 12) be in compliance with the criteria and prudential regulations as established by the CBA related to: (a) total and statutory capital adequacy; (b) exposure to maximal risk of a single, related, connected borrower and insider parties; (c) liquidity (only for banks);*
- 13) have return on assets of at least 2% for the last two years;*
- 14) have return on equity of at least 10% for the last two years;*
- 15) have ratio of non-working assets to total assets not exceeding 3%;*
- 16) have ratio of non-working loans to total loans not exceeding 4% for the last two quarters;*
- 17) undergo an annual audit in accordance with the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) and have unqualified audit reports for the last two years;*
- 18) have satisfactory internal control and audit procedures, including sound lending policies and procedures in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, etc.*

PFIs management should apply for participation in the Project by submitting an expression of interest supported by all relevant documents, including the latest available two annual financial statements and audit reports, and other information related to their prudential and regulatory compliance.

A special evaluation committee established for the PFI selection purpose by the BOT shall thereafter consider the PFI applications accompanied by the Fund financial manager's conclusion. After decision is reached by the evaluation committee the list of eligible PFIs shall be submitted to the BOT for approval. Once approved, the Loan Agreement (Annex 19) shall be concluded between the Fund and selected PFI.

C) Criteria of sub-borrowers and sub-projects

The selection criteria of sub-borrowers remain the same, the Beneficiary may be any legal entity that is not state owned and is engaged or intends to engage in any economic activity that involves construction of new wind power or small hydro power plants and rehabilitation of the existing

plants, and holds construction and/or operating license issued by the Public Services Regulatory Commission.

The following eligibility criteria for sub-borrowers and sub-projects will apply:

- Projects being financed should increase renewable energy generation (refinancing of existing plants would not qualify for financing);
- Sub-borrowers shall contribute at least 20% of total project costs as an equity finance;
- Sub-borrowers shall obtain all licenses required by the legislation (construction/rehabilitation of new plants, etc.), land rights and water permit;
- Sub-borrowers shall represent companies with more than fifty percent (50%) private ownership of share capital;
- The installed capacity in the proposed projects shall be below 10 megawatts;
- The financing for sub-loan shall not exceed US \$2 million.

PFI can not extend loans to sub-projects/beneficiaries that are already financed (except for the cases when the financing of sub-projects is connected with expenses incurred as a result of price and/or currency fluctuations) and/or have a relation with the PFI or affiliated persons (acknowledged by the Legislation of the RA regulating the activity of the PFI). The PFI, or its affiliates or affiliated legal entities should not have equity in the sub-projects until the sub-loans are not completely repaid. The exception from this may be the cases when means backing the sub-loan are disposed of.

The Loan will be offered to PFI through a credit line. The total amount of the credit line shall not exceed US\$5,000,000 (five million). The credit line shall be available for PFI for 60 months after the effective date of the agreement entered into between the Fund and PFI.

Under the credit line, the loans may be provided in AMD or USD as PFI may request. The repayments are made in the currency of allocation, except for the interest (penalty) payments which are made in AMD. The interest rates of the loan are set as follows:

- For **USD** denominated Loan - 6 months LIBOR plus 2%, but the interest rate may not be less than 5%. In terms of this Agreement LIBOR means London inter-bank offered rates of major banks for deposits in US Dollars. The reference page for LIBOR is the page LIBOR01 on Reuters Service (or such other page that may replace page LIBOR01 on Reuters Service for the purpose of displaying London inter-bank offered rates for deposits in US Dollars);
- For AMD denominated Loan - the weighted average interest rate for 91-180 days deposits placed by individuals, calculated for the Armenian banks by the Central Bank of the RA, pursuant to the published rates for the last 6 (six) months but not lower than 6 months LIBOR.

The interest rate is established on January 15 and June 15 of each year, and the interest rate applicable to the PFI for each single Sub-Loan shall remain fixed for the entire maturity period.

The maturity of the Loan shall match the maturity of the Sub-Loan extended by PFI to the Sub-Borrower but shall not exceed 96 (ninety six) months. The principal amount of the Loan shall be repaid in equal monthly installments until 5th day of month following the accountable month, or on the first banking day following the specified dates if those are non-banking days. Further, a grace period shall be allowed for the repayment of the principal amount within which no repayment of principal is made and only the interest set forth in the Agreement is paid. The grace period shall be maximum 24 (twenty-four) months. The grace period covered in this paragraph shall be stipulated in the Sub-Loan Agreement signed between the PFI and the Sub-Borrower.

The interests shall be accrued only against the calendar days during which the Loan proceeds have been actually used - admitting 365 days as a calendar year. The interests shall be paid monthly in equal monthly installments, until 5th day of month following the accountable month, or otherwise on the first banking day following these dates if such are non-banking days.

To finance subprojects at least 20% co-financing by the Beneficiary shall be a lending condition.

Under the credit line, to obtain the loan amount, the PFI selected by the Fund and granted a Loan Agreement shall duly (application form is attached to Annex 19, Loan Agreement) submit an application to the Fund. For each Beneficiary, a separate application shall be submitted, in which the requested amount, term, name of beneficiary (name, surname), location (residence), project implementation site, credit objective, security measures (estimated by an independent, certified evaluator based on comparison method) shall be specified. The application together with opinion of respective experts shall be submitted to the Fund management.

Upon receiving an application from the PFI, the Fund shall, within 5 working days, inform on consistency or inconsistency of application with the requirements of the Agreement. In case of a positive response, the Lending memorandum shall be signed between the Lender and the PFI specifying names of parties, loan amount, currency, interest rate, maturity, name of Beneficiary.

According to the memorandum the loan shall be transferred to the correspondent account of Borrower within five banking days, provided the following requirements have been fulfilled:

- d) The PFI has duly signed Credit Agreement with the Beneficiary and
- e) The Borrower has duly signed an agreement to secure Beneficiary obligation on the credit (collateral, warranty, bank guarantee), and
- f) The Pledge Agreement on the Borrower's right to claim towards the Beneficiary and towards the security measures was duly signed between the Borrower and the Lender.

For every share of loan amount, the Borrower shall submit to the Lender an application, where the number, amount of share and other necessary documents shall be mentioned.

After receiving the whole amount of Sub-loan for every Sub-Borrower, the Borrower shall make recommendation to the Fund for signing or refusing the contract of security right to claim.

In cases specified in the Agreement (Annex 19), the Fund may submit to the Borrower a claim for execution of payment commitments before the due date.

As an additional security measure the PFI shall furnish to the Fund evidence issued by the CBA on recording of non-acceptance collection monetary liabilities of its balances in the corresponding

account in the CBA, based on which the Fund is authorized to collect overdue debt of the Borrower on non-acceptance basis from all existing correspondent accounts of the latter in the CBA.

3.3 *REP Environmental Assessment*

REP will increase the share of renewable in the power generation in Armenia through financing of SHPPs on natural (run-of the river) and artificial (irrigation and drinking water pipes and canals) water flows, and wind farms, aiming at reduction of the greenhouse gas emissions (CO₂).

Environmental and Safeguards Screening

REP has been placed in environmental screening category “Financial Intermediary” (FI). However, it is not expected that the project will entail large scale and long term environmental impact, and there will potentially be some limited adverse impacts mostly related to construction works. The potential impacts may result from the following:

- a) Construction works;
- b) SHPPs construction;
- c) Wind farm construction.

To mitigate such adverse impacts, the sub-projects financed by CC will undergo in-depth environmental screening by the Fund and CC based on the provisions of EMP attached as Annex 17 hereto.

While assessing the environmental due diligence of sub-projects, the R2E2 Fund and CC shall take into consideration the environmental impact of these projects as well as the measures to be undertaken to mitigate their adverse impact, which mainly involves:

- At the initial stage of review a sub-project shall have its EMP with detailed description of potential environmental impacts and ways for their mitigation.
- At the stage of discussion the sub-projects shall be required to obtain all environmental permits in conformity with the RA Laws and pass the respective environmental expertise.
- The projects seeking R2E2 assistance shall include the description of the measures for environmental impact mitigation in their bidding documents.

Environmental review of sub-projects at CC

The environmental screening shall be carried out through the following procedure:

1. The sub-borrower prepares an initial investment project concept following informal discussions with the CC and/or R2E2 Fund, in which the CC and/or R2E2 Fund alert the sub-borrower of its environmental assessment requirements. The sub-borrower prepares Part A of the environmental screening form (Attachment to EMP) and attaches the screening form to the initial project concept.

2. Based on documentation provided and findings of the field visit, CC and/or R2E2 Fund inform the sub-borrower of the environmental risk category. There are three environmental risk categories:

Category A: Projects that may result in diverse and significant adverse environmental impacts. For such project, the applicant must prepare an Environmental Assessment (EA), including an Environmental Impact Assessment (EIA) and an Environmental Management Plan (EMP).

Category B: Projects that may have moderate, specific environmental impacts for which mitigating measures are well known and easily implementable. A concise EMP is enough to describe potential issues and ways for mitigating them.

Category C: Projects that have no or only negligible anticipated direct or indirect environmental impact. No EIA action is required by the applicant.

In case of any doubts relating to the environmental screening of sub-project, the World Bank staff shall be contacted for guidance.

3. CC shall prepare the environmental analysis and/or project specific Environmental Management Plan and submit to the R2E2 Fund for conclusion.
4. R2E2 Fund shall review the environmental analysis/EMP and report its findings to CC.
5. In case of positive response, the recommendations (including the associated costs) provided in the environmental analysis/EMP shall be incorporated into the investment project design, implementation plan, and bidding documents.
6. CC Loan officer shall verify the conformity of the submitted draft projects to the environmental analysis/EMP data, finalize the loan package, including the relevant environmental and other clearances from authorities, and submits it to the R2E2 Fund for its final appraisal.
7. Within the entire sub-project effective period CC and/or R2E2 Fund shall monitor the implementation of the mitigation plan for identified environmental issues.

3.4 Procurement Arrangements

Procurement for the REP would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreements.

For each contract to be financed by the WB, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

The various items under different expenditure categories are described in general below.

Works and equipment will be procured using the Bank's Standard Bidding Documents provided for ICB, NCB, minor works, shopping's.

Consulting Services will be procured using Bank's standard RFPs provided for QCBS, QBS, LCS, CQS, SSS and IC.

A) Procurement of goods, works and services under the credit.

Procurement of the works, goods and services under the Sub-loans provided within the REP IDA credit funds will follow to the Commercial Practices as set forth in the Annex 13. During assessment of the projects proposed by Sub-Borrowers, they shall submit to the CC: at least 2 (two) quotations- for goods estimated to cost US \$5000-\$100000, and at least 3 (three) quotations- for goods estimated to cost over US \$100 000. Where the estimated contract price exceeds the threshold of US \$ 1.0 million, International Competitive Bidding procedure will be followed using the World Bank Standard Bidding Documents.

International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower. Margins stipulated therein are: 15% for goods and 7.5% for works.

Review by the IDA of Procurement Decisions

Except as the IDA shall otherwise determine by notice to the GOA, the following contracts shall be subject to Prior Review by the IDA: (a) each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$1,000,000 or more; and (b) each contract procured on the basis of Direct Contracting. All other contracts shall be subject to Post Review by the IDA.

B) Procurement of goods, works and services under the grant

- 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. **Shopping.** Goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.
 2. **Direct Contracting.** Goods which the World Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

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. **Quality-based Selection.** Services for assignments which the World Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.
2. **Selection Under a Fixed Budget.** Services for assignments which the World Bank 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.
3. **Least-cost Selection.** Services for assignments which the World Bank 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.
4. **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.
5. **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 World Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.
6. **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 subject to prior approval of the World Bank

Review by the World Bank of Procurement Decisions

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

4. Financial Management System

The financial management system involves both the financial management of the Fund as an entity and financial management of the projects implemented. During implementation of each project the Fund shall follow the procedures and regulations of corresponding donor agency and RA legislation.

Financial management system includes:

- a) Budgeting, planning;***
- b) Accounting, recording;***
- c) Reporting;***
- d) Internal control.***

- a) Budgeting includes long and medium term expenditure planning and annual budgeting for each separate project and financial source, including the cost of estimates for the Fund's functioning. Budgeting also assumes adherence to and/or amendments to the procurement and work plans. The computerized financial management shall reflect the budgeted accounts in the established order.
- b) The accounting shall be conducted based on the Accounting Standards acceptable to the WB. Accounting shall be based on double-entry bookkeeping method. The accounting treatment of documents shall be conducted over the following stages: (i) recording of accounts or performance papers; (ii) reconciliation of payables; (iii) drafting and confirmation of payment documents; (iv) actual disbursement. Under these stages, there shall be distinct segregation of financial officers' duties.
- c) The reports shall be compiled for submission to the relevant donors and RA state agencies as well as for internal monitoring and supervision purposes. In the latter case the format of reports may differ from the forms envisaged by the legislation or donors.

The Fund shall submit quarterly Financial Monitoring Reports to the World Bank as well as statements of expenditures (SOEs) for Special Account withdrawals, in the established format.

The Fund shall have in place the following breakdown of reports established by the RA legislation: (i) reports for tax and other agencies; (ii) reports on progress status of the project.

- d) Internal control shall refer to monitoring of tangible and intangible assets of the Fund, classification of commitments, maintenance of fixed asset recording procedures, periodical reconciliation of bank accounts, etc.

The Financial management transactions are disclosed under Annex 18 hereto.

5. Cooperation

To leverage the development of the target sector the Fund shall co-operate with certain donors and other organizations who implement respective projects under international funding particularly, UNDP/GEF financed *Urban Heating and Hot Water Supply Energy Efficiency Improvement*

Project, USAID financed **Residential Heating Project**, etc. The FD shall be responsible for the communication and coordination of activities jointly implemented with these projects. In this regard, the joint meeting and discussions are held with a follow-up of memorandum of understanding or other memos, which give the distinction of the projects components, implementing agencies and the scope of respective commitments. The work plans of such projects shall be subject to the BOT approval.

Annex 1 - RA Government Decree

GOVERNMENT OF REPUBLIC OF ARMENIA

DECREE

28 April 2005 No 799 –N

ON TERMINATION OF THE ACTIVITY OF
**“HEATING AND MULTI-APARTMENT BUILDINGS ASSISTANCE MANAGEMENT BODIES SUPPORT
PROJECTS PIU” STATE AGENCY**
AND ESTABLISHMENT OF
ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND

Guided by the provisions of Article 10 under the RA Law on Foundations, the Government of Armenia hereby decides:

1. To terminate the activity of *“Heating and Multi-apartment Buildings Assistance Management Bodies Support Projects PIU”* State Agency (hereinafter the PIU);
2. To establish *Armenia Renewable Resources and Energy Efficiency Fund* (hereinafter the Fund);
3. To ratify:
 - a) The Charter of the Fund, as per Appendix 1 hereto;
 - b) The Structure of the Board of Trustees as per Appendix 2 hereto.
4. To assign the PIU assets (residual value) to the Fund on terms of ownership, in the form of investment, as per Appendix 3 hereto;
5. To define that:

a) the objective of the Fund shall be to facilitate investments in EE and RE sectors, promote the development of EE and RE markets in Armenia and the reduction of anthropogenic impact on the environment and human health, work out state policies to secure energy efficiency and improve the level of energy system reliability as well as proceed with the implementation of credit and grant projects promoting the development of the sector, based on the Government Decrees and in accordance with the Agency Contract signed with the Government /Annex 8/;

b) within the Fund staff recruitment procedure priority shall be given to the former PIU qualified staff, through respective position reassignment;

c) the Management Board of the Heating and Multi-apartment Buildings Assistance Management Bodies Support Projects PIU shall transfer its powers and authorities to the Board of Trustees of the Fund.

6. For the RA Minister of Finance and Economy:

a) to proceed with the liquidation of the PIU in accordance with the established procedure;

b) on behalf of the Republic of Armenia to sign Agency Contract with the Fund on the implementation of the project within the framework of Letter-Agreement No PPF Q 353-0-AM of **“Advance for Proposed Urban Heating Project»** entered into between the RA and IDA on April 3, 2003 and to disburse a remuneration fee from the state budget in total amount of AMD 64.0 million for the current year. The disbursement of fee shall be made under the *WB financed Heating and Multi-apartment Buildings Assistance Management Bodies Support Project* as per the operational classification of budget expenditures (Subgroup 02 of Group 08) under the RA Law on the State Budget of Armenia for the year 2005. In addition, within the scope of the same Letter-Agreement, to ensure

that, under the Agency Contract, the Fund shall duly assume the rights of Lender arising from the sub-loan agreements and the contracts for procurement and supply of goods, works and services concluded by the PIU.

7. For the Chairman of State Committee of the Real Estate Cadastre by the Government of Armenia:
within 5 days to submit a proposal to the GoA on provision of premissis to the Fund.
8. To withdraw the powers and authorities assigned to the Management Board of the Heating and Multi-apartment Buildings Assistance Management Bodies Support Projects PIU established by Section 1 of the RA Prime Minister Decree No861 as of December 29, 2000.
9. This Decree shall be deemed in effect on the date following to its official publication.

Annex 2 - Armenia Renewable Resources and Energy Efficiency Fund Charter

Appendix 1
to the RA Government
Decree No 1626-N
as of 22 September 2005

ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND
C H A R T E R

I. General Provisions

1. The Armenia Energy Efficiency and Renewable Energy Fund [hereinafter referred to as the Fund] is a non-profit, non-commercial institution established due to voluntary asset contributions from the Founder, with no membership.
2. The Fund is established in accordance with the requirements of the Civil Code of the Republic of Armenia, Laws “On Funds” and “On Renewable Resources and Energy Efficiency Fund”, and shall operate in accordance with the Constitution of the Republic of Armenia, international agreements of the RA, Laws and other legal acts of the RA, decisions of the Board of Trustees of the RA and the present Charter.
3. The Founder of the Foundation is Republic of Armenia [hereinafter referred to as the Fund].
4. The initial asset of the Fund is AMD 22,362,874.
5. The Fund is operating without time-limit.
6. The relations between the Founder and the Fund are regulated by the Legislation of the RA and the present Charter.
7. The potential beneficiaries of projects implemented by the Fund may be:
 - a) management bodies of multi-apartment buildings, including other managing organizations and physical persons
 - b) economic entities (associations)
 - c) secondary schools
 - d) individuals.

8. The name of the Fund is:

Complete name in Armenian:	ԺՀ ՍԷՐՅԱՆԻ ՀԱՆՐԱՊԵՏՈՒԹՅԱՆ ԲՆԱԿԱՆԱԿԱՆ ԵՆԵՐԳԵՏԻԿ ԵՎ ԵՆԵՐԳՅԱՆ ԵՐԱՐՈՒՄԻ ՀԱՄԱՐԿՆԱԿԱՆ ԲԱՆԴ
Short name in Armenian:	ԺՀ ԲՆԲ
Complete name in Russian:	ՕՒՐՎԱ ԱՐԴՅԱՆ ԲՆԱԿԱՆԱԿԱՆ ԵՆԵՐԳՅԱՆ ԵՎ ԵՆԵՐԳՅԱՆ ԵՐԱՐՈՒՄԻ ՀԱՄԱՐԿՆԱԿԱՆ ԲԱՆԴ
Short name in Russian short:	ՕՐԵԵԲ
Complete name in English:	Armenia Renewable Resources and Energy Efficiency Fund
Short name in English short:	R2E2 Fund

9. The Fund office is located at 1 Melik-Adamyana, Yerevan 375010, Republic of Armenia

I. The Fund objective

10. The key objectives of the Fund are to:
 - a) facilitate investments in Renewable Energy and Energy Efficiency sectors;

- b) promote the development of EE and RE market in Armenia;
- c) reduce adverse anthropogenic impacts on the environment and human health;
- d) develop activities focused on energy safety and increasing of energy system reliability;
- e) in case of obtaining respective authority under the RA Legislation, initiate loan and credit projects promoting the sector development on behalf of the state, based upon the Agency Contracts signed with the state.

II. Activities of the Fund

11. The Fund shall implement the following activities:

- a) participation in renewable resources and energy efficiency policy development;
- b) making proposals for legal reforms focused on renewable resources and energy efficiency market development;
- c) Contributing to the establishment and development of new industry infrastructure and organization of services;
- d) Training and capacity building for private entrepreneurs and auditors, energy service companies (ESCO), financial institutions (FI) and home owner associations (HOA) and capacity building related to renewable resources and energy efficiency sector investments;
- e) Awareness campaign on renewable resources and energy efficiency new technologies;
- f) Organization of credit and loan projects in renewable resources and energy efficiency sectors pursuant to respective international contracts and authorities given by the Government of the RA;
- g) Organization of financing in renewable resources and energy efficiency sectors;
- h) Financing of residential and industrial energy efficiency projects;
- i) Financing of renewable resources and energy efficiency projects through credits and grants;
- j) Contributing to reduction of adverse anthropogenic impacts on the environment and human health through development of renewable resources and energy efficiency sectors, including the identification of Clean development mechanism projects of Kyoto Protocol;
- k) Other activities aimed at raising of national energy safety,
- l) Expertise and approval of projects submitted to the Fund, financing of their implementation, tenders for selection of consultants, suppliers and contractors (preparation of terms of reference and bidding documents) and organization, preparation and signing of all project implementation related expenses.
- m) Preparation of reports on projects implementation and submission to respective organizations;
- n) Supervision of works anticipated by the project, supervision of the Contractor,
- o) Management of remunerations within the project framework.

III. Legal status of the Fund

12. The Fund is established and obtains the status of a legal entity upon its state registration.

13. The legal capacity of the Fund is effective from the moment of its establishment and terminates from the moment of liquidation.

14. The rights and responsibilities of the Fund shall be specified by the law “On Funds” (hereinafter the law), international agreements, decisions of the BOT and present charter.

15. The Fund, in case of implementation of projects within the framework of international agreements, as legal entity implementing the Projects mentioned in part II of present charter shall use privileges specified by the international agreements.

16. The Fund

- 1) shall have separated property,
- 2) its own balance sheet,
- 3) may open banking accounts in banks of the RA and other states in AMD and /or/ foreign currency, manage respective banking accounts specified by contracts under the Agency Contracts,
- 4) shall have a legal round stamp, letterhead and logotype,
- 5) The Fund may obtain in its name and implement property and personal non-property rights, may incur liabilities related to it,
- 6) and may appear in court as claimant or respondent.

17. Under the Fund law, with the purpose of performance of sectors and issues anticipated by the charter, has a right to

- 1) procure, possess, use and dispose of the property and income received from them in any manner not prohibited by the law;
- 2) assist physical and legal entities materially in a manner defined by the law and present charter;
- 3) manage its financial resources at its own discretion, including attraction of loans, credits;
- 4) sign contracts with the RA and bear the responsibilities related to them;
- 5) obtain information from state management and local self-governmental bodies in a manner defined by the law;
- 6) establish branches, representative offices and institutions;
- 7) establish organizations or be their participants with the purpose of implementation of commercial activities;
- 8) perform other activities not prohibited by the law.

The Fund has other rights defined by the law.

Under the projects, the Fund may be involved in the following commercial activities in the following manner

- a. financial and legal consulting;
- b. financial intermediation,
- c. performance of activities,
- d. trading of energy equipment

18. The Fund shall:

- 1) operate in compliance with the Constitution of the RA, laws and other legal acts, as well as this present charter;
- 2) maintain its accounting and tax accounting, organization and maintenance of the Fund documents,
- 3) submit information and reports in the manner established by RA legislation to relevant bodies.
- 4) carry out other obligations defined by the legislation.

19. The Fund carries its civil rights, including its protection rights at its own discretion.

20. The rights of the Fund shall be limited only in cases defined by the law and the rules defined by the law.

21. The Founder bears no responsibility for the liabilities of the Fund and the Fund bears no responsibility for the liabilities of the Founder. The Founder of the Fund bears responsibility for liabilities connected with their establishment occurred before the state registration of the Fund.

IV. Fund property and expenses

22. The Fund has separate assets as its property and with such property is fully responsible for its liabilities. The assets delivered to the Fund by the Founder is the property of the Fund. The Fund uses this asset in a manner defined by its Charter.

23. The Fund may own real and movable property, financial means, local and foreign currency.

24. The sources of the property of the Fund are:

- a. investment of the Founder;
- b. Donations/grants from persons and legal entities, including international financial institutions and legal entities;
- c. Financing from state budget of the RA;
- d. Grants,
- e. Sources of the Fund or sources received from commercial activities of economic organizations with their participation;
- f. Other sources not prohibited by the RA legislation.

25. The Fund shall not use its property for the benefit of the Fund members of the bodies and employees of the Fund, except for payments required for salaries of the employees and compensation of the expenses of the members of the bodies of the Fund.

26. The Fund expenses:

- 1) expenses focused on constitutional purposes;
- 2) administrative expenses.

The administrative expenses of the Fund form 20% of the Fund's annual total expenses.

27. The Fund shall issue an annual report on its property.

V. Governance Bodies of the Fund

28. The Fund carries out its activities through its body.

The Fund bodies are:

- a) BOT
- b) Director

VI. Board of Trustees

29. The Board of Trustees (hereinafter referred to as BOT) is the primary governance body of the Fund, which manages the activities of the Fund in accordance with the requirements of the RA.

30. The Fund comprises 10 members. The members of the board may not be members of other body of the Fund.

31. The initial composition of the Fund shall be appointed by the Founder. The BOT members authority remains valid for 2 years. The same person may be appointed as the Board member without any limitations.

32. The BOT member may be compensated for the expenses related to the incurring the liabilities of the Fund member. The compensation order is defined by the BOT.

33. The authority of the Board members cease:

- a) based upon the application, since the next day of application submission;
- b) undue fulfilment of liabilities, at least $\frac{3}{4}$ votes of BOT members,
- c) death and acknowledging disability,
- d) completion of term, if not extended.

34. The BOT performs its operation through meetings. The required quorum for the BOT meetings is at least half of members of the BOT. Decisions of the BOT are made by a qualified ($\frac{2}{3}$) majority of the members present, as specified in para. e, f, g of clause 38.

35. BOT meetings can be organized by the Chairman on regular basis but not less than quarterly. The meetings may also be convened upon the request of at least $\frac{1}{3}$ of the members of the BOT, within 30 days since request. Provided the chairman of board does not organize a meeting in the specified time, the meeting may be organized by the person requested it. The board meetings may be conducted via e-mail or other communication methods.

36. The minutes of the BOT Meetings should be recorded.

37. If the issue connected with property or other interests of any member of the BOT or person related to him is under discussion, the referred member may not vote. If the issue connected with property or other interests carries regular or continuous character, the termination of authorities of the BOT member is becoming a matter of discussion of the BOT. The statement "Property or other interests" and the bases of their occurrence are set by the decree of BOT.

38. The Fund liabilities:

- a) Adopt strategic project(s) of the Fund,
- b) Approve the budget, modifications and annual financial reports, reports for the Fund activities and operations;
- c) Approve the property management rule;
- d) Adopt decision on reorganization of the Fund;
- e) Select new BOT members and make decision on termination of members' authority ahead of time,
- f) Appoint the Chairman of the BOT and the Fund Director and terminate their authorities ahead of time,
- g) Approve management staff of presented by the Fund Director,
- h) Adopt decisions on making amendments or additions in the Fund Charter, approving the Charter with new edition;
- i) Make decisions on establishment of organizations or participation in them, as well as establishment of the branches and institutions and adopt decisions on approval of their charters;
- j) Supervise financial-technical activity of the Fund;
- k) Discuss the reports of the Fund Director on quarterly basis,
- l) Supervise the fulfillment of assignments;
- m) Select the Fund auditor;
- n) Implement other authorities in accordance with RA legislation and this Charter.

The Fund should have access to all Fund related documents.

39. The issue of powers of the BOT may not be assigned to other body.
40. Chairman of Board shall:

- 1) organize the Board activities,
- 2) organize and chair meetings;
- 3) organize drafting of minutes.

The chairman of BOT shall be appointed by the BOT members.

41. In case of absence of the chairman, his responsibilities shall be assumed by one of the members by the BOT decision.

V.II Fund director

42. The FD is responsible for management of the entire day-to-day operation of the Fund. The director organizes fulfillment of the BOT decisions.
43. The responsibilities of the Director involve management of all activities, except for the matters defined by the law and this Charter.
44. The FD shall first be appointed by the Founder.
45. The FD is appointed for the period of four years with possibility of extension. The rights and responsibilities of the FD are defined by the law and this charter.

46. The FD responsibilities include:

- 1) Manage Fund's assets, including financial resources, sign contracts on behalf of the Fund,
- 2) Represent the Fund in the RA and foreign countries,
- 3) Act without power of attorney and give letter of attorney,
- 4) Sign contracts as duly specified (as well as work contracts),
- 5) Open settlement accounts (as well as in foreign currency) and other accounts,
- 6) Submit the internal regulation, charters of organizations founded by representation offices, institutions and the Fund organizational structure and staff of the Fund for the BOT approval.
- 7) Make orders, assignments, obligatory instructions and supervise their performance,
- 8) employ and dismiss the Fund employees,
- 9) apply reward and disciplinary actions towards the Fund employees,
- 10) perform other authorities envisaged by the law, the charter and the assignments of the Founder.

47. The FD may have a remunerated position in other organization only after obtaining the approval of the BOT.

VI. Accounting and Financial Reporting

48. The Fund shall maintain its accounting and provide financial and statistical statements and reports, tax and other obligatory charges calculations, declarations in the manner established by RA legislation.
49. The Fund is in charge for organization of accounting, its status and reliability, timely submission of annual reports, financial and statistic reports specified by the law and other legal acts to state management bodies, as well as reliability of information furnished to the Fund bodies and other persons in accordance with law, other legal acts and this Charter.
50. The financial audit of the Fund shall be conducted by independent auditors at least annually. By the request of 1/3 of Board members, special audit may be conducted. The auditors are selected via tender and approved by the BOT.
51. The supervision over requirements of law by the Fund shall be conducted by the Ministry of Justice of the RA, and in cases defined by the law by other authorized state bodies under their powers and procedures defined by the legislation.

52. Within 6 months following the end of each financial year, the Fund shall publish in media (that publishes information on legal entities state registration):
- 1) the report on its operation
 - 2) its annual financial reports
 - 3) auditor's opinion on financial reports (provided the cost of Fund assets do not exceed AMD10 million) .
53. The Fund shall inform the Ministry of Justice of the RA within 15 days after publication of reports. In case of incomplete publication of reports, the Fund is warned about the removal of defects.

IX. Reorganization and Liquidation of the Fund

54. The Fund may be reorganized by the decision of the BOT in cases and in a manner defined by the legislation of the Republic of Armenia.
55. The Fund may be liquidated by the decision of the court through claims of interested persons. The Fund shall be liquidated in cases and a manner established by the legislation of the Republic of Armenia.
56. In case of liquidation of the Fund, and after satisfying the requirements of the creditors, its property shall be directed at the purposes described in the Charter, and if not possible, to the state budget of the RA.

Annex 3 - BOT Structure

ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND
BOARD OF TRUSTEES
REPRESENTATIVE STRUCTURE

RA Prime Minister

RA Prime Minister Advisor

Representative of the RA Ministry of Finance

Representative of the RA Ministry of Energy and Natural Resources

Representative of the RA Ministry of Environmental Protection

Representative of the RA Ministry of Economy

Representative of the RA Ministry of Urban Development

Representative of the RA Ministry of Territorial Administration

Board Member of the Central Bank of RA

Representative of the Public Services Regulatory Commission

2 NGO Representatives

Annex 4 - BOT Rules of Procedures

ADOPTED through
the Fund BOT Meeting No. 01
as of 09.01.2006

**ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND
BOARD OF TRUSTEES
Rules of Procedures**

1. General provisions

1. The superior managing and supervising body of Armenia Renewable Resources and Energy Efficiency Fund is the Board of Trustees of the Fund (hereinafter the BOT). The Board members work on a voluntary basis.
2. The BOT was established by Decree N799-N as at April 28, 2005 of the Government of the RA, and the composition was approved by Decree N572-A of the Prime Minister as at July 25, 2005.
3. During its activity, the Board shall be governed by the Constitution of the RA, international contracts, laws, Fund charter and this Operational Manual.
4. The Fund shall implement activities defined by the RA Law “On Funds”, Decrees of the Government of the RA and the Fund charter. While implementing activities at the expense of proceeds extended to the Republic of Armenia, the Board shall act as the Management Board of the project and coordinate the activities related to the project implementation.

2. The BOT activity

5. The BOT shall implement its activity through meetings. The required quorum for the Fund meetings is the participation of at least half of the Board members.
6. The meetings are convened by the Chairman periodically, but not less than once a quarter. Extraordinary meetings may be convened upon the request of the Chairman, as well as upon written request of at least 1/3 of the members of the BOT, within 30 days after request. If the Chairman of the BOT does not convene a meeting at the specified time, the meeting may be convened by persons who made such request.
7. The BOT decisions may also be made through signing of the memorandum via e-mail or other communication methods.
8. The decisions of BOT are made by majority of votes of participating members. In case of equal votes, the vote of the BOT Chairman prevails. The decisions on selection of new members of BOT, termination of Board members powers before the expiration of their term, selection of Board of Trustees, termination of its powers, making amendments or additions in it, approval of charters with new edition are adopted by agreement of 2/3 of BOT composition.
9. The member of BOT that does not agree with the BOT decision shall submit its opinion in writing to be attached to decision and recorded in minutes of the meeting.
10. If the issue of property or other interests of any member of the Board or the person related to him (parent, husband, child, brother, sister) is under discussion, the member should refrain from voting. If the issue of asset and other interests carries periodic or continuous character, the issue of termination of rights of the member becomes a matter for discussion.
11. The members of the BOT shall be informed about the day, venue, time and agenda of the meeting at least 5 days before organization of meeting. The respective documents of minutes shall be submitted by the Fund or other person related to question involved in agenda, and in cases anticipated by this Procedure– by the BOT member convening the meeting.
12. Every meeting starts in approval of agenda and reporting by the Fund Director on progress of previous BOT decisions.
13. The meetings of the BOT shall be recorded through minutes. The minutes shall be prepared within 5 days after the meeting, at least two copies of the minutes will signed by all members participating in meeting.
14. The minutes shall include:
 - The year, month, day and venue of meeting,
 - Number of persons in charge for participation in meeting,
 - Number of persons that participated in meeting,
 - Agenda of meeting,
 - Main provisions of presentations, issues of discussions, results of voting, decisions reached.
15. The participation of the Fund Director in meetings is compulsory. The residents, public and local self-governmental bodies, non-governmental organizations, representatives of Mass Media may also participate in meetings.

3. The validity of the BOT members powers and selection

16. The BOT has 12 members. The first composition of BOT shall be decided by the Founder, and further amendments shall be implemented by the Fund. The members of the BOT may not be members of other body of the Fund.
17. The term of a BOT members is two years. The same person may be appointed the Board member without any limitations.
18. The powers of the BOT member cease.
 - a) on the base of application,
 - b) in case of undue implementation of responsibilities- by $\frac{3}{4}$ votes of other Board members,
 - c) death or acknowledged disability,
 - d) at expiration of the term, if not extended.

The authority of the member shall be terminated the day following the dismissal from the main position with the respective decision taken by the BOT.

19. The authority of the Board members are deemed terminated the day following submission of resignation to the Board Chairman, and in cases anticipated by paragraphs b and d of Clause 18 days after the meeting of the Board composition selection.
20. In case of vacancy of the Board member, the candidate shall be proposed by the Founder of the Fund, and provided no candidate is proposed within 30 days, any of the members are free to propose a candidate for the Board member.
21. The new member of the Fund shall be selected no later than in 60 days from the termination of members' authorities. Provided no candidate received sufficient number of votes, the voting shall be repeated. The candidate that secured largest number of votes, but not less than more than half votes of the BOT members.
22. When the sufficient quantity of votes is not received, the elections are deemed non-valid and the new selection shall be undertaken in accordance with law "On Funds".

4. The Chairman and members of Board

23. The chairman of the Board shall be selected among and by the members of the BOT. The Chairman of the BOT shall:
 1. organize the activities of BOT;
 2. convene the BOT meetings, chair them or authorize another member of the Board to chair;
 3. sign the decisions of the BOT, other documents and records connected with the BOT activity;
 4. supervise the fulfillment of BOT decisions;
 5. organize the drafting of minutes.

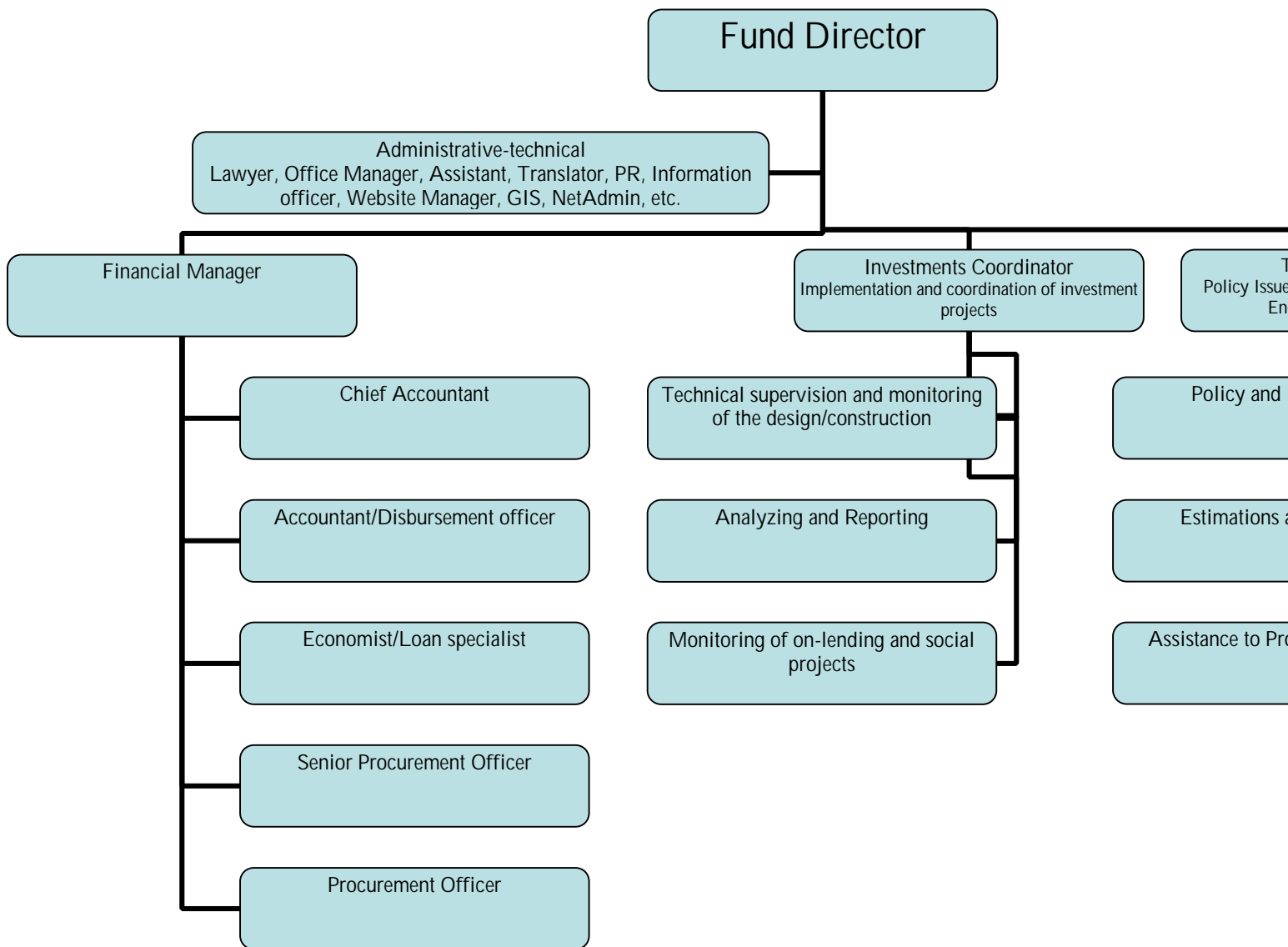
When the chairman is absent, one of the members of the BOT shall assume the responsibility per the decision of the BOT.

24. The members of BOT shall:

1. participate in the BOT activities,
2. raise issues for discussion;
3. make recommendations on the BOT activity and issues of the meeting agenda;
4. review and sign the minutes of the meeting;
5. fulfill other duties in accordance with the law.

25. The Board shall select the secretary of BOT. The secretary shall ensure organization of **BOT** meetings, carrying out activities related to preparation of agenda materials, issuing the required documents, as well as recording the decisions and conducting the meetings.

Annex 5 R2E2 Fund organizational chart



Annex 6- Staff Selection Procedure

ADOPTED through
the Fund BOT Meeting No. 01
as of 09.01.2006

ARMENIAN RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND
STAFF SELECTION PROCEDURE

1. General

This paper sets forth the rules of procedures for the **Armenian Renewable Resources and Energy Efficiency Fund** (hereinafter *the Fund*) staff selection.

2. Selection of the Fund Staff

- 2.1. The overall Fund staff breakdown is as follows: managerial staff, including The Fund Director, Financial Manager, Project Coordinators, experts and technical/support staff.
- 2.2. The managerial staff and the experts shall be the employees of the Fund to hold positions established by the Charter and the Staff List and perform activities targeting at the achievement of the institutional objectives.
- 2.3. The technical/support staff of the Fund shall be comprised by employees who have no direct contribution to the institutional objectives of the Fund.
- 2.4. The managerial staff and experts are selected on competitive basis by the efforts of special Evaluation Committee (the structure of the Evaluation Committee is attached).
- 2.5. Support staff are not subject to competitive selection. The candidates shall be selected by the FD.
- 2.6. The Committee shall be organized by the supervisory body of the Fund, i.e. the BOT. The membership to the special Evaluation Committee shall include the representatives of the parties concerned and the Fund, with their candidatures being proposed by respective authorities.
- 2.7. The job announcements shall be placed by the Fund with specification of the given job title, position-based requirements, list of documents to be submitted by the motivated candidates respective to their profession and work experience, with the indication of submission deadlines.
- 2.8. Based on received documents the Fund shall carry out the prequalification and short-listing of maximum 4 candidates, who prominently fit the respective requirements.
- 2.9. The candidates' data along with the evaluation sheets shall be submitted to the Evaluation Committee. The assessment of each single candidate shall be based on the total scores given by the Evaluation Committee. The candidate with the highest scores shall be selected.
- 2.10. The candidates selected through competition for the managerial posts shall be approved by the BOT.
- 2.11. Based on the decisions of the Evaluation Committee and the BOT, in cases stipulated for under this regulation, the Fund Director shall proceed with the employment of the candidates in conformity with the RA Labor Code

APPENDIX 1
to Armenia Renewable Resources and Energy Efficiency Fund
Staff Selection Procedure

REPRESENTATIVE STRUCTURE

Of the Evaluation Committee for
the Armenia Renewable Resources and Energy Efficiency Fund Staff Selection

No	Name of the institution	Number of representatives
1.	Secretary of the BOT of Armenia Renewable Resources and Energy Efficiency Fund	1
2.	Armenia Renewable Resources and Energy Efficiency Fund	1
3.	Representative of the RA Ministry of Energy and Natural Resources	1
4.	RA Ministry of Finance	1
5.	RA Ministry of Territorial Administration	1
	TOTAL	5

Annex 7- Terms of References

Terms of Reference

Title: Supervision and Monitoring Coordinator

1. Main responsibilities

1.1 The Supervision and Monitoring Coordinator shall:

- Organize assessment and implementation activities of investment projects implemented within the framework of Urban Heating Project, mainly urban schools heat supply rehabilitation projects and gas based heating projects for the poor, including:
 - Prepare TORs, specifications and bill of quantities to be involved in the bidding documents,
 - Give expert's opinion regarding the bids,
 - Supervise the contract performance,
 - Supervise and duly accept the quality and quantity of construction works, goods and services in accordance with the Contracts.
- Organize performance of investment components of other Fund executed projects;
- Organize monitoring and supervision activities based upon:
 - the reports of PFIs,
 - selected heating projects sites and checking of documents,
- Conduct periodic monitoring of projects progress and submit reports on outcome of implemented projects,
- Direct cooperation with other experts of the Fund.

2. Qualification requirements

2.1 Supervision and Monitoring Coordinator shall:

- have higher education in engineering/economics;
- have sufficient knowledge for implementation of projects by the Fund;
- have not less than 5 years relative working experience, particularly in utility sector, as well as management skills
- have negotiation ability and adequate skills;
- Computer literacy (MS Office, Internet etc).

2.2 Experience in similar international works and participation in respective qualification trainings, or knowledge of English is an advantage

3. Accountability

Supervision and Monitoring Coordinator is directly accountable to the Fund Director.

4. Other responsibilities

Supervision and Monitoring Coordinator shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Lawyer

1. Main responsibilities

1.1 The Lawyer shall:

- Develop the samples of legal documents required for the Fund activity (contracts, orders, resolutions etc),
- Study the developed contracts and give opinion on their compliance with their legislation,
- Study the projects submitted by the PFIs and furnish a respective legal opinion to the FM,
- Participate in selection process of PFI to clarify the legal issues,
- Study legislative and legal barriers related to projects financed and implemented by the Fund and make proposals for their overcoming.
- Furnish information on the legal procedures related to the day-to-day operation of the Fund;
- Inform on the modifications in the RA Legislation related to the Fund operation.

1.2 Within the scope of its responsibilities, the Lawyer shall carry out other tasks assigned by the FD.

2. Qualification requirements

The Lawyer shall have:

- higher legal education,
- excellent knowledge of the RA Legislation,
- not less than 5 (five) years working experience,
- ability to overcome barriers appeared during the work, developed skills of communication;
- computer literacy,
- knowledge of Armenian, English and Russian is obligatory,
- experience with similar international projects.

3. Accountability

The Lawyer is directly accountable to the Fund Director.

4. Other responsibilities

The Lawyer shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Engineer

1. Main responsibilities

1.1 The Engineer shall:

- Propose technical solutions for anticipated credit and grant projects;
- Make recommendation for specific projects and design solutions;
- Assess the required investments;
- Coordinate design and construction works process;
- Control the technical supervision works;
- Visit the sites and conduct a monitoring as duly specified;
- Prepare the TORs, equipment specifications and bill of quantities for bidding documents of schools heating system rehabilitation projects;
- Perform consulting the Beneficiaries;
- Prepare and submit required information on process and outcomes of implemented projects

2. Qualification requirements

The Engineer shall have:

- higher technical education,
- not less than 5 (five) years working experience,
- ability to overcome barriers appeared during the work, developed skills of communication;
- computer literacy.

Participation in similar international works and trainings and knowledge of English is preferable.

3. Accountability

The Engineer is directly accountable to the Supervision and Monitoring Coordinator.

1. Other responsibilities

The Engineer shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Social Projects Expert

1. Main responsibilities

The Social Projects Expert shall:

- Submit recommendations for involvement of financial means to donor organizations, with the purpose of implementation of social projects;
- Organize informational, analytical and research activities required for assistance from donors, coordinate preparation and submission of reports;
- Ensure preparation of project annual budgets, working schedule, procurement plan and furnish to respective bodies;
- Ensure development of project implementation progress and outcome reports and furnish to respective bodies;
- Coordinate consultant's services for multi-apartment buildings management bodies;
- Organize cooperation with similar projects implemented by other organizations;
- Regular study of foreign experience in heating sector and preparation and making proposal for project implementation improved mechanisms;
- Study of the foreign experience in the field of urban heating and making proposals for improvement of project implementation;
- Organize workshops on the projects;
- Ensure relationship and cooperation interested bodies;
- Direct cooperation with other experts of the Fund.

2. Qualification requirements:

2.1 The Social Projects Expert shall:

- have higher education in economy/engineering,
- have not less than 5 years working experience, particularly in project management , as well as experience in cooperation with public administration bodies, international organizations and NGOs;
- have negotiation ability and adequate skills,
- Computer literacy (MS Office, Internet etc),
- excellent knowledge of Armenian and English.

3. Accountability

The Social Projects Expert is directly accountable to the Fund Director.

4. Other responsibilities

The Social Projects Expert shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Monitoring Expert

1. Main responsibilities

The Monitoring expert shall:

- Prepare and submit reports on process and monitoring progress of the projects implemented within the frame of the Projects;
- Collect information, data, reports submitted to the Fund to make monitoring;
- Ensure preparation of monitoring implementation plan and schedule of projects to be monitored;
- Make recommendations on preparation of reports and implementation of analysis to the manager;
- Make recommendation on preparation of respective reports, improvement of monitoring methods;
- Develop and submit proposals for improvement of projects implementation mechanisms;
- Carry out other assignments of the manager within the frame of responsibilities.

2. Qualification requirements:

The Monitoring Expert shall:

- have higher education;
- have not less than 3 years working experience;
- have ability to overcome problems appeared during the work;
- Computer literacy and knowledge of Armenian and English is preferable;
- Experience in similar projects and participation in respective qualification trainings is preferable.

3. Accountability

The Monitoring Expert is directly accountable to the Fund Director.

4. Other responsibilities

The Monitoring Expert shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: TA/CS Coordinator

1. Main responsibilities

TA/CS Coordinator shall:

- Develop policy issues of renewable resources and energy efficiency sectors, and make recommendations to relative bodies;

- Coordinate study/consulting works implemented within the frame of renewable resources and energy efficiency projects;
- Ensure development of TORs required for it;
- Supervise the contracts process and accept reports;
- Organize informational, analytical and research activities required for assistance from donors, coordinate preparation and submission of reports;
- Ensure preparation of project annual budgets, working schedule, procurement plan and furnish to respective bodies;
- Assess the activity and received outcomes and present it,
- Direct cooperation with other experts of the Fund;
- Organize workshops on the projects;
- Carry out other responsibilities required for duly implementation of the project.

2. Qualification requirements

TA/CS Coordinator shall:

- have higher engineering education (energy sector);
- have sufficient knowledge for implementation of projects by the Fund;
- have not less than 3 years working experience in international projects;
- have works organization skills and flexibility in ensuring the targeted indicators, mobilization skills;
- excellent knowledge of Armenian and English, computer literacy (MS Office, Internet etc) ;
- be familiar with software packages applied in renewable energy sector;
- have theoretic and practical knowledge of modern energy efficiency and renewable energy;
- have knowledge of the RA renewable energy sector, mainly of legal and practical fields, in respect to economic development specifics of different aspects.

Knowledge of up-to-date approaches and projects (international, national and local), professional participation in implementation of sector related international projects will be considered as a privilege.

Existence of scientific degrees in energy and/or renewable energy sector, as well as knowledge of the WB implemented procedures will be considered as a plus.

Title: REP Expert

1. Main responsibilities

The REP expert shall:

- Conduct study/consulting works implemented within the frame of renewable energy projects;
- Analysis of issues related to policy of renewable energy;
- Make recommendations for regulation of legal issues existing in the renewable energy;
- Study international practice for implementation of renewable energy and make recommendations;
- Analyses of existing main issues in Renewable Energy sector;
- Assistance to implementers of Renewable Energy projects;
- Implement informational, analytical and research activities required for assistance from donors, prepare reports and submit to respective bodies;
- Participate in organization of discussions, workshops and other measures in Renewable Energy sector;
- Direct cooperation with other experts of the Fund.

2. Qualification requirements

The REP expert shall:

- have higher education in energy sector;
- have sufficient knowledge for implementation of projects by the Fund;
- have not less than 3 years working experience;

- have works organization skills and flexibility in ensuring the targeted indicators, mobilization skills;
- excellent knowledge of Armenian and English, computer literacy (MS Office, Internet etc) ;
- be familiar with software packages applied in renewable energy sector;
- have knowledge of the RA renewable energy sector, mainly of legal and practical fields, in respect to economic development specifics of different aspects.

Knowledge of up-to-date approaches and projects (international, national and local), professional participation in implementation of sector related international projects will be considered as a privilege.

Existence of scientific degrees in energy and/or renewable energy sector, as well as knowledge of the WB implemented procedures will be considered as a plus.

3. Accountability

The REP Expert is directly accountable to the TA/CS Coordinator.

4. Other responsibilities

The REP expert shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: REP expert/economist

1. Main responsibilities

1.1 The REP expert/economist shall:

- Conduct study/consulting works implemented within the frame of renewable energy projects;
- Study international practice for efficient use of energy carriers, as well as for energy efficiency environmental indicators and make recommendations;
- Study of energy efficiency sites, energy efficiency technologies, conduct informational, analytic and research works, prepare reports and submit to respective bodies;
- Carry out economic expertise during preparation of strategic RR and EE sectors;
- Technical-economic expertise of investment projects of RR and EE sector;
- Economic analysis of investment projects implemented by the Fund;
- Participation in development of new projects;
- Analysis of projects subject to monitoring;
- Prepare business plans for beneficiaries.

2 Qualification requirements

The REP expert/economist shall:

- have higher education in energy sector;
- have sufficient knowledge for implementation of projects by the Fund;
- have not less than 3 years working experience;
- have works organization skills and flexibility in ensuring the targeted indicators, mobilization skills;
- excellent knowledge of Armenian and English, computer literacy (MS Office, Internet etc) ;
- be familiar with software packages applied in renewable energy sector;
- have knowledge of the RA renewable energy sector, mainly of legal and practical fields, in respect to economic development specifics of different aspects.

Knowledge of up-to-date approaches and projects (international, national and local), professional participation in implementation of sector related international projects will be considered as a privilege.

Existence of scientific degrees in energy and/or renewable energy sector, as well as knowledge of the WB implemented procedures will be considered as a plus.

3 Accountability

The REP Expert/economist is directly accountable to the TA/CS Coordinator.

4 Other responsibilities

The REP expert/economist shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Financial Manager

1. Main responsibilities

1.1 Financial Manager shall:

- Undertake measures for preparation of strategic plan of the Fund, business plan and fund raising ;
- Establish and maintain financial management system of the Fund and the Fund executed projects;
- Prepare the TOR of FM software (acceptance of the latter by investor);
- Financial and budget planning;
- Participate in preparation of annual working plan;
- Furnish documents required for financing;
- Ensure project funds flow and timely recovery of accounts;
- Prepare financial reports and ensure furnishing process;
- Regulate financial and budget issues;
- Ensure the procurement process;
- Be in contact with auditors and ensure preparation of documents for project audit;
- Prepare reports for project implementation;
- Manage the disbursement;
- Assess the condition of PFIs through the quarterly analysis, study the applications of the PFIs and furnish them for the respective opinion;
- Manage the loans provided by the RA, as well as loans extended to the PFIs and Beneficiaries;
- Ensure management of Contracts signed by the Fund;
- Monitoring of project expenditures and costs (local and foreign);
- Assist the Fund Director in solution of financial issues.

1.2 Carry out other assignments within the frame of authority.

2. Qualification requirements

The Financial manager shall have :

- higher economic/ financial education ,
- not less than 5 (five) years relevant working experience,
- knowledge of international and commercial banks procedures, financial management, as well as different instruments and tools of capital market;

- knowledge of the RA legislation on Banks,
- knowledge of financial procedures of the World Bank supported projects,
- abilities to overcome problems appeared during the work, communication skills,
- excellent computer literacy;
- experience with similar international projects,
- Knowledge of Armenian, English and Russian is obligatory.

3. Accountability

The Financial Manager is directly accountable to the Fund Director.

4. Other responsibilities

The Financial manager shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Chief accountant

1. Main responsibilities:

The chief accountant shall:

- Maintain various accounting books, accounting records and statements in accordance with the RA and the WB procedures;
- Prepare reports and submit to state authorized bodies envisaged by the RA legislation on timely bases;
- Perform the co-financing process from the RA budget.
- Check and compare the bank accounts;
- Verify the invoices, receipts and payment orders;
- Calculate and record payroll;
- Record and maintain the main assets;
- Record and supervise the least cost goods depreciable assets;
- Assist to the Financial Manager.

1.2 Within the scope of its responsibilities, the FM shall carry out other tasks assigned by the FD.

2. Qualification requirements

The Chief Accountant shall have:

- higher economic education,
- accounting qualification;
- knowledge of the WB procedures;
- knowledge of accounting and disbursement procedures of the World Bank supported projects;
- not less than 5 (five years) working experience;
- abilities to overcome problems appeared during the work, communication skills,
- computer literacy, knowledge of accounting software is preferable,
- Knowledge of Armenian, English is obligatory,
- Participation in similar international projects and qualification of the Ministry of Finance and Economy of the RA are preferable;

3. Accountability

The Chief Accountant is directly accountable to the Financial Manager.

4. Other responsibilities

The Chief Accountant shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Financier/disbursement officer

1. Main responsibilities

The Financier/disbursement officer shall:

- Record payments and received accounts in the accounting system;
- Prepare the payment orders;
- Prepare the Withdrawal Applications of the WB;
- Control the disbursements based upon Withdrawal Applications of the WB;
- Accounts replenishment activities;
- Assist the Financial Manager in preparation of financial reports;
- Provide necessary information related to disbursement to the Financial Manager for the budget planning.
- Maintain the original copies of Contracts and disbursement documents;

1.2 Within the scope of its responsibilities, the Financier/disbursement officer shall carry out other tasks assigned by the FD.

2. Qualification requirements

Financier/disbursement officer shall have:

- higher economic education,
- knowledge of lending process,
- excellent knowledge of procedures of the World Bank supported projects,
- not less than 3 (three years working experience)
- abilities to overcome problems appeared during the work, communication skills,
- computer literacy; knowledge of accounting program is preferable.
- Knowledge of Armenian, English and Russian is obligatory

Participation in similar international projects and qualification trainings is an advantage.

3. Accountability

Financier/disbursement officer is directly accountable to the Financial Manager.

4. Other responsibilities

The Financier/disbursement officer shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Economist, loan specialist

1. Main responsibilities

The Economist, loan specialist shall:

- Record loan applications, disbursements;
- Record data from reports received from PFIs;
- Prepare the disbursement documents for the PFIs;
- Cooperate with PFIs in clarification of works related to reports;
- Record payments and redemptions in regards to loan;
- Prepare loans monitoring reports;
- Maintain the original copies of Contracts and disbursement documents;
- Perform other assignments within the frame of responsibilities.

2. Qualification requirements

The Economist, loan specialist shall:

- higher economic education,
- accounting skills,
- not less than 3 (three) years working experience,
- ability to overcome barriers appeared during the work, developed skills of communication;
- excellent computer literacy, knowledge of accounting software is preferable,
- excellent knowledge of Armenian, English and Russian is obligatory;
- international qualification and participation in similar international projects is preferable.

3. Accountability

The Economist, loan specialist is directly accountable to the Financial Director.

4. Other responsibilities

The Economist, loan specialist shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Chief Procurement Specialist

1. Main responsibilities

1.1 The Chief Procurement Specialist shall:

- Prepare the Procurement Plan (in accordance with procurement method, type, quantity, price, delivery conditions, sources etc) acceptable for the WB;
- Perform the procurement procedures of the project, including
- Prepare the procurement documents in accordance with the WB procurement Guideline (request for proposals, standard bidding documents, technical specifications, adjustment of proposal, evaluation reports etc),
- Prepare the procurement documents to be furnished to the WB,.
- Prepare all procurement related documents required by the RA Legislation,
- Organize the activities of the Evaluation Commission and provide required information;

- Organize drafting the minutes of evaluation commission,
- Prepare the procedures related to evaluation of bids, evaluation reports and awarding the contracts,
- Coordinate the contracting process;
- Assistance to FM in budget planning, by making the respective modifications,
- Control the contracts deadlines and inform the FM regarding the possible breaches,
- Give opinion on compliance of the goods, works and services supplied and implemented under the project with the conditions of the Contracts;
- Prepare the progress reports;
- Participate in preparation of project action plan.

1.2 Within the scope of its responsibilities, the Procurement Specialist shall carry out other tasks assigned by the FD.

Qualification requirements

The Procurement Specialist shall have:

- higher technical/economic education,
- knowledge of the WB procurement procedures,
- not less than 3 (three) years working experience,
- excellent computer literacy,
- knowledge of Armenian, English and Russian is obligatory,
- experience in international organizations or similar international projects is preferable,
- working experience with the WB projects is an asset.

3. Accountability

The Procurement Specialist is directly accountable to the Financial Manager.

4. Other responsibilities

The Procurement Specialist shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Leading Procurement Specialist

1. Main responsibilities

1.1 The Leading Procurement Specialist shall:

- a. Participate in preparation of the Procurement Plan (in accordance with procurement method, type, quantity, price, delivery conditions, sources etc) acceptable for the WB;
- b. Prepare the procurement documents to be furnished to the WB,
- c. Prepare all procurement related documents required by the RA Legislation,
- d. Organize the activities of the Evaluation Commission and provide required information;
- e. Draft the minutes of evaluation commission,
- f. Prepare the procedures related to evaluation of bids, evaluation reports and awarding the contracts,
- g. Prepare the contracting process;
- h. Control the contracts deadlines and inform the FM regarding the possible breaches,
- i. Prepare the progress reports;
- j. Participate in preparation of project action plan.

1.2 Within the scope of its responsibilities, the Leading Procurement Specialist shall carry out other tasks assigned by the manager.

2. Qualification requirements

The Leading Procurement Specialist shall have:

- higher education,
- knowledge of the WB procurement procedures,
- not less than 3 (three) years working experience,
- excellent computer literacy,
- knowledge of Armenian, English is obligatory,
- experience in international organizations or similar international projects is preferable,
- working experience with the WB projects is an asset.

3. Accountability

The Procurement Specialist is directly accountable to the Financial Manager.

4. Other responsibilities

The Leading Procurement Specialist shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Job Title – Office Administrator

1. Main responsibilities:

The Office Administrator shall:

- Maintain tangible property, equipment and devices required for the present operation of the Fund;
- Deliver the correspondence and other documents to the addressers;
- Receive the documents from the state management bodies;
- Calculate tangible values of the Fund and perform inventory and maintenance process;
- Organize works connected with workshops, visits, negotiations;
- Organize work of drivers and technical staff and supervision;
- Custom clearance of procured goods;
- Accept the goods procured under the project and deliver to the respective physical and legal entities;
- Supervise the circulation of goods, including the fuel;
- Prepare the operational budget;
- Furnish monthly reports on performance approved budget to the FD.

Within the scope of responsibilities, the Office Administrator shall carry out other tasks assigned by the FD.

2. Qualification Requirements

The Office Administrator shall have:

- higher education,
- not less than 3 (three) years working experience,
- ability to overcome barriers appeared during the work, developed skills of communication;
- computer literacy,
- knowledge of English is preferable.

3. Accountability

The Office Administrator is directly accountable to the FD.

4. Other responsibilities

The Office Administrator shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Information of specialist

The Information Specialist shall:

- Web site modifications (work facilitation, modification of works);
- Web site modifications, by collecting requested data and entering into the site;
- Prepare information regarding the works implemented by the Fund for Mass Media and cooperating companies;
- Conduct “Geographic information system” (GIS) software, enter regionally distributed data, management and manipulation;
- Analyze and modeling of GIS software data;
- Consulting for GIS users in organizing data base works and conduction of study.

Within the scope of responsibilities, the Office Administrator shall carry out other tasks assigned by the FD.

2. Qualification requirements

The Information specialist shall have:

- higher technical education,
- not less than 2 (two) years working experience,
- ability to overcome barriers appeared during the work, developed skills of communication;
- excellent computer literacy;
- knowledge of MS Office, Auto Desk Map, Internet, HTML, IDRISI Andes, CartaLinx
- knowledge of English is preferable.

3. Accountability

The Information Specialist is directly accountable to the Fund Director.

4. Other responsibilities

The Information Specialist shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Assistant to Director

1. 1 The Assistant to Director shall

- Supervise the assignments of the Fund Director,
- Coordinate the circulation of the Fund documents;
- Record and furnish the documents;
- Draft the minutes and prepare other correspondence related to activity;
- Prepare the agenda of BOT and other meetings and collect related documents;

- Plan working hours of manager, meetings, discussions;
- Cooperate with office manager for the organizations of latter;
- Prepare orders of the Fund staff and labor contracts, maintain the order book and contracts recording;
- Receive the correspondence and other mailed documents, newspapers, as well as furnish the letters and documents to the addressers, posting.

Within the scope of responsibilities, the Assistant to Director shall carry out other tasks assigned by the FD.

2. Qualification requirements

The Assistant to Director shall have:

- higher education,
- ability to overcome barriers appeared during the work;
- excellent computer literacy,
- excellent knowledge of Armenian, Russian and English is obligatory,
- Participation in similar international works and training is preferable.

3. Accountability

The Assistant to Director is directly accountable to the Fund Director.

4. Other responsibilities

The Assistant to Director shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Assistant/Translator

1. Main responsibilities

The Assistant/Translator shall:

- Supervise recording of manager's assignments, and delivery to respective executors;
- Collect other documents related to the BOT and other issues of agendas,
- Translate the project and the Fund activity into Armenian, English and Russian;
- Check the mails and reports- formulations and punctuation;
- Formatting of texts;
- Collect information related to project and submit to the manager;
- Drafting the minutes of discussions, workshops and other meetings;
- Interpretation during discussions, consultations and other meetings.

Within the scope of responsibilities, the Assistant/Translator shall carry out other tasks assigned by the FD.

2. Qualification requirement

The Assistant/Translator shall have

- Higher education;
- Not less than 2 (two) years working experience,
- Ability to overcome barriers appeared during the work,
- Computer literacy;
- Knowledge of Armenian, English and Russian is obligatory, and knowledge of other foreign languages is preferable;
- Experience with similar international works and participation in respective qualification trainings is preferable.

3. Accountability

The Assistant/translator is accountable to UHP Coordinator.

4. Other responsibilities

The Assistant/Translator shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title – Translator

1. Main responsibilities

The Translator shall:

- Translate official and working documents of the Fund into Armenian, English and Russian;
- Interpretation during the negotiations, discussions and other meetings;
- Visit to different organizations with international and local experts and interpretation.

Within the scope of responsibilities, the Translator shall carry out other tasks assigned by the FD.

2. Qualification requirements

The Translator shall have:

- Higher education;
- Not less than 3 (three) years professional experience;
- Excellent knowledge of Armenian, English and Russian,
- Translation and interpretation skills;
- Computer literacy;
- Knowledge of energy and financial sector terminology.

3. Accountability

The Translator shall be accountable to the Fund Director.

4. Other responsibilities

The Translator shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Title: Assistant

1. Main responsibilities

The Assistant shall:

- Supervise recording of manager's assignments, and delivery to respective executors;
- Collect other documents related to the BOT and other issues of agendas,
- Check the mails and reports- formulations and punctuation;
- Formatting of texts;
- Collect information related to project and submit to the manager;
- Drafting the minutes of discussions, workshops and other meetings.

Within the scope of responsibilities, the Assistant shall carry out other tasks assigned by the FD.

2. Qualification requirement

The Assistant shall have

- Higher education;
- Working experience,
- Ability to overcome barriers appeared during the work,
- Computer literacy;
- Knowledge of Armenian, English and Russian is obligatory, and knowledge of other foreign languages is preferable;
- Experience with similar international works and participation in respective qualification trainings is preferable.

3. Accountability

The Assistant is accountable to TA/CS Coordinator.

4. Other responsibilities

The Assistant shall:

- Carry out other responsibilities defined by the charter, as well as other project related assignments of Director that do not contradict the legislation,
- Make recommendations for introduction of effective systems for fulfillment of duties and supervision, as well as for improvement of existing system,
- Follow the approved procedures and regulations, professional ethics, working discipline, as well as maintain Fund property,
- Not disseminate any working information without prior agreement of director.

Annex 8- Agency Contract

Agency Contract

This CONTRACT is made on 16 January 2006 in Yerevan between the Republic of Armenia (hereinafter the Principal) represented by the Ministry of Finance and Economy of the RA on the one hand and the Armenian Renewable Resources and Energy Efficiency Fund / hereinafter the Fund or Agency/ on the other hand, hereinafter the Parties.

Whereas by a “*Development Credit Agreement*” (the DCA) between the *International Development Association (IDA)* and *the Republic of Armenia signed on the 20th of July 2005* IDA has lent to the Republic of Armenia an amount equal to **10 (ten) million** Special Drawing Rights to assist in the carrying out of the **Urban Heating Project** (hereinafter the Project) that is to be provided by the Fund according to the Agency Contract signed between the RA and the Fund, and being governed by the Decree N 799-N as of April 28, 2005 of the Government of Armenia, hereby agree as follows.

1. CONTRACT TERMS

The Parties agree, that the terms of this Contract are understood by the meaning, content and interpretation specified in the DCA.

2. CONTRACT SUBJECT AND OBJECTIVE

- 2.1 The Fund as an Agent shall carry out legal and other activities for the fulfillment of Project objectives on behalf of the Principal by the Principal’s request and at its expenses with remuneration.
- 2.2 Within the Project framework the Agent shall ensure the execution of activities (hereinafter the Activities) anticipated by components A, B2, C of the Project specified in Schedule 2 of the DCA.
- 2.3 The Principal hereby assigns the Agent to execute the lenders right pursuant to civil contracts (a list of contracts pursuant to Annex 1) in force and signed by “Heating and Multi-apartment Buildings Assistance Management Bodies Support Projects PIU” SI within the framework of Letter-Agreement No PPF Q 353-0-A of “Advance for Proposed Urban Heating Project» signed between the RA and IDA on April 3, 2003.

3. The proceeds for implementation of activities

- 3.1 For the execution of activities anticipated by the Contract, the Principal extends proceeds to the Agent in the amount of:

Category of activity	Amount of proceeds (equivalent to SDR)
1. Goods and works	
1.1 for the school heating systems;	3,330,000
1.2 other	1,400,000
2. Consultant’s services including audit	560,000
3. Training	30,000
4. Grants	660,000

The proceeds are channeled in a currency specified in the DCA.

- 3.2 The Principal channels proceeds in the amount specified by the Project Management Board for the different components of the Contract, according to the approved estimate of the given fiscal year, based upon Withdrawal Applications specified by the IDA and other documents requested by the legislation of the RA for allocation.
- 3.3 The amount requested by financial applications may not exceed the amount of categories specified in the DCA, if otherwise agreed between the RA and IDA in future.

4. Agent fee. Project Budget.

- 4.1 The Principal pays up to 530.000 SDR equivalent amount of agent fee to the Agent for agency service, which includes the reimbursement of the expenditure of the Fund for rendering services, income and Value Added Tax (VAT).
- 4.2 Agent fee is extended with monthly installments pursuant to the Project annual budget and expenditure estimate, confirmed by the Board of Trustees. Prior to the budget approval for the given fiscal year, allocations for the given year are channeled proportionally according to the previous year estimate.
- 4.3 Agent fee amounts saved as at the end of given year, become the property of the Agent and are not returned to the Principal. The course for usage of the savings are agreed with the BOT of the Fund.

5. Execution of Activities. Agent Responsibilities

- 5.1 While implementing the activities, the Agent acts within the Project framework and as a project implementation unit financed from the proceeds channeled to the RA through external financial projects and is in charge for fulfillment of activities assigned to the units by the Legislation of the RA.
- 5.2 The project-related activities of the Agent are coordinated by the Board of Trustees - the executive management body of the Fund that is deemed the Project Management Board as well.
- 5.3 The Agent shall submit to the Principal Project progress reports in specified formats, which is deemed as an Agent Report on the execution of the assignment within the contract framework.
- 5.4 The Fund functions are:
 - 5.4.1 As an Agent of the RA, signing of bargains and carrying out of clients rights and obligations pursuant to the procurement procedures specified in the International Agreements;
 - 5.4.2 Preparation of the workplan and budget of activities within the project framework;
 - 5.4.3 Development of annual procurement plan of goods, works and services within the project framework and submitting them to the Ministry of Finance and Economy of Armenia and to the related state management bodies.
 - 5.4.4 Preparation of bidding documents for procurement of goods, works and services (including Terms of Reference) and organization of tenders, analyze and evaluation of bids in the project framework;
 - 5.4.5 Within a project framework, signing a contract on procurement of goods, works and activities on behalf of the Republic of Armenia, at that having approval of the Government of RA on the winner and price for the contracts in an amount equivalent to or more than 1mln. USD (pursuant to the exchange rate specified by the Central Bank of RA on the day of proposing a winner by the evaluation committee), and, having approval of the BOT on the winner and price for contracts from 50.000 to 1 mln. USD equivalent amounts (pursuant to the exchange rate specified by the Central Bank of RA on the day of proposing a winner by the evaluation committee).
 - 5.4.6 Project implementation monitoring, including preparation and submission of reports on project execution required by the financing organization, pursuant the Law of the RA;
 - 5.4.7 Submission of necessary applications for the project proceeds withdrawals and submitting them to the financing organization after the authorized official of Treasury signed it;
 - 5.4.8 Supervision over the works envisaged by the project implemented by the contractors and suppliers, including checking of compliance of the outcomes of the performed works with the Terms of Reference, confiscation for losses, debt, warranty in the case of not fulfilling or unduly fulfilling the liabilities, removing the shortcomings identified as a result of acceptance of goods and works or running a claim on behalf of the Principal for compelling fulfillment of liabilities and lodging a lawsuit with all legal authorities, the base and subject of the claim, claim amount and rejecting of claim or conciliation issues shall be preliminary agreed with the Ministry of Finance and Economy of Armenia, or submission of respective materials required for claiming to the Ministry of Finance and Economy of the RA;
 - 5.4.9 Ordering of required design activities and expert evaluations;
 - 5.4.10 Ensuring Project implementation related payments, submission of Applications to the budget allocation chief assigner for the allocation of co-financing amounts to be channeled from the state budget.

- 5.4.11 Organization and execution of delivery of works, goods and services by international agreements or by the decision of the Government of RA to the beneficiary within the project framework (state management institutions, communities, legal or physical entities), including signing a contract for state property consolidation or donation contracts on behalf of the Republic of Armenia, provided the Beneficiary is not the Republic of Armenia, as well as supervision of the fulfillment of liabilities of the beneficiary under the Contract;
- 5.4.12 Submission of monthly, quarterly, annual reports as specified by the Government of RA, as well as, submission of summarized analytical report to the Government of Armenia after the completion of the project;
- 5.5 For the evaluation of bids, the acting evaluation committees involved in the project framework are formed by the Project Management Board.
- 5.6 When paying the other party of the Contract within the Project framework, in case of incompliance of procurement outcomes with the Terms of Reference, the Fund shall bear the responsibility of inefficient use of state property with assets as its property, even if the project beneficiary received the procurement outcomes without stipulations. The Fund is released from the property responsibility, provided payment is made after removing shortcomings by the contractor or after the approval of that procurement output by the Project Management Board. Under this paragraph, the procurement results are considered incompliant with the Terms of Reference, if
- a) For goods: type, origin, quality or specification of goods supplied by the seller (supplier), does not comply with the type, origin, quality or description set forth in the Contract;
 - b) For works: qualitative characteristics of applied materials and/or equipments for the implementation of construction works do not comply with the qualitative characteristics set forth in the Contract, as well as the outcome of the contractor's (designer's, executor's) work or its parameters do not comply with design documents or parameters specified in them;
 - c) For services: outcome reached by the producer in the aspect of content do not comply with the content specified in the contract;
- 5.7 The Agent shall:
- a) use the proceeds anticipated in Part 2 of this Contract solely for the execution of the project;
 - b) immediately inform the Principal about the situation impeding or threatening to impede the activities executed within the framework of the project;
 - c) carry out recording and accounting of proceeds channeled through the Agency Contract in accordance with the legislation of the RA;
 - d) perform annual audit of the Project by the independent auditors selected for that purpose pursuant to the DCA, which is also deemed an audit of implementation process of activities anticipated by this Contract. Selection of audit is carried out pursuant to the DCA. The Agent should submit audit reports for the given fiscal year to the Principal not later than within six months after the end of the fiscal year. Supervision of implemented activities within the project framework or in case of performing a separate audit by the Principal's request, an audit firm is selected and paid by and at the expense of the Principal, and inspection expenditures made by the authorized department of the Principal are covered from Principal's account.
 - e) Ensure access to project related accounting records and other information for the Principal's auditors and inspectors;
- 5.8 After the coordination with the Principal, the Agent may authorize the implementation of activities or part of it anticipated by the Contract to the third party according to the Sub-Agency Contract.
- 5.9 The decisions of the Board of Trustees are mandatory for the Fund, as an instruction to the Agent by the Principal which may be deviated by the Agent, when proved, that it is necessary in favor of the Principal for implementation of work. In this case, the Fund should convoke extraordinary session and if the previous decision is not altered by the Board, the Fund shall do it without bearing property responsibility risk for the losses inflicted on the state.

6. Management of Projects Proceeds and Assets. Bank Accounts of the Agent

- 6.1 The proceeds managed by the Agent within the framework of Agency Contract are considered the state proceeds, the authority of expenditure of which is stipulated to the Agent based upon this Agency Contract.
- 6.2 The tangible and non tangible assets procured from the Agent proceeds are considered state property, before they are not channeled to the project beneficiaries, and in the case of channeling of latter according to the provisions of the Legislation it is considered their property.

- 6.3 Separate banking accounts (hereinafter the Project banking account) for disbursements within the project framework are opened in commercial banks. The holder of proceeds available there is the Republic of Armenia, that authorized the Fund under the Agency Contract to carry out disbursements from the account for the execution of the project.
- 6.4 Separate banking account (accounts) is opened for the Fund maintenance expenses (hereinafter banking account of the Fund), the holder of the proceeds of which is the Fund. The Project related disbursement procedures may not be executed through the Fund banking account and the opposite.
- 6.5 Opening of banking account of the Project by the Fund and related agreements are carried out pursuant to the DCA.
- 6.6 The Agent shall quarterly notify the Ministry of Finance and Economy of the RA about the banking accounts of the Project: bank, its location, account number, currency, interest rate calculated against the balance, name and surname of the authorized person having a right to withdraw proceeds, passport data, or introduce a certificate that the information submitted in the previous quarter is not altered.
- 6.7 Arrest, prohibition and confiscation may only be applied on the banking account and assets of the Fund according to the Fund liabilities.
- 6.8 Pursuant to the DCA provisions, the Principal is the main respondent in judicial bodies with claiming actions of third party towards the Project banking accounts.
- 6.9 The Fund shall instruct the bank serving the banking account of the Project that furnishing information about the banking account to the Ministry of Finance and Economy, as to a representative of the Principal may not be considered as a disclosure of banking secret of the Fund.
- 6.10 The amount (principal amount, interest and penalty) received from the goods or loan currency returns signed with the beneficiaries during the implementation of activities under the paragraph 1.4 are passed to the separate banking account of the Fund opened in the commercial bank for that purposes. The collected accumulated proceeds are separated at the end of each year into principal amount and interest /penalty/, and the holder of those interests/penalties/ is considered the Fund, which controls and spends them for purposes specified in the Fund charter in accordance with the decision of the Board of Trustees. The principal amount is the property of the Principal. Pursuant to the Subsidiary Loan Agreement, the principal amount is extended for the sub-loan resources.
- 6.11 Under the Agency Contract, the Project accounting (budgeting of project proceeds, its performance and project progress reports) shall also be maintained by the Fund in the project currency.
- 6.12 The extended proceeds, as well as amounts collected as a result of implementation of activities under 2.3, that are not allocated may be deposited by the Fund in the banks acceptable to the Principal, moreover the Agent bears the risk of the loss of the latter. Interest on the deposit is considered the property of the Fund and may be spent for the purposes specified in the Fund charter subject to decision of the Board of Trustees.

7. Responsibility of the Agent

- 7.1 During the execution of the project, through the activity (idleness) of the agent and property assumed the source of danger, the Agent bears the property responsibility inflicted on the third person.

8. Contract Suspension

- 8.1 The Principal has a right to suspend the execution of activities under contract for the following reasons:
 - 8.1.1 an extraordinary situation arose, which make it improbable that the Agent will be able to perform its obligations under this Contract.
 - 8.1.2 the right of the Republic of Armenia to withdraw the proceeds of the Credit from IDA shall have been suspended, cancelled or terminated, either in whole or part, pursuant of the DCA the Credit payable prior to the agreed maturity thereof.
- 8.2 Notwithstanding any cancellation or suspension, all the provisions of this contract shall continue in full force and effect except as they regulate the relations between the Fund and Principal.
- 8.3 The suspension shall be lifted upon a decision of the Principal in case the events which gave rise to suspension shall have ceased to exist.

9. Premature cancellation of the Contract

- 9.1 In case of the following events that occur separately or simultaneously (qualified as cases of considerable violation or considerable change of conditions) the Principal may submit to the Agent a claim for cancellation of the contract before due day.
- 9.1.1 The court has started legal process of bankruptcy or depriving of license in respect to the Agent.
- 9.1.2 Worsening of financial condition of the Agent verified by submitted reports and/or audit conclusion.
- 9.1.3 Non-targeted use of proceeds allocation by the Agency contract, or involvement of incorrect information in the reports noted in paragraph 4.4 of this Contract, that aims to mislead the Principal.
- 9.1.4 Provided IDA requests the Republic of Armenia to redeem immediately the principal amount of loan upon the events anticipated in the DCA arise.
- 9.2 The Principal shall furnish in writing the request of premature cancellation to the Fund after the agreement with the IDA, except the events anticipated in paragraph 9.1.1 occur. The parties are agreed to fulfill all the obligations, including payment obligations within 2(two) weeks after getting the request.

10. FINAL PROVISIONS

10.1 Applicable law and dispute resolution

This Contract shall be governed by the laws of the Republic of Armenia. Any dispute or difference arising out of this Contract shall be settled by negotiations, or by the courts of competent jurisdiction of the Republic of Armenia.

10.2 Notification

Within the framework of this Contract all notices and other correspondence shall be in writing and delivered on hand (with written receipt) or fax (with written approval) through fax number or through ordered letter at the party's address hereinafter specified.

10.3 Additions

This Contract may be supplemented and modified only with written agreement of the Parties via making one countersigned document, thus both any one-sided document and reply to the latter may not be deemed as modification or addition to this Contract.

10.4 Transfer and Pledge

10.4.1 The Fund does not reserve a right to transfer its rights and liabilities under this Contract to another person without written agreement of the Principal.

10.4.2 The Creditor exercises a right to transfer its right to claim under this Contract at any time throughout this Contract effectiveness to any person acting in the territory of the RA after agreement of the IDA. In case of such transfer, the Fund shall fulfill liabilities under this contract in favor of new lender starting from the day of getting the notification on the right to claim.

10.5 Splitting of provisions

Annulment of any provision of this Contract does not lead to annulment of the whole Contract or any other provisions of the Contract. The Parties shall not speculate complete or partial annulment of Contract to avoid from the liabilities specified in the Contract, but shall initiate all necessary steps to fulfill the Contract subject and intentions in accordance with acting legislation.

10.6 Confidentiality

The Parties agree not to disclose any contract related information except for the cases anticipated by this Contract and law.

10.7 Contract completeness

This Contract is a complete agreement between the Parties and prevails over all previous arrangements between the parties related to it.

10.8 Effectiveness date

This Contract is signed in Yerevan, three copies in Armenian; one copy shall be given to the Fund, two copies to the Principal. This Contract shall become effective upon the date of signature by authorized representatives of both parties and is effective until completion of liabilities of parties in accordance with laws specified.

Principal (Name, Address)	Agent (Name, Address)
Signature _____	Signature _____
Name _____	Name _____
Title _____	Title _____

Annex 1
“16” January 2005
Agency Contract
signed between the Republic of Armenia
and Renewable Resources
and Energy Efficiency Fund of Armenia

**List of Ongoing Contracts Signed by the Urban heating PIU
in the Framework of the PPF Q3530-AM Letter-Agreement for Advance for Preparation of the Urban Heating
Project**

1. Works Contracts # C-W-1/2005 and # C-W-4/2005 signed with “Mekusich” IC as of 15.09.2005.
2. Works Contract # C-W-2/2005 signed with “Epal” LTD as of 15.09.2005.
3. Works Contracts # C-W-3/2005 and # C-W-7/2005 signed with “Alnita” LTD as of 16.09.2005.
4. Works Contract # C-W-5/2005 signed with “Ishk” LTD as of 15.09.2005.
5. Works contracts # C-W-8/2005 and # C-W-10/2005 signed with “Erknaker” LTD as of 15.09.2005.
6. Works Contract # C-W-9/2005 signed with “Jermoukshin” OJSC as of 15.09.2005.
7. Works Contract # C-W-11/2005 signed with “Gyughtntshinmontage # 6” CJSC as of 15.09.2005.
8. A service agreement signed with “Armentel” JSC as of 09.11.2005.
9. A service agreement signed with “Exolt” LTD as of 9.12.2005.
10. Utilization Agreement # 03/122 signed with “Irttek” CJSC as of 9.10.2003.
11. Agreement signed with “Ka and Ko” LTD as of 26.07.2004 on mutual commitments and intentions and execution.
12. Targeted Loan Agreement signed as of 01.06.2005 and Pledge Agreement signed in 25.08.2005 with “Yerfrez” OJSC.
13. Targeted Loan Agreement signed as of 01.06.2005 with “Armusgasard” CJSC (N. Sourenyan st., Yerevan).
14. Targeted Loan Agreement signed as of 01.06.2005 with “Armusgasard” CJSC (Sayat Nova dis., Yerevan).
15. Targeted Loan Agreement signed as of 01.06.2005 and Pledge Contract signed as of 03.06.2005 with “Argishti” Condominium.
16. Targeted Loan Agreement signed as of 01.06.2005 and Pledge Contract signed as of 03.06.2005 with “South Therm” CJSC.
17. Targeted Loan Agreement signed as of 01.03.2004 and Pledge Contract signed as of 01.03.2004 with the citizen of Republic of Armenia Hripsik Melkonyan.
18. Targeted Loan Agreement signed as of 01.04.2004 and Pledge Contract signed as of 01.04.2004 with the citizen of Republic of Armenia Syran Serobyen.
19. Targeted Loan Agreement signed as of 01.04.2004 and Pledge Agreement signed as of 02.04.2004 with “Paruyr Sevak - 106” Condominium.
20. Targeted Loan Agreement signed as of 01.04.2004 and Pledge Agreement signed as of 06.04.2004 with “Yerfrez” OJSC.
21. Consultant Services Agreement #UHP-CSI-2004/1-04 signed as of 09.02.2004 with Lyudmila Aghabekyan.
22. Consultant Services Agreement #UHP-CSI-2004/1-03 signed as of 01.04.2004 with Gagik Sargsyan.
23. Consultant Services Agreement #UHP-CSI-2004/1-06 signed in 01.07.2004 with Gayane Gasparyan.
24. Service Agreement UHP-CSI-2004/1-04 signed in 01.05.2004 with Heghine Margaryan.
25. Service Agreement #UHP-W-2005/1-02 signed in 24.10.2005 with Anna Manvelyan.

AGREEMENT N1

On amendments in Agency Contract

Yerevan

January 30, 2007

The **Republic of Armenia** (hereinafter the Principal) represented by the **Ministry of Finance and Economy of the RA** on the one hand and the **Armenia Renewable Resources and Energy Efficiency Fund** / hereinafter the Fund or Agency/ on the other hand, hereinafter the Parties

Whereas by a Part 3.01, Clause c, Para iii and provisions of Annex 2 of “**Development Credit Agreement**” (the DCA) signed between **International Development Association (IDA)** and the **Republic of Armenia** has made this Agreement to be signed on the following conditions:

1. The Parties agree to make below-mentioned amendments in the Agency Contract (hereinafter the “Contract”) signed between them on January 16, 2006.

To amend Para.2.2 of the Contract and read as follows:

“2.2 Within the Project framework, the Agent shall ensure the execution of activities (hereinafter the Activities) anticipated by components A, B2, C, D of the Project specified in Schedule 2 of the DCA.”

1.2 To amend Para 4.1 of the Contract and read as follows:

“4.1 The Principal pays agent fee in the amount specified in the component D of the Project to the Agent for agency service, which includes the reimbursement of the expenditure of the Fund for rendering services, income and Value Added Tax (VAT).” Agent fee comprise payments anticipated for the Agent in accordance with component D of the Project (payments from the Project funds for procurement of goods (furniture, IT, transportation etc) operation costs of Agent institution), works and services for private needs of the Agent, in accordance with Procurement Plan of the Project.”

2. The Agreement is deemed the integral part of the Contract and the provisions and responsibilities specified by the Contract are left without changes.
3. This Agreement is signed in two original copies, in Armenian and becomes effective upon the date of signing and is effective for the relations incurring in the frame of the Agreement for the period commencing since January 16 up to December 31, 2006.

PRINCIPAL

375010, Yerevan, RA

1 M.Adamyan

Minister of Finance and Economy of the RA

V.Khacahtryan -----

AGENT

375010, Yerevan, RA

1 M.Adamyan

Director of Armenia Renewable Resources and
Energy Efficiency Fund

T.Babayan -----

AGREEMENT N2

On amendments and additions in Agency Contract

Yerevan

April 18, 2007

The **Republic of Armenia** (hereinafter the Principal) represented by the **Ministry of Finance and Economy of the RA** on the one hand and the **Armenia Renewable Resources and Energy Efficiency Fund** / hereinafter the Fund or Agency/ on the other hand, hereinafter the Parties

Whereas by a Part 3.01, Clause c, Para iii and provisions of Annex 2 of “**Development Credit Agreement**” (the DCA) signed between **International Development Association (IDA)** and the **Republic of Armenia** has made this Agreement to be signed on the following conditions:

1. The Parties agree to make below-mentioned amendments and additions in the Agency Contract (hereinafter the “Contract”) signed between them on January 16, 2006.

To add a new provision in Para.3.1 of the Contract: “Besides above-mentioned proceeds, the Principal extends proceeds from the state budget of the RA as a project co-financing pursuant to categories and amounts of Annex 1 to the DCA. The Parties agree, that before making the amendments within the frame of Grant Agreement signed with the chief guarantor of budget allocations of the Project, the proceeds extended to the Fund in the amount of the Project co-financing amounts are deemed the proceeds allocated under the relations resulting from the Agency Contract”.

Under the project co-financing funds, the Principal finances the rental expenses of the Fund office and VAT liabilities incurred from the agency services rendered within the frame of the Contract.

To amend Para. 4.1 of the Contract and read as follows:

“4.1 For Agency services, the Principal shall pay to the Principal the agency fee in the amount specified by Component D of the Project. Component D of the Project includes reimbursement for procurement of goods (furniture IT, transport etc), works and services for private needs of the Agent, operation costs for agency services in accordance with the Project procurement plan.

VAT incurred from Agent fee shall be paid in accordance with Para 3.1 of the Contract from co-financing funds, and the profit tax and property tax incurred during the implementation of the Fund activity are paid by the Agent from savings or other income.

To amend Para. 4.2 of the Contract and read as follows:

“4.2 The amount of agent fee for each year is set as follows”

- a) Reimbursement to the Agent from the Project proceeds for procurement of goods (furniture IT, transport etc), works and services for private needs of the Agent, operation costs for agency services in accordance with the Project procurement plan approved by the Board of Trustees of the Fund shall be recorded as Agent fee since the reimbursement date and in the actual amount. This amount is included in the service tax account for this period.
- b) The operation costs of the Agent are furnished to the Agent in accordance with annual budget of the Project and Operational costs of the Estimate (hereinafter the “Estimate”) approved by the Board of Trustees of the Fund. The amount approved by the Estimate is divided into four parts by the line method and included in service tax account quarterly. VAT is calculated quarterly towards amount specified by the Estimate.
- c) Prior to the estimate approval for the given fiscal year, the allocations for the given year are channeled proportionally according to the previous year estimate.

To amend Para 4.3 of the Contract and read as follows:

“4.3 The operation costs amounts saved as at the end of the given year, become the property of the Agent and are not returned to the Principal. The course for usage of the savings are agreed with the BOT of the Fund.”

2. The Agreement is deemed the integral part of the Contract and the provisions and responsibilities specified by the Contract are left without changes.

3. This Agreement is signed in two original copies, in Armenian and becomes effective upon the date of signing and is effective for the relations incurring in the frame of the Agreement for the period commencing since January 1, 2007.

PRINCIPAL

375010, Yerevan, RA

1 M.Adamyan

Minister of Finance and Economy of the RA

V.Khacahtryan -----

AGENT

375010, Yerevan, RA

1 M.Adamyan

Director of Armenia Renewable Resources and
Energy Efficiency Fund

T.Babayan -----

Annex 9- Subsidiary Agreement

Subsidiary Agreement

as of January 30, 2006

Whereas by a Development Credit Agreement (the DCA) between the International Development Association (IDA) and the Republic of Armenia, IDA has agreed to lend to the Republic of Armenia an amount equal to Special Drawing Rights (SDR) 10 (ten) million to assist in the carrying out of the Urban Heating Project (hereinafter the project) of which an amount equal to SDR 2,272,000 (two million two hundred seventy-two thousand) in accordance with agreement reached with the IDA, the Government of Armenia should allocate through the “Armenia Renewable Resources and Energy Efficiency Fund” (hereinafter the Fund or the Borrower) and whereas the latter has agreed to re-lend the proceeds of the Credit to the Bank or Participating Financial Institutions that are credit organizations (hereinafter the PFI) for on-lending to Beneficiaries within the framework of Urban Heating Project.

Now therefore the Republic of Armenia represented by the Ministry of Finance and Economy of the RA, as a Lender on the one hand (hereinafter the Lender) and the Fund, as a Borrower on the other hand hereby agree as follows.

2. CONTRACT TERMS

The Parties agree that the terms of this Contract are understood by the meaning, content and interpretation specified in the DCA.

2. CONTRACT SUBJECT AND OBJECTIVE

- 2.1 The subject of the Contract is provision of financing within the Project framework to the Borrower by the Lender through a credit line, which shall be repaid by the Borrower under the terms and conditions specified in this Contract paying the interest as well.
- 2.2 The objective of the Contract is sub-lending to the PFIs from the loan provided to the Fund for lending to the Project Beneficiaries exclusively for the purpose of the Project, in order the loan proceeds allocated to each PFI by the Fund will not exceed \$4,200,000 (four million two hundred thousand) and each tranche should not exceed 300.000 (three hundred thousand) USD or equivalent AMD. The PFIs are selected by the Borrower following the eligibility criteria set forth in the Operational Manual approved by the Board of Trustees.
- 2.3 The Fund shall include the provisions and conditions related to the PFIs in respective loan contracts signed with the PFIs and ensure their fulfillment while lending to the Project beneficiaries by the PFIs. Lending through violation of mentioned conditions or lack of control over the loan use by the PFI in accordance with provisions specified in this Contract will be assumed as violation of the Contract conditions by the Borrower.
- 2.4 Under this Agreement, the Project Beneficiary may be any individual, individual entrepreneur or legal entity (including the condominium registered as legal entity, companies owned by urban community) who is engaged or intend to engage in any economic activity, including heat production, transfer, distribution; production, installation, distribution, supply of heating systems and equipment; procurement of heating system for consumption purposes, as well as gasification works with the purpose of heating.

3. LOAN CURRENCY, AMOUNT, TERM, INTEREST AND PENALTIES

- 3.1 The Lender extends to the Borrower a loan in an amount specified in Schedule 1 of the DCA or other amount that might be agreed between the RA and the IDA, except the amount of reallocation pursuant to paragraph 3.1 of this Agreement. The loan shall be channeled in a currency of the withdrawals from the loan account.
- 3.2 The following conditions are mandatory for lending:

- (i) The Borrower selected a PFI (the PFIs) and signed a Loan Contract in accordance with Annex 2 to this Contract;
- (ii) The Borrower and the PFI has signed memorandum on allocation of loan portion by the Loan Contract attached to this Agreement for making allocation within the framework of credit line.

3.3 The loan is channeled in the following order:

- The Borrower shall transfer an amount specified in lending memorandum to the selected PFI; the date of transfer is deemed the date of Lending under this Agreement.
 - (a) Within the limits of Authorized Allocation specified in the DCA Borrower transfers proceeds to the PFI from the Special Account;
 - (b) In case of exceeding the authorized allocation Direct payment is applied based on authorized signatures;
 - (c) In case of replenishment of the SA the Withdrawal Applications also are signed by the authorized officials;
 - (d) In case of revolving pursuant to paragraph 4,1 to this Agreement, the Borrower shall furnish a corresponding application to the Lender;
 - (e) In case of replenishment of the SA, Direct payment, as well as revolving pursuant to paragraph 4,1 to this Agreement Borrower submits corresponding application to the Lender with attached documents: Loan contract with PFI (for first time), lending memorandum. Within 3 working days Lender signs financing documents or notifies about rejection.

- 3.4 The loan is available for the Fund since the day of this contract effectiveness until June 30 of 2010, if no later date is specified by the Borrower.
- 3.5 The maturity of each part of the loan is seven years. The Borrower shall pay to the Lender an interest of 1% per annum.
- 3.6 The interest is calculated for actually used calendar days, given 360 days per year. Interest shall be paid on the 10th of May and November of the calendar year, and if the mentioned day is non-banking - on the first banking day following it.
- 3.7 In case of interest repayment overdue, a penalty of 0.02% of outstanding amount shall be calculated for each day in the favor of the Borrower. In case of principal amount repayment overdue by the Borrower, a penalty of 0.01% of outstanding amount shall be calculated for each day in the favor of the Lender.

4. REPAYMENT

- 4.1 Payment to the Lender by the Fund shall be made into mentioned account of the Lender, that will be off-budget banking account opened in the Central treasury on behalf of the Lender and the accrued proceeds may be transferred again to the Fund to grant a new loan to the Beneficiaries for the Project continuity, if no other decision is made by the Lender.
- 4.2. The Fund should, at its own expense, pay banking charges connected with its transfers.
- 4.3. The Lender shall classify the amounts obtained from the Borrower as repayment the following order penalty for overdue payment, commitment charge, interest, principal amount, if the Lender does not define other order.
- 4.4. Principal of each part of loan shall be repaid at the 15th day following the maturity date.
- 4.5 Borrower may repaid loan principal before due day.

5. THE OBJECTIVE OF LENDING: PROJECT IMPLEMENTATION

- 5.1. The loan is targeted and granted by the Fund to the PFIs and through PFIs to lend to the Beneficiaries of Project, in regard of which the Fund shall provide satisfactory supervision over the activities of Banks within the frameworks of loan contracts, timely apply its rights of lender defined by law and contract, in order to ensure the repayment of loan proceeds, usage expediency.
- 5.2. In the framework of the Project implementation the Borrower acts as the Project (financed from proceed provided to the RA by foreign funding) Implementation Unit (PIU) and carries out activities assumed by the legislation of RA for the PIUs, particularly:

- (i) preparation of lending schedule within the framework of the project and submission to the approval of the Project Management Board,
- (ii) with the purpose of selection of PFIs, preparation of documents and selection, submission of results for the Project Management Board approval,
- (iii) project implementation monitoring, including preparation and submission of reports regarding the project implementation status required by the IDA, as well as specified by the legislation of the Republic of Armenia,
- (iv) preparation of required withdrawal applications and furnishing to the IDA after being signed by authorized officials of the treasury,
- (v) submission of monthly, quarterly, annual reports in accordance with rules specified by the Government of Armenia, as well as submission of analytical final report to the Government of the RA in accordance with methodical instructions of the Ministry of Finance and Economy of the RA after the project completion;
- (vi) setting an amount of charge to be levied from the participants against the submission of tender documents.
- (vii) Other activities defined by the legislation of the RA.

5.3 The Borrower shall:

- (a) appoint a Project coordinator to coordinate Project-related activities with the Ministry of Finance and Economy of the RA and IDA and be responsible for submitting reports pursuant to provisions of paragraph 5.2 of this Contract.
- (b) the Lender shall be immediately informed on the situation impeding or threatening to impede the activities executed within the framework of the Project, including on circumstance or judicial processes that may impact on Borrowers' participation compliancy within the project.
- (c) maintain the records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including its financial statements (balance sheets, statements of income and expenses and related statements and other statement requested by the RA Legislation) for each fiscal year audited that should be checked in accordance with Armenian auditing standards, by independent certified auditors. To provide to the Lender as soon as available, but in any case not later than six months after the end of each fiscal year, certified copies of said audited financial statements and accounts for such year, and the report of such audit by said auditors
- (d) make the accounting records and information related to the project implementation available for the auditors and inspectors of the Lender;
- (e) Carry out the Project implementation related decisions and assignments of the Project Management Board made within their authorities;
- (f) Keep the proceeds received by the Banks as a repayment in the central treasury of the Lender in the off-balance banking account opened for the Fund and make repayment of loan to the Lender and other payments from the said account.

6. RISK SHARING

6.1 The Fund completely and independently bears the risk of complete or partial non repayment by the Beneficiary credited by him and in case of occurrence of such event does not free the Fund from fulfilling the liabilities of this Contract towards the Lender.

7. SUSPENSION

7.1 The Lender, exercises the right to suspend extension of loan amount after having the approval of the IDA for the following events:

7.1.1 The Borrower has twice failed to make payment of principal or interest due for 7 and more banking days within previous one year and provided the reasoning of the Borrower regarding the violation was not sound for the Lender,

- 7.1.2 An extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations;
- 7.1.3 The right of the Republic to withdraw the proceeds of the Credit from IDA shall have been suspended, cancelled or terminated, in whole or in part, pursuant to the terms of the DCA, or the Credit shall have become due and payable prior to the agreed maturity thereof.
- 7.2 The suspension is not basis for claiming for damages against the Republic of Armenia. Irrespective of the fact of annulment or suspension, all the provisions of this Contract shall continue to act the way they are regulating existing relations between the Lender and the Fund.
- 7.3 The suspension shall be lifted upon a decision of the Lender in case the event or events which gave rise to suspension shall have ceased to exist

8. REPAYMENT PRIOR TO MATURITY

- 8.1 In case of following events that occur separately or simultaneously (qualified as cases of considerable violation or considerable change of conditions) the Lender may claim for execution of payment obligation prior to maturity,
- 8.1.1 A court decision was reached against the Fund, or a decision for claim security, due to execution of which the Borrower will lose the amount exceeding income of next six months from the allocated credit proceeds.
- 8.1.2 The Court has started legal process of bankruptcy in respect to the Fund.
- 8.1.3 Financial deterioration of the Fund verified by submitted financial statements and/or audit reports,
- 8.1.4 Allocation of anticipated credit proceeds of the Project for non-targeted use, or involvement of incorrect information in the report noted in paragraph 5.1.4 of this Contract, that aims to mislead the Lender.
- 8.1.5 Upon occurrence of events anticipated by the DCA, the IDA shall request the Republic of Armenia to pay principal amount of IDA credit immediately. This case is not a motive to claim for damages against Lender by the Fund.
- 8.2 The Lender shall furnish the request of premature execution in writing after prior approval of the IDA. The Fund shall fulfill its payment obligation against the Lender within 2 (two) weeks after getting the request, paying all existing balances, interest and penalty or concede its right towards the PFIs to the Lender through the Contract on Cession of Rights, as fulfillment of obligations under this Agreement, in opposite case the Lender may levy Loan proceeds from the banking account of the Fund through collection account.

9. SECURITY MEASURES AND INDISPUTABLE DEBT COLLECTION RIGHT

- 9.1 The Fund shall pledge the right to claim to the Lender, as ensuring the Fund liabilities assumed by this Contract, by the force of which the PFI may have monetary liability towards the Lender.
- 9.2 All expenses connected with pledging on Lender's favor shall be covered by the Fund.
- 9.3 The Lender shall have a right to collect overdue debt of the Fund from the banking account of the Borrower through the Collection Letter
- 9.4 In accordance with provisions specified under this Contract, in case of received and implemented claim through the "Pledge Contract on Cession of Rights", as well as levying the overdue amounts through the Letter of Collection, such amounts will be calculated and deemed, as repayment of lending amount by the Fund for the Lender.

10. GENERAL PROVISIONS

10.1 Applicable law and dispute resolution

This Contract shall be governed by the laws of the Republic of Armenia. Any dispute or difference arising out of this Contract shall be settled by the courts of competent jurisdiction of the Republic of Armenia.

10.2 Notification

Within the framework of this Contract all expenditures and other correspondence shall be in writing and delivered on hand (with written receipt) or fax (with written approval) through fax number or through ordered letter at the party's address hereinafter specified.

10.3 Additions

This Contract may be supplemented and modified only with written agreement of the Parties via making one countersigned document, thus both any one-sided document and reply to the latter may not be deemed as modification or addition to this Contract.

10.4 Transfer and Pledge

The Fund does not reserve a right to transfer its rights and liabilities under this Contract to another person without written agreement of the Lender.

The Lender exercises a right to transfer its right to claim under this Contract at any time throughout this Contract effectiveness to any PFI acting in the RA, credit or other organization acting in the territory of the RA, without prior or post agreement of the Borrower. In case of such transfer, the Borrower shall fulfill liabilities under this contract in the favor of new lenders starting from the day of getting the notification of the right to claim.

10.5 Splitting of provisions

Annulment of any provision of this Contract does not lead to annulment of the whole contract or any other provision of the Contract. The Parties shall not speculate complete or partial annulment of Contractor to avoid from the liabilities specified in the Contract, but shall initiate all necessary steps to fulfill the Contract subject and intentions in accordance with acting legislation.

10.6 Confidentiality

The Parties agree not to disclose any contract related information except for the cases anticipated by this Contract and law.

10.7 Contract completeness

This Contract is a complete agreement between the Parties and prevails over all previous arrangements between the parties related to it.

10.8 Effectiveness date

This Contract is signed in Yerevan, three copies in Armenian, one copy shall be given to the Fund, two copies to the Lender. This Contract shall become effective upon the date of signature by authorized representatives of both parties and is effective until completion of liabilities of parties in accordance with laws specified.

LENDER (Name, Address)
Signature _____
Name _____
Title _____

FUND (Name, Address)
Signature _____
Name _____
Title _____

ANNEX 1

Draft Subsidiary Loan Agreement

Annex 10- Draft Sub-Loan Agreement

SUB-LOAN AGREEMENT

Yerevan

“_____2006

This **AGREEMENT** is made on ----- 2006 in Yerevan between **Armenia Renewable Resources and Energy Efficiency Fund** /hereinafter the Fund or Lender/ on the one hand and _____ (hereinafter the Borrower) on the other hand, hereinafter the (insert the name of the PFI) Parties.

Whereas by a **Development Credit Agreement** (the DCA) between the **International Development Association (IDA)** and **the Republic of Armenia**, IDA has provided a credit to the Republic of Armenia to assist in the carrying out of the **Urban Heating Project** (hereinafter the Project) and

Whereas by “Subsidiary Agreement” between “**Armenia Renewable Resources and Energy Efficiency Fund**” (the Fund or the Lender) and the **Ministry of Finance and Economy of the Republic of Armenia**, the Fund has agreed to re-lend the proceeds of the Credit to Participating Financial Institutions (hereinafter the PFI or Borrower) for on-lending to potential Beneficiaries of the Project.

Hereby, the Parties agree as follows:

1. AGREEMENT SUBJECT AND OBJECTIVE

- 1.1 The subject of the Agreement is provision of financing within the Project framework to the Borrower by the Lender through a credit line, which shall be repaid by the Borrower under the terms and conditions specified in this Agreement by paying the interest as well.
- 1.2 The objective of the Agreement is lending to the PFIs for on-lending to the Project Beneficiaries for the purpose of the Project.
- 1.3 The Project objective is to increase the use of clean, efficient, safe, and affordable heating technologies in urban multi-apartment buildings.
- 1.4 The Project Beneficiary may be any individual, individual entrepreneur or legal entity (including the condominium registered as legal entity, companies owned by urban community) who is engaged or intend to engage in any economic activity, including heat production, transfer, distribution; production, installation, distribution, supply of heating systems and equipment; procurement of heating system for consumption purposes, as well as gasification works with the purpose of heating.
- 1.5 The total amount of credit line is \$4,200,000 (four million two hundred thousand).
- 1.6 The credit line is available for the PFI within 7 (seven) years since this Agreement effectiveness with up to \$300.000 (three hundred thousand) for a single withdrawal.
- 1.7 The amount of credit proceeds extended for any single project may not exceed \$500.000 (five hundred thousand).
- 1.8 The credits channeled by the PFI shall be classified into two groups:
 - a) up to \$5000, to finance rehabilitation works of individual, internal heating networks and (or) procurement of individual heating devices.
 - b) more than \$5000, to be used for implementation of broad projects of heating systems rehabilitation.
- 1.9 Under this Agreement, to finance projects in the amount more than \$5000, at least 30% co-financing by the Beneficiary shall be a lending condition, and co-financing of projects up to \$5000 shall be decided by the PFI.
- 1.10 After eighteen months from this Agreement signing, for making new allocation from the credit line the Lender may, in its discretion, specify other co-financing condition for the project by Beneficiary or PFI.

2. LOAN CURRENCY, TERM, INTEREST AND PENALTIES

- 2.1 Under the credit line, the loan shall be provided in AMD or USD, by request of the Borrower.
- 2.2 The interest is specified as follows:
- 2.2.1 For **USD**-denominated loan - 6 months LIBOR plus 1%,
- 2.2.2 For AMD-denominated loan - the weighted average interest of 91-180 days deposits placed by physical persons, calculated for the Armenian banks by the Central Bank of the RA pursuant to the last publication, but not lower than 6 months LIBOR.
- The interest rate is fixed on January 15 and June 15 annually and is unchangeable for every tranche of credit line.
- 2.3 The interest is calculated for actually used calendar days- accepting 365 days as a year. The interest shall be paid every month on the last day of calendar month, and if the mentioned day is non banking, than on the first banking day following it.
- 2.4 The term of loans repayment for credits in the amount up to \$5000 shall be up to 84 (eighty-four) months since the day of channeling. The principal amount shall be repaid at the end of the period.
- 2.5 In case of loans in the amount of \$5000 or more, the term of loan repayment shall match to repayment term of loan extended to the Borrower, bur not more than 84 months. The principal shall be repaid in equal parts twice a year, on the 5th of May and 5th of November of every calendar year, and if the mentioned day is non banking, than on the first banking day following it. Moreover, a grace period is granted for repayment of principal, within the period of which the repayment of principal is not made and the interest rate set forth in the Agreement is only paid. The grace period for loans with up to two years maturity shall be 6 months and for credits with two and more years maturity shall be one year. The grace period anticipated by this paragraph shall be applied in the Credit Agreement signed with the Beneficiary by the PFI.
- 2.6 For every day of overdue repayment of principal amount and interest of loan by the Borrower, the penalty of 0.1% of outstanding amount is calculated in favor of the Creditor.
- 2.7 With the purpose of lending for projects up to \$5000 (five thousand), an additional charge of 2% rate annually is calculated for provided, but not allocated amount (that is not extended to the Beneficiaries by the PFIs) and is subject to payment at the end of every calendar month and if the balance exceeds 20 percent of total proceeds for three months continuously, the Fund may request to return unallocated amount completely or partially.
- 2.8 In case of not pledging the right to claim towards the Beneficiaries for benefit of the Lender, the Borrower shall pay a penalty to the Fund of 1 percent of unsecured claim amount per day.

3. CREDIT PROVISION

- 3.1 Under the credit line, to obtain the loan amount, the PFI selected by the Fund and awarded a Loan Agreement shall duly (the form of application is attached) submit an application to the Fund.
- For loans in the amount up to \$5000, the requested amount and term shall be specified, furthermore, the PFI may submit next application in case of allocating 80 percent and more amount of extended amount,
 - For loans in the amount \$5000 and more, the requested amount, term, name of beneficiary (name, surname), location (residence), project implementation site, credit objective, security measures (estimated by independent, certified evaluator based on comparison method) shall be specified. For each Beneficiary lending, a separate application shall be submitted.
- 3.2 Under the credit line, each loan is channeled based upon the Lending memorandum, where the names of the parties, credit amount, interest rate, repayment rate; for \$5000 or equivalent loans and more - the name of Beneficiary shall be specified. The lending memorandum is an integral part of this Agreement.
- 3.3 To finance loans up to \$5000 upon positive respond of Lender within three working days after receiving an application from the PFI a Lending memorandum shall be signed between the Borrower and the PFI according to which the loan amount shall be transferred to correspondent account of Borrower.
- 3.4 To finance credits above \$5000, upon receiving an application from the PFI, the Fund shall, within 5 working days, inform on consistency or inconsistency of application with the Agreement requirements.
- 3.5 In case of positive respond, the Lending memorandum shall be signed between the Lender and the PFI according to which the loan shall be transferred to correspondent account of Borrower within three banking days, provided the following activities were fulfilled:
- g) The Borrower has duly signed Credit Agreement with the Beneficiary and

- h) The Borrower has duly signed an agreement to secure Beneficiary obligation on the credit (collateral, warranty, bank guarantee), and
 - i) The Pledge Agreement on the Borrower's right to claim towards the Beneficiary and towards the security measures was duly signed between the Borrower and the Lender.
- 3.6 The Creditor is entitled to reject the applications submitted for credit allocation or reduce amount of allocation, provided the project proceeds were consumed due to channeling to other PFIs, or whereas the Borrower has lost its compliance within the project implementation framework.
- 3.7 The PFI shall pledge its right to claim towards the Beneficiaries that obtained credit in an amount or less than US\$5000 or equivalent AMD at the Fund within a month since the loan provision through the list of credited Beneficiaries to which the original copies of Credit Contracts signed between the PFI and Beneficiary shall be attached.
- 3.8 Repayment proceeds from the PFI may be reinvested on a revolving basis for the purposes of the Project and according to the terms and conditions for providing a primary loan.

4. REPAYMENT OF LOAN

- 4.1 The Borrower shall pay the principle amount, interests and other payments envisaged by this Agreements:
- a) in a currency of allocation, other than in case of interests, which are payable in AMD;
 - b) payment should be made on the banking account of the Fund.
- 4.2 The Borrower shall ensure transfer of money to the accounts of Lender without retentions.
- 4.3. The Lender shall classify the amounts obtained from the Borrower as repayment the following order- penalty for overdue payment, interest, principal amount.
- 4.4 The Lender shall notify the Borrower of its banking account changes.
- 4.5 The Borrower may repay the principal amount of loan prior to maturity by informing the Lender at least three banking days before.

5. THE OBLIGATIONS OF BORROWERS

- 5.1 The loan shall be extended for the Project objective to on-lend to the Beneficiaries, in this regards the Borrower declares its commitment and undertakes to:
- 5.1.1 carry out its activities and conduct its operations and affairs in accordance with appropriate financial, banking and administrative standards, practice, laws, other normative legal acts, norms specified by the Central Bank of the RA and traditions of business environment;
 - 5.1.2 exercise its rights in relation to each credit in such manner as to protect its, Lender's, RA interests,
 - 5.1.3 select the Beneficiaries, evaluate their proposals submitted for the project, supervise projects implementation and targeted use of funds and submit quarterly progress reports (see attached forms) in a format acceptable for the Parties to the Lender, where the information on the credits and process of implemented projects shall be involved. The deadline of reports submission shall be the 25th day of month following every quarter. In case of delay, incomplete or wrong submission of reports, the Borrower shall pay penalty of 10 000 (ten thousand)AMD per day to the Fund until duly submission;
 - 5.1.4 ensure opportunity for Lender to study financed projects, analyze it's results, site visits, by anticipating a respective provision in a Loan Contract signed with the Beneficiary.
 - 5.1.5 appoint a Project coordinator to agree Project-related activities with the Lender, Ministry of Finance and Economy of the RA and IDA and be responsible for submitting reports pursuant to provisions of paragraph 5.1.3 of this Agreement.
 - 5.1.6 the Lender shall be immediately informed on the situation impeding or threatening to impede the activities executed within the framework of the Project, including on circumstances or judicial processes that may impact on Borrowers' participation compliancy within the project.
 - 5.1.7 maintain the records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including its financial statements (balance sheets, statements of income and expenses and other statements requested by the RA Legislation) for each fiscal year audited, that should be audited in accordance with international auditing standards by independent certified auditors. To provide to the Creditor as soon as available, but in any case not later than six months after the end of each fiscal year, certified copies of said

- audited financial statements and accounts for such year, and the report of such audit by said auditors in such scope and detail as the RA Banking Legislation requested;
- 5.1.8 ensure that appraisal of projects of the Beneficiary is performed in accordance with applicable Environmental Laws and other Legal Acts of the RA, as well as Environmental Management Plan (see attached) of Urban Heating Project (Annex 3);
- 5.1.9 ensure that all equipment and materials procured from the credit are to be new and unused, comply with minimal requirements of safety norms specified in the Legislation and in cases not anticipated by the Legislation with requirements proposed by the Lender:
- 5.1.10 create equal opportunity for all suppliers of goods and works to be procured from the credit;
- 5.1.11 while evaluating the projects in the amount more than \$5000, ensure Beneficiaries to submit more than one quotation for goods procured from the credit, mainly, at least two quotations for goods in the amount \$5000-\$100000, and for goods in the amount more than \$100000- at least three quotations.
- 5.1.12 in case of lending for procurement of individual residential heating devices and materials required for their installation, ensure procurement is made from the suppliers meeting the requirements described in Annex 5.
- 5.1.13 ensure that the amount of credit proceeds extended to a Beneficiary or persons correlated with them with the purpose of lending in a manner of banking legislation shall not exceed \$500,000 (five hundred thousand) or equivalent AMD;
- 5.1.14 ensure that while furnishing information to the Lender or the Ministry of Finance and Economy of the RA, the request of the RA Law «On Banking Confidence» is not violated. Particularly, preliminary written agreement from the Beneficiaries shall be taken for furnishing information to the Lender or the Ministry of Finance and Economy of the RA for the purpose of reports;
- 5.1.15 with the purpose of not violating the RA Law on «Banking Confidence», a copy of document addressed to the Central Bank of the RA enabling the Lender and/or the Ministry of Finance and Economy of the RA to get information on the Borrower from the Central Bank of the RA, including balance of correspondent accounts and statements, interim financial statements. It is considered as an integral part of this Agreement;
- 5.1.16 ensure access to project related accounting and other information for Borrower's auditors and inspectors;
- 5.1.17 maintain separate accounting for loan extended by the Fund.
- 5.1.18 ensure that the provisions of the RA Law regulating the activities of the PFI are maintained while fulfilling the requirements specified by the Agreement.

6. ELIGIBILITY CRITERIA

- 6.1 The Borrower shall continuously comply with the following eligibility criteria throughout the Agreement effectiveness;
- 6.1.1 maintain banking laws of the Republic of Armenia regulating the activity of banking and financial-credit organizations;
- 6.1.2 undergo an annual audit;
- 6.1.3 have acceptable levels of assets quality, with non-performing credits to total assets not exceeding 3%.

7. SUSPENSION

- 7.1 The Lender, including its assignee, exercises the right to suspend extension of amount to the Borrower within the framework of the credit line for the following reasons:
- 7.1.1 at the moment of channeling the next share of loan, the Borrower has overdue payment in a part of obtained principal amount or interest of the loan;
- 7.1.2 the Borrower fails to comply with the eligibility criteria set forth in the paragraph 6 of this Agreement;
- 7.1.3 as a result of events which have occurred after signing the Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under this Agreement;
- 7.1.4 the Lender has received no application from Borrower for subsidiary loan from the credit line for a continuous period of 18 (eighteen) months;

- 7.1.5 the right of the Republic of Armenia to withdraw the proceeds of the Credit from IDA shall have been suspended, cancelled or terminated, either in whole or in part, pursuant to the terms of the DCA, or the Credit shall have become due and payable prior to the agreed maturity thereof.
- 7.2 The suspension is not a basis for claiming damages from the Creditor by the Borrower. Notwithstanding any cancellation or suspension, all the provisions of this Agreement shall continue in full force and effect except as they specifically regulate the relations between the Lender and the Borrower.
- 7.3 The suspension, except for suspension basis specified in paragraph 7.1.5 of this Agreement, shall be lifted upon a decision of the Lender in case the event or events which gave rise to suspension shall have ceased to exist. The suspension basis set forth in paragraph 7.1.5 of this Agreement shall be lifted by the Lender in case the balance of credit line for the purpose of Lender's project was not extended to other PFIs by the Lender.

8. REPAYMENT PRIOR TO MATURITY BY THE INITIATION OF THE LENDER

- 8.1 In case of following events that occur separately or simultaneously (qualified as cases of *considerable violation or considerable change of conditions*) the Lender may, as specified in this Agreement, submit to the Borrower a claim for execution of payment commitments before due day,
- 8.1.1. The Borrower has two and more times delayed payment for seven or more banking days.
- 8.1.2 A decision was reached against the Borrower due to execution of which the Borrower will lose 10% of its total capital as at the last day of month preceding the calendar month when the decision became legally effective.
- 8.1.3 The Central Bank of the RA has started legal process of bankruptcy or depriving of license in respect to the Borrower,
- 8.1.4 Allocation of anticipated credit proceeds of the Project for non-targeted use, or involvement of incorrect information in the report noted in paragraph 5.1.3 of this Agreement, that aims to mislead the Creditor.
- 8.1.5 Provided the Borrower has for any reasons withdrew the rights specified by paragraph 5.1.14.
- 8.2 The Lender shall furnish the request of premature execution in writing, sending one of the copies to the Central Bank of the RA. The Borrower shall fulfill its payment obligation against the Creditor within 2 (two) weeks after getting the request, paying all existing balances, interest and penalty. The Lender may agree with the Borrower an amortization schedule for overdue balances depending on conditions and circumstances related to the financial standing of the Creditor.

9. SECURITY MEASURES AND INDISPUTABLE DEBT COLLECTION RIGHT

- 9.1 The Fund and the PFI hereby agree, that the PFI shall, ensuring the liabilities assumed by this Agreement, pledge the right to claim towards the Borrower (Project Beneficiary) within a month after on-lending to each Beneficiary in favor of the Fund, including the rights towards fulfillment of liability and outstanding interest.
- 9.2 All expenses connected with pledging on Creditor's favor shall be covered from Borrower's account.
- 9.3 Prior to the submission of first application the Borrower shall furnish to the Fund the evidence issued by the CBA on recording of non-acceptance collection monetary liabilities of its balances in the corresponding account in the CBA. Based on the evidence, the Fund is authorized to collect overdue debt of the Borrower on non-acceptance basis from all existing correspondent accounts of the latter in the CBA.
- 9.4 The Borrower completely and individually bears the risk of complete or partial non-repayment by the Beneficiary credited by him and in case of occurrence of such event does not free the Borrower from fulfilling the liabilities towards the Fund under this Agreement.

10. NOTIFICATION OF VIOLATION

- 10.1 The Borrower shall immediately inform the Creditor on existing or impending violation, as well as on events occurred through the fault of the Creditor, that may impede fulfillment of liabilities of the Borrower assumed by this Agreement.

10.2 The Creditor shall notify the Borrower in writing on considerable changes of violation case and condition by the Borrower and on impending outcome at least five banking days prior to starting of suspension or liquidation process.

11. FINAL PROVISIONS

11.1 Applicable law and dispute resolution

This Agreement shall be governed by the laws of the Republic of Armenia. Any dispute or difference arising out of this Agreement shall be settled by the courts of competent jurisdiction of the Republic of Armenia.

11.2 Notification

Within the framework of this Agreement all notices and other correspondence shall be in writing and delivered on hand (with written receipt) or fax (with written approval) through fax number or through ordered letter at the party's address hereinafter specified.

11.3 Additions

This Agreement may be supplemented and modified only with written agreement of the Parties via making one countersigned document, thus both any one-sided document and reply to the latter may not be deemed as modification or addition to this Agreement.

11.4 Transfer and Pledge

11.4.1 The Borrower does not reserve a right to transfer its rights and liabilities under this Agreement to another person without written agreement of the Creditor.

11.4.2 The Lender exercises a right to transfer its right to claim under this Agreement at any time throughout this Agreement effectiveness to the Ministry of Finance and Economy of the RA or any bank or credit organization acting in the territory of the RA, without prior or post agreement of the Borrower. In case of such transfer, the Borrower shall fulfill liabilities under this Agreement in favor of new Lender starting from the day of getting the notification on the right to claim.

11.4.3 The Lender hereby reveals, and the Borrower accepts that the Lender shall pledge its right to claim towards the Borrower in favor of the Ministry of Finance and Economy of the RA, by providing one original copy of the Agreement.

11.5 Splitting of provisions

Annulment of any provision of this Agreement does not lead to annulment of the whole Agreement or any other provision of the Agreement. The Parties shall not speculate complete or partial annulment of Agreement to avoid from the liabilities specified in the Agreement, but shall initiate all necessary steps to fulfill the Agreement subject and intentions in accordance with acting legislation.

11.6 Confidentiality

The Parties agree not to disclose any Agreement related information except for the cases anticipated by this Agreement and law.

11.7 Agreement completeness

This Agreement is a complete agreement between the Parties and prevails over all previous arrangements between the parties related to it.

11.8 Effectiveness date

This Agreement is signed in Yerevan in three copies in Armenian, one copy shall be given to the Borrower, two copies to the Creditor. This Agreement shall become effective upon the date of signature by authorized representatives of both parties and is effective until completion of liabilities of parties in accordance with laws specified.

LENDER (Name, Address)
Signature _____
Name _____
Title _____

BORROWER (Name, Address)
Signature _____
Name _____
Title _____

ANNEX 1

Lending application form

- a) *sub-loans up to \$5000*
- b) *\$5000 and more sub-loans*

ANNEX 2

Forms of reports

- a) *for sub-loans per separate beneficiaries*
- b) *for sub-loans with total amount*

ANNEX 2

Forms of information on projects

- a) *sub-loans up to \$5000*
- b) *\$5000 and more sub-loans*

ANNEX 3

Environmental Management Plan of Urban Heating Project

ANNEX 4

Lending memorandum

ANNEX 5

Requirements for suppliers

*Annex 1
To the Sub-Loan Agreement*

Up to \$US 5000 loans
Urban Heating Project

Armenia Renewable Resources and Energy Efficiency Fund

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Loan purpose

APPLICATION

Target amount

Name of the PFI

Extended amount

\$US or equivalent AMD

On-lending to

number of potential
Beneficiaries

Manager of the PFI

***Annex 1
Sub-Loan Agreement***

Above \$US 5000 loans

URBAN HEATING PROJECT

Armenia Renewable Resources and Energy Efficiency Fund

Loan purpose

APPLICATION

Target amount

Name of the PFI

Extended amount

\$US or equivalent AMD

Name of the beneficiary
(name, surname of the
person)

legal entity
person

Location /address/

--

Tax Identification
Number

--	--	--	--	--	--	--	--	--	--

Passport data

--	--	--	--	--	--	--	--	--	--

Issued

--	--	--	--	--	--	--	--	--	--

by

--	--	--	--

Social security
card N

--	--	--	--	--	--	--	--	--	--

Project brief description

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Description of collateral

--

Estimated cost

PFI Officer

Seal

Annex 3
To the Sub-Loan Agreement
URBAN HEATING PROJECT

LENDING MEMORANDUM

This memorandum was drafted on

Between the Armenia Renewable Resources and Energy Efficiency Fund and

CREDIT
AMOUNT

TERM

INTEREST RATE

 %

BENEFICIARY*

Fund Director

Seal

PFI Manager

Seal

* Name of the beneficiary shall only be indicated for the loans above \$US 5000

Appendix 4
to the Sub-Loan Agreement

Requirements for Suppliers

1. Demonstration hall or shop with easy access for public;
2. Professional staff for demonstration of technical specifications of equipments;
3. Demonstration and testing facilities;
4. Guarantee service provision;
5. After guarantee service provision possibility.

Annex 5 - Draft Agreement between School and Fund

MUTUAL COMMITMENT AGREEMENT

Yerevan

THIS AGREEMENT (“Agreement”) is entered into this by and between **Armenia Renewable Resources and Energy Efficiency Fund** represented by Director Mrs. Tamara Babayan (“Party 1”) on the one hand, and _____ **School**, represented by _____ (Party 2), together the Parties,

WHEREAS by the provisions of the Development Credit Agreement signed between the Republic of Armenia and International Development Association on 20.07.2005 (Credit No.4102AM) (hereinafter the Credit), in accordance with which the rehabilitation of urban schools heating systems shall be carried out as government executed grant sub-projects of public significance under the component of “Schools heating”, the Parties, hereby, agree as follows:

1. Under the Credit, the grant project of rehabilitation of heating system of school located at the address of Party 2 _____ (hereinafter the Project) is carried out.
2. While implementing the project, the Parties agree to follow the requirements of the Credit.
3. Under the Project, in accordance with bill of quantities set forth in contracts signed with the selected Contractor, the construction-assembling works of **boiler house rehabilitation, internal heating network construction, internal heating network rehabilitation and mounting of engineering construction** of schools shall be carried out, including procurement of work plans, respective devices, equipment and materials (hereinafter the Works), with the purpose of which the Party 1 shall select the Contractor on competitive basis, in accordance with procedures determined by the Credit.
4. The Party 1 shall furnish information on the selected Contractor to Party 2.
5. The Party 2 shall either on his behalf or through authorizing another person, obtain all permits required for implementation of works or their process under the Urban Development or other laws of the RA (the applications shall be submitted to relative state bodies or municipalities), as well as sign respective Contracts with the said bodies or organization, upon necessity (gas, power and water supply or other utilities).
6. The Party 2 shall ensure timely payment of advance for gas, water and power or other utilities, as well as other payments set by the RA Legislation.
7. The works shall be supervised by the representative of Party 1. The Party 2 does not execute a right to interfere in implementation of Works, or make any modifications in their volume or terms, though is entitled to apply to Party 1 through written note when having any recommendations or comments.
8. While implementing the works, the Party 2 shall assist the Contractor in timely and qualitative implementation of works by creating appropriate conveniences for the implementation of works.
9. At the final stage of works, the respective commission shall be established by representatives of Party 1, Contractor, Party 2 and other interested parties. The commission shall be authorized to sign documents evidencing the implementation of Contractor’s works. The implementation of works is evidenced by respective delivery-acceptance act that is a base for the Party 1 for implementation of final calculations and payments.
10. The outcome of implemented works shall be delivered to Party 2 that is ensuring its further formulations in accordance with the Legislation of the RA.
11. All payments against works shall be made from Credit proceeds by Party 1.
12. All commitments related to maintenance and operation of school heating system (including engagement of qualified expert in charge for system operation) shall be the responsibility of Party 2.
13. This Agreement is subject to obligatory fulfillment by the Parties and the Parties are obliged to carry out all responsibilities set forth in this Agreement.

14. Any dispute arising out of this Agreement shall be settled through negotiations. If the Parties do not come to agreement as a result of negotiations, the disputable issues shall be settled in accordance with the Laws of the RA.
15. Any amendment in the provision of this Contract is subject to mutual agreement between Parties through making a subsidiary agreement.
16. This Agreement is signed in Armenian, 2 copies both having equal legal validity, one copy to each Party.

PARTY -1

PARTY-2

Annex 12 - Environmental Management Plan of the UHP

REPUBLIC OF ARMENIA

URBAN HEATING PROJECT

IDA CREDIT

ENVIRONMENTAL MANAGEMENT PLAN (EMP)

December 2004

SUMMARY OF ABBREVIATIONS

EBRD	European Bank of Reconstruction and Development
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
ESCO	Energy Service Company
FMP	Financial Monitoring Reports
GEF	Global Environmental Facility
GoA	Government of Armenia
HOA	Home Owner Associations
HPP	Hydro Power Plant
IDA	International Development Agency
ICR	Implementation Completion Report
MOE	Ministry of Energy
MOFE	Ministry of Finance and Economy
MONP	Ministry of Natural Protection
MOUC	Ministry of Urban Construction
NGO	Non governmental organization
UHPIU	Urban Heating Project Implementation Unit
R2E2 Fund	Renewable Resources and Energy Efficiency Fund
RoA	Republic of Armenia
UHP	Urban Heating Program
UHS	Urban Heating Strategy
USAID	United States Agency for International Development
WB	World Bank

ENVIRONMENTAL MANAGEMENT PLAN (EMP)²

A. Overview

1. **Introduction.** The Government of the Republic of Armenia and the World Bank are cooperating to alleviate poverty and to achieve a sustainable economic growth in the Republic of Armenia. To accomplish these tasks, World Bank is providing the grant and low-cost financing for developing development strategies, obtaining expert analysis and implementing specific projects and programs. Within this framework, Urban Heating Project (UHP) is prepared. The UHP will be executed by the Renewable Resource and Energy Efficiency Fund (R2E2 Fund).

B. Proposed Project

2. The project objective is to improve the living standards of urban residents in multi-apartment buildings and the quality of education and health of school students through provision of affordable, safe and clean heating services.

The project will achieve this objective by removing barriers and creating market conditions for the commercial provision of heating services, stimulating creation and effective functioning of self-regulating community organizations, and promoting decentralized efficient gas-fired boilers, heaters and equipment to meter and control heat consumption.

3. UHP will be implemented over the period of about 4 years. The proposed project budget is around US\$16.50 million, of which US\$15.0 million would be provided by the International Development Agency (IDA) as a credit, and the rest by the Government of the Republic of Armenia and participating **home owner associations, individual home owners or heat providers**. The project will aim to invest new approaches to community-led provision of communal services in general and clean and affordable heating options in particular; The project will achieve this objective by removing barriers and creating market conditions for the commercial provision of heating services, stimulating creation and effective functioning of self-regulating community organizations, and promoting decentralized efficient gas-fired boilers, heaters and equipment to meter and control heat consumption.

Project components. The project will support implementation of the UHS and improve heating in schools through the following five components:

Component A: Community and private sector mobilization and development of enabling environment for effective and safe provision of heating services (US\$ 3.0 million, of which IDA funding US\$ 0.5 million). Technical assistance will be provided in two areas:

A1. (US\$ 3.0 million, of which IDA funding US\$ 0.5 million) Enable households in multi-apartment buildings to effectively organize as condominiums or other forms of community-based groups and to train them to manage their buildings and contract communal services, and support private sector entities to create a qualified heat supply industry through:

- Establishment of special advisory center(s) to provide comprehensive support on legal, technical, economic issues to communities and private sector (including local financial institutions); and
- Implementation of broad information campaigns and public education programs to inform the public about the need and benefits of the new approaches to community-led provision of communal services in general and clean and affordable heating options in particular.

A2. (US\$ 2.0 million, of which IDA funding US\$ 0.3 million) Improvement of the enabling environment of the project including:

² This EMP has been prepared prior appraisal of the project, and reflects the knowledge on proposed activities at that time. In the course of project implementation, the EMP will be constantly revised and updated to address the needs and realities of the Project.

- Development of safety standards and certification of suppliers and equipment;
 - Development of policies, norms and regulation for natural gas supply;
 - Preparation of national gas network development strategy;
- Improvement of legal and regulatory framework to make home owners associations more functional and to foster market-based provision of heating services.

Component B: Financing of heating and related building infrastructure (US\$ 8.8 million, of which IDA funding US\$ 8.0 million). Investment financing for heating of residential buildings will be supported under two subcomponents:

B.1 Lending to project beneficiaries (US\$ 7.0 million, of which IDA funding US\$ 4.2 million). Home owner associations, individual home owners or heat providers will be able to access funding for investments in heating infrastructure. It is estimated that 130-150 buildings involving about 7,000 households in multi-apartment buildings and without access to operational heating services would benefit from these investments. The funds will be channeled through a commercially operated renewable resources and energy efficiency fund (R2E2 Fund)³ and on-lent either directly to beneficiaries (home owners associations, energy service companies and individuals) or indirectly through local banks. The Fund will seek to increasingly mobilize funds from the banks. Specific types of investments eligible for funding under this component include:

- Boilers for one or few buildings;
- External and internal distribution systems;
- Metering and regulating equipment to measure and control heat supply;
- Investments to increase energy efficiency of buildings, particularly in the common areas;
- Gas-fired stoves.

B.2 Capital grants to the poor (US\$ 3.3 million, of which IDA funding US\$ 3.0 million). To allow the poorest households living in multi-apartment buildings to participate in the project, this component will fund the investments necessary for the connection of gas and heat and hot water supply to the apartments of the poor. Eligible households will be identified based on the existing Family Benefit Plan. It is estimated that roughly 10,000 poor households will be funded under this component.

Component C: School heating (US\$ 5.5 million, of which IDA funding US\$ 5.0 million). This component will finance investments in installation and rehabilitation of gas-based local heating systems for schools. The schools targeted are located in the coldest and poorest cities and towns of the country. Other criteria for selection will be the availability of gas supply in the area and the cost-effectiveness of the investment per students. It is estimated that about 100 urban schools will receive funding under this component.

Component D: Support for project implementation (US\$ 1.0 million, of which IDA funding US\$1.0 million). This includes technical assistance and logistical support for project implementation and supervision, as well as partial financing of the initial operating costs of the R2E2Fund.

Component E: Project preparation (US\$ 1.0 million, of which IDA funding US\$1.0 million). This component is identical with the project preparation facility, under which the following activities have been successfully supported:

- Implementation of 12 pilot projects during two heating seasons (2002/03 and 2003/04) through condominiums, private sector and individuals; testing of different technical heating options and contractual and commercial arrangements;
- Design of the appropriate financing mechanism to channel the investment funds;
- Development of the documents necessary for the establishment of the advisory centers;
- Preparation of the financial rehabilitation plan for the DH companies in Yerevan;
- Development and piloting of public outreach program; and
- Removal of some of the legal and regulatory barriers.

³ The Fund will also serve as the financing mechanism for an IDA/EBRD/USAID financed renewable energy project. Fund infrastructure and support of operating costs will be shared between the two projects.

C. Environmental review.

4. **Environmental and Safeguards Screening.** The project has been placed in environmental screening category “B” under the provisions of World Bank Operational Policy 4.01, “Environmental Assessment”. The limited adverse impacts which will inevitably occur during construction works, can be prevented by appropriate measures in the process of design and implementation of specific activities. Moreover, the project supports measures for environmental improvement at the local level through introduction of affordable and environmentally friendly heating alternatives. Building on the approach used in a number of projects in European and Central Asian Region, the project includes measures for information provision in order to accommodate the attitudes of the participating parties and secure assistance and introduce necessary modifications to the project decisions. The projects proposed for implementation under the R2E2 Fund and and/or it on-lent participating financing institutions (PFIs) will undergo environmental screening for compliance with the present EMP. Proposed projects that are not covered by the EMP, shall require environmental category screening and preparation of individual Environmental Management Plans at detailed design phase, which would identify potential environmental impacts and ways for their mitigation.
5. **Environmental Management Plan.** The Environmental Management Plan (EMP) for the UHP summarizes the recommended design measures, construction supervision methods and monitoring actions to minimize and/or avoid the limited potential short- and long-term impacts of activities under Components B and C. EMP identifies potential environmental impacts related to construction and/or rehabilitation of heat supply infrastructures, with the necessary gas and heating pipelines and boiler houses. These potential impacts and their associated mitigation and monitoring actions are described below and summarized in Table A, “Mitigation, and Monitoring Actions.”

D. Project supported activities

8. **Sub-component B.1 Lending to project beneficiaries (US\$ 5.5 million, of which IDA funding US\$ 5.0 million).** Home owner associations, individual home owners or heat providers will be able to access funding for investments in heating infrastructure. It is estimated that about 7,000 households in multi-apartment buildings and without access to operational heating services would benefit from these investments. The funds will be channeled through a commercially operated R2E2 Fund and on-lent either directly to beneficiaries (home owners associations, energy service companies and individuals) or indirectly through the PFIs. The Fund will seek to increasingly mobilize funds from other financial institutions . Specific types of investments eligible for funding under this component include:
 - Boilers for one or few buildings;
 - External and internal distribution systems;
 - Metering and regulating equipment to measure and control heat supply;
 - Investments to increase energy efficiency of buildings, particularly in the common areas;
 - Gas-fired stoves;
 - Distributed co-generation.
9. **Sub-Component B.2. Capital grants to the poor (US\$ 3.3 million, of which IDA funding US\$ 3.0 million).** To allow the poorest households living in multi-apartment buildings to participate in the project, this component will fund the investments necessary for the connection of gas and heat and hot water supply to the apartments of the poor. Eligible households will be identified based on the existing Family Benefit Plan. It is estimated that roughly 10,000 poor households will be funded under this component.

. Potential impacts

Background. The Republic of Armenia, with a population of 3.4 million people, covers about 29,800 square kilometers in the northeastern part of a wide mountainous region known as the Armenian plateau. The key relevant environmental problems concern the disruption of the Lake Sevan ecosystem due to extensive hydro-power use for residential electricity consumption purposes, issues of preservation of biological and

landscape diversity, deforestation and degradation of land cover that contribute to desertification, and atmospheric pollution.

In general the territory of Armenia is distinguished by rich biological diversity, especially by existence of rare, endemic and relict species which is currently under significant pressure by anthropogenic activities, including use of the land and other natural resources. The expected developments will predominantly take place in fully utilized urban landscapes, not affecting undisturbed biodiversity and natural ecosystems.

After gaining independence, the long-lasting blockade brought to energy crisis, and the forests were the first to suffer as the cheapest and most available energy sources. Within the last years around 30 thousand ha. of forests have been cut down. Out of them 7 thousand ha. have been cut completely. According to expert assessments, approximately 0,5 mln. cub. m. of timber are incinerated annually for apartment heating and residential hot water preparation purposes in the country, only 10-12% of it are recorded officially.

The urban air pollution is another area where the UHP activities will have important impact. Considering the high background concentration of atmosphere pollutants in urban settlements, the UHP activities shall have to follow the tolerance levels of atmosphere pollution when creating new sources of fuel combustion emissions from urban heating projects.

The indoor air pollution resulting from the burning of primary fuels (such as wood, kerosene, etc.) in apartments in mainly insecure and low-efficiency heaters causes major health and safety concerns.

The Urban Heating Project will create an affordable alternative to existing heating options which would reduce the volumes of illegal tree cutting, while introducing safer and more efficient technologies for residential space heating resulting in less fuel use and cleaner environment. In cases where the electricity is the base heating alternative, switching to community heating systems will result in reduced carbon intensity of residential heating having a climate change mitigation impact.

F. Potential Impacts resulting from Subcomponent 1&2- Urban Infrastructure Improvement and Social Infrastructure Improvement

10. The project is expected to have mainly positive long term environmental effects, since it will likely contribute to eventual reduction of illegal deforestation and air pollution due to residential heating by means of primary fuel burning in low-efficiency heater equipment. This will also contribute to improved health and safety conditions in homes through the introduction of safer heating practices.
- Potential direct, indirect, cumulative and residual adverse environmental impacts of the project activities will be predominantly related to construction activities and be limited in scope. Most of project supported activities will take place in urban areas, and construction works mainly will be rehabilitation of existing structures or construction in already utilized land rather than “green field” operations. This also limits negative impact on natural ecosystems.

However, if not properly addressed, the potential impacts, may include the following :

- Pollution of the air, soil, surface and underground water at construction sites and adjacent areas;
- Dust and noise due to demolition and construction;
- Dumping of construction wastes and accidental spillage of machine oil, lubricants, etc;
- Disposal of construction waste in unauthorized dump sites;
- Disturbances of sensitive ecosystems, and threat to endangered plant and animal species;
- Disruption and loss of topsoil;
- Risk of damage to unknown historical, cultural and architectural monuments;
- Damage to the buildings and installations located in proximity to construction area;
- Stimulation of erosion;

- Adverse impact on livelihoods of local population due to increased noise levels during construction;
- Adverse impact on the environment and human health due to improper heating equipment installation, and
- Damage to health of contractors' staff if applicable work safety and occupational health standards are not observed.

G. Mitigation measures

11. **Overview.** The mitigation measures outlined in this section will be undertaken as part of the project implementation process to mitigate potential impacts from construction activities. The primary adverse impacts from the project are largely associated with small-scale civil works for infrastructure improvements. These impacts are very localized, limited in their scope, short in duration and can be addressed through both design and monitoring measures. Table A summarizes the activities, mitigation issues and measures to be taken, and the monitoring and supervisory responsibilities.
12. **Key measures:** The key mitigation measures included in the project are as follows:
 - Requirement to obtain all required environmental clearances and construction permits from respective authorities prior the beginning of civil works
 - Requirement to project proponent to include into bidding documents and to contractors - into bids the provisions for minimizing/mitigating adverse environmental impacts ;

The above would include, but not limited to:

- selection of optimal routes for new gas and heat carrier pipelines and construction sites for other installations to avoid negative environmental and social impact;
 - identification of designated landfills/dumpsites where construction waste has to be delivered;
 - strict enforcement of usage of environmentally and human health-wise safe construction materials;
 - noise reduction measures;
 - topsoil preservation and site recultivation measures;
 - strict adherence to occupational health requirements;
 - proper supervision and regular monitoring of construction activities by Urban Heating PIU and respective national and local level authorities;
 - compliance with local environmental regulation requirements described in Annex I;
 - compliance with local urban construction, heating design and technical standards and hygiene and safety requirements.
13. **Contractor Requirements to Minimize Environmental Impacts.** Individual contractors will be required to comply with the UHP EMP, while the R2R2 and/or UHPIU will provide guidelines and actions to mitigate potential environmental impacts, through instructions to design engineers and construction contractors to undertake certain actions on a site specific basis in compliance with the requirements of the present EMP. Specific provisions should be included in construction contracts to mandate the use of health and safety measures to minimize accidents during the construction and post-construction process. Particular emphasis will be put on use non-hazardous materials in new construction. E.g., although it is legal in accordance to Armenian national law, the limited and regulated use of asbestos containing materials in construction will be forbidden. Appropriate provisions will be included into bidding documents for construction works.
 14. **Archeological “Chance Find” Procedures.** Although the chances to unearth valuable archeological artifacts are slim, provisions will be included in contract documents to address archeological “chance finds” should they be encountered during the course of construction activities. These provisions will follow procedures accepted by the national and/or local authorities responsible for archeological and historical sites and materials.

15. **Project implementation monitoring.** Project implementation process will be closely monitored by the Urban Heating PIU staff and/or the R2E2 staff when established and respective environmental and occupational health (sanitary epidemiological and hygienic) authorities through regular reviews of the investment specific environmental management plans and regular site visits. The PIU/R2E2 Fund staff will pay visits to randomly selected sites during the semi-annual implementation review missions.

H. Social aspects.

16. **Social analysis.** The UHP has undergone extensive social assessment during design and preparation phase during 1999 and 2003 aimed at identifying the affordable heating alternatives and paying capacity of low income population within the framework of the UHP through social surveys, workshops, stakeholder meetings and focus group discussions with a broad range of stakeholders from the government and ESCOs, NGOs, HOAs.

I. Consultation and disclosure of information

17. The project team will continue to consult and share information with stakeholders on a regular basis during the process of project implementation period, especially at the activity specific level. The EMP was discussed with environmental NGOs and made available to the public through the Info-Shop at the World Bank, Armenian office of the World Bank, the Ministry of Environmental Protection and information service of Urban Heating PIU.
18. The consultation processes during project preparation were diverse and used a range of formats including meetings with responsible representatives of the Ministries of Finance and Economy (MOFE), Environmental Protection (MONP) and Urban Construction (MOUC), HOAs, ESCOs, local government/municipalities and nongovernmental organizations. During the social assessment phase, information brochures were disseminated to stakeholder agencies and feedback collected during stakeholder workshops on the issues pertaining to residential heating in Armenia's urban settlements.

These consultations emphasized the need to maintain a balance between meeting the technical objectives on the one hand, and improving environmental and social conditions at the local level on the other.

J. Institutional strengthening

19. **Institutional Strengthening.** Component B of the project provides support for institutional strengthening and capacity building measures necessary for the implementation of the ecosystem management approach promoted by the project. Successful implementation of the project requires the strengthening of regional and local institutional capacity to supervise the construction and maintenance of the installations and restoration activities. The investments planned under Component B of the project will implement a large spectrum of subprojects which will require training of personnel or designating environmental staff for environmental assessment duties within project implementing agencies and/or participating financial institutions bearing the overall responsibility for project implementation.

K. Estimated costs

20. The costs for implementation of management and monitoring activities included in the EMP have been integrated into the estimated budgets for the individual activities and management costs for the Project. This approach reflects the environmental management orientation of the project and the fact that most mitigation actions are associated with project supported management plans, design approaches and specifications in construction contracts. Monitoring of project supported implementation is an element of the work program of the project management team.

L. Reporting and supervision

21. **Reporting.** The Project will comply with the “Guidelines for Financial Reporting and Auditing of Projects Financed by the World Bank.” The Bank together with R2E2Fund/PIU will agree upon reporting requirements for Financial Monitoring Reports (FMR). Project progress will be reported through annual, semi-annual and quarterly Project progress reports. An Implementation Completion Report (ICR) will be prepared within six months of Project completion.
22. **Supervision.** The R2E2Fund/PIU staff will supervise the monitoring of project supported activities on a routine basis. This will be complemented by Bank supervision of the project. The process will include the participation of relevant Bank staff in implementation review missions, as appropriate, to review progress in the implementation of the EMP. The performance of the PIU in these project activities will be a standard element of supervision reports and the Implementation Completion Report (ICR).

Table A. Impact Mitigation and Monitoring

Project activities	Potential Impacts	Mitigation Measure	Phase	Responsible for Execution of Mitigation Measures	Monitoring Requirements	Responsible for Monitoring
Laying of new gas pipelines	Damage to ecosystems, endangered plant species	Selection of pipeline route to avoid habitats of endangered plant species	Design	Design Consultant	Project expertise	State Environmental Monitoring Agency ; Local authorities
	Pollution of soil and water at construction site with oil materials and dust	Daily checks of machinery for leaking of oil, ban to wash machinery at construction site	Construction	Contractor	Constant periodical check of construction sites for pollution	SanEpidemilolgical Service; Municipal Environmental Service
	Noise pollution in towns	Works performed strictly during the working hours	Construction	Contractor	Supervision of observance of construction works schedule	SanEpidemilolgical Service
	Reduced amenity values of the area	Proper landscaping and replanting of construction area after completion of piping works	Construction	Design Consultant and Contractor	Check of contract documentation. Construction supervision.	Municipal Environmental Service; Independent Urban Construction Expertise Service.
	Disturbance of topsoil	Topsoil preservation, storage and re-cultivation	Construction	Design Consultant and Contractor	Check of contract documentation. Construction supervision	Municipal Environmental Service; Local authorities
Repair/construction of heat distribution pipelines	Digging of soil, damage to endangered plant species	Checking for endangered plant species on construction site, if found - replanting	Design, Construction	Design consultant And Contractor	Check of contract documents. Supervision of construction	Urban ecological services and departments.
	Pollution of soil and water at construction site with oil materials	Daily checks of machinery for leaking of oil, ban to wash machinery at construction site	Construction	Contractor	Constant supervision of construction site for contamination	Urban ecological services and departments

	Littering of construction site with removed pipe portions and discarded insulation material	Instructions to contractor to which landfill the waste has to be delivered. If insulation contains asbestos, workers must wear protective gear	Construction	Contractor	Regular inspection of construction site for contamination	Local authorities
	Topsoil disturbance	Topsoil preservation, storage and recultivation	Construction	Contractor	Regular inspection of construction site	Local authorities / municipal environmental service
	Noise pollution in towns	Works performed strictly during the daytime	Construction	Contractor	Regular inspection of construction site	
	Reduced amenity values of the area	Proper landscaping and replanting of construction area after completion of repair works	Construction	Contractor	Regular inspection of construction site	Independent Urban Construction Expertise Service.
	Archeological "chance find"	Stopping works and calling in respective local authorities and experts	Construction	Contractor		UHPIU, local authorities,
Boiler house construction / repair and heating systems	Pollution and littering of construction site and area adjacent to boiler houses with construction waste	Collection of construction waste and delivery to designated landfills/dumpsites	Construction	Contractor	Supervision of construction	Urban ecological services and departments.
	Pollution of soil and water with oil products and construction dust during construction	Daily checks of machinery for leaking of oil, ban to wash machinery at construction site	Construction	Contractor	Constant supervision of execution of appropriate measures	Gosarchstroicontr ol departments (State Architectural Control Management Department
	Stimulation of erosion of land, disturbance of topsoil	Proper landscaping of slopes and replanting of vegetation	Design, Construction	Design Consultant, Contractor	Supervision of observance of security measures	

	Damage to the buildings and installations located in proximity to construction area	Identifying of vulnerable buildings and installations prior construction, development of appropriate technique	Design	Design Consultant	Project expertise and supervision of construction	
	Noise pollution in urban areas	Adherence to special work regime in proximity of vulnerable buildings	Construction	Contractor	Supervision of construction	
	Damage to human health due to exposure to asbestos containing materials	When asbestos containing materials encountered, the workers should wear protective gear; asbestos containing waste promptly delivered to designated landfills/dumpsites	Construction	Contractor	Project expertise and supervision of observance of security measures of construction	Local hygiene services; When asbestos containing materials encountered, the workers should wear protective gear; asbestos containing waste promptly
	Inefficient operation of boiler equipment with resulting pollution and wasteful energy use	All the equipment and purchased and installed corresponds to internationally accepted norms of heating system energy efficiency, reliability, health safety and environmentally performance	Design	Design Consultant	Project expertise and provision of technical specifications and requirements for equipment selection and operation	Urban Heating PIU

Annex I. The Environmental Impact Regulation for Local heating Systems under the Acting Environmental Regulations of the Republic of Armenia

Legal Framework: The environmental protection process aimed at identifying, preventing and mitigating adverse impacts of planned perspective activities on human health, environment, sustainable economic and social development.

This process in the Republic of Armenia (RoA) is defined by the “Law on Environmental Impact Assessment” adopted by the National Assembly on 20 November 1995. This law is still active, however in the near future a draft of a new law on EIA (currently under development) will be submitted for review by the Government of RoA..

The Article 2.1.a of Section IV of the acting law on environmental impact assessment (EIA) the boiler houses, defined as “steam and hot water production facilities”, are subject to mandatory environmental impact assessment. The EIA law acts in conjunction with the RoA Government Decree No.193 dated 30 March 1999, which further defines the negligible sizes (based on the scales of enterprises). This Decree, however, does not apply to the energy sector enterprises, hence also the heating facilities, thus making them subject for mandatory EIA.

According to the acting EIA law, the conclusion on EIA is released in 120 days to the applicant (Section II, Article 11.2.). Before the conclusion is released, it is required to hold public hearings, and provide professional opinion on the EIA documents. According to Section II, Article 9 of the Law on EIA, on the agency authorized by the Ministry of Environmental Protection can provide professional EIA opinion. And any economic activity is not allowed without the positive conclusion of the EIA procedure (Section II, Article 12). The conclusions has force from the moment of release and, if not used during 1 year, is considered void and requires additional review (Article 11.3-4). This service is paid: the fees being determined by the authorized agency (Article 13).

The new draft of the EIA law has a provision on categorization of activities subject for EIA (categories A, B, C and D). Category D activities do not require EIA. The reviewed project activities foreseen by the Urban Heating Program fall under the category C of the draft legislation, hence is subject to EIA. This new legislative provision eliminated the negligible size categories, by imposing only activity type criteria. The new law also provides new time frames for EIA implementation:

- 60 days – for conceptual documents (concept papers, master plans, programs);
- 60 days – for A category activities;
- 40 days – for B category activities; and
- 20 days – for C category activities.

According to the new legislation the EIA is conducted in 2 phases: (1) Preliminary phase or application phase, during which EIA conclusion can be given to D category projects within 15 days. Main EIA phase, which starts with the submission of required documents, during which the authorized EIA agency can involve relevant experts through contractual arrangements. All of the costs incurred for EIA purposes are paid by the Government. However, there is a State duty imposed for development of the technical report and the EIA conclusion. The costs required for implementing a public hearing are incurred by the EIA applicant.

Environmental requirements for urban heating projects: The local heating boiler houses designed for heating of public and residential buildings impose environmental damage, the scales of which depend on the following:

- location of the boiler house;
- the technical parameters of the boiler;
- the installed capacity;
- the operation purpose;
- the backup fuel requirements;
- the quality of used water;
- the equipment operation noisiness;

- the height of the stack pipe;
- the background concentration of pollutants in that location; and
- the wind patterns.

All of the above conditions have significant impact on the magnitude of environmental hazard caused during the operation of the boiler house, as well as in designing measures aimed at the prevention and minimization of externalities.

The most serious adverse impact caused by boiler operation is the atmosphere pollution through emission of hazardous substances. Relatively less (both quantitatively and qualitatively) pollution is caused by boiler houses operating on natural gas, as opposed to liquid or solid fuels' application. During gaseous fuel combustion the substances emitted into the atmosphere are nitrogen and carbon oxides, whereas during liquid and solid fuel combustion there are additional emissions of soot and sulfur dioxide. All of these emissions are regulated by gram/second and tone/year limitations. Also, to mitigate the pollution impacts, it is recommended to remove the emission gases through one large and tall pipe instead of several smaller stack pipes; and the height of the stack cannot be manipulated as a mitigation measure for the environmental impact of boiler house operation.

The ground-level concentration of emissions and their spreading is calculated by application of computer calculation methodology. The key indicators for atmosphere quality are the marginal permissible concentrations (MPC) of hazardous substances in the ground-level air in populated areas, which is as follows:

$$\begin{aligned}C_{\text{dust}} / \text{MPC}_{\text{dust}} &= 1; \\C_{\text{co}} / \text{MPC}_{\text{co}} &= 1; \\C_{\text{NO}_x} / \text{MPC}_{\text{NO}_x} &= 1; \\C_{\text{SO}_2} / \text{MPC}_{\text{SO}_2} &= 1; \\C_{\text{SO}_2} / \text{MPC}_{\text{SO}_2} + C_{\text{NO}_x} / \text{MPC}_{\text{NO}_x} &= 1.\end{aligned}$$

And if there is background concentration in the area, $C_{\text{NO}_x} = C_{\text{NO}_x} + C_b$.

If the boiler house is located in a rest/resort area, urban or recreational zone etc, then the ground-level concentration dispersion calculations use the following standard:

$$C / \text{MPC} = 0.8.$$

The choice of location for the boiler house must take into consideration the climatic conditions, landscape and wind patterns of the site: these can magnify the environmental damage from the pollution causing pollution buildup, prevent pollution spreading.

The boiler-house operation is considered an explosive and fire risk activity, in which case there is need to develop measures to mitigate environmental damage from potential accidents, the impact zone is also determined through computer calculations.

The boiler houses are built inside existing buildings, in facilities adjacent to existing buildings, and or in the roof. The boiler houses located inside buildings (apartment blocks, etc.) operated on liquid fuel should not exceed 3GCal/hour heat production capacity. The adjacent boiler-houses do not have such limitations. The standard regulation also requires a minimum of 2 boilers to be installed in each boiler-house: one for backup purposes. All types of boiler-houses have to comply aperture opening requirements to ensure sufficient air flow (the size of opening should be calculated to provide for air flow speed not exceeding 1m/second).

The amount of hazardous substance emissions are usually reported together with the technical and technological parameters by the boiler producer. If this data is missing, the emission quantities are determined by calculation.

To minimize the adverse impact on the environment, the choice of stack pipe is instrumental. The orifice of all stack pipes for all boiler-houses should be located above the level of the contrary wind, but not more than by 0.5m (above the roof), and above the tallest building roof within 10m radius of the surrounding area for environmental safety.

For boiler houses with installed production capacity over 20GCal/hour the primary fuel is gas, and the backup fuel foreseen should be mazut. In the design stage those fuels are considered equivalent, however the calculations are performed for the worst conditions – for mazut. For boiler houses with installed production capacity under 20GCal/hour, no backup fuel provision is necessary.

The water used in boilers for economic-residential, cooling, fire safety and production purposes can be taken from the central water supply system and used in closed circulated system for rational use of water resources. The wastewater can contain oil products, and can be removed through the regular sewage system only after oil-capturing device.

The waste produced on the heating site should be removed by the Sanitary-Epidemiological service and relocated to the designated landfills.

The operation of boiler-houses on solid fuel is not recommended due to their magnified adverse environmental impact, formation of hazardous emissions and waste (special landfilling or use in construction is recommended for such waste). If alternative use or removal for landfilling in designated areas is not possible, however the boilers are operating with solid fuel, it is required to provide a waste storage site for the waste to be generated during 10 years of operation.

The boiler houses located inside buildings (including on the roof) may create risk of noise pollution interfering with normal human lifestyle. With this respect, the mitigation measures and equipment choice should guarantee the noise level not more than 55DB during daytime, and 45DB during night-time hours.

Procedural Requirements

The table below summarized the procedural phases and respective authorities responsible for providing review, approval and processing of documentation for boiler house design and construction, land allocation, pipeline construction, gasification, etc.

#	Implementation Phase	Authority in Charge	Notes
1.	Land / territorial allocation	territorial authorities, local authorities, Ministries of Environmental Protection and Urban Construction, (the Government Cabinet <i>for schools heating projects</i>).	In cases where the land proposed for heating facilities construction is private property, the project budget must provide for compensation of private or physical entity that holds title to the land. The private land used should further be either completely rehabilitated in its initially utilization stage, or again – the project budget should provide for compensation of damage.
2.	Preliminary review and approval of heating project	Ministry of Health SanEpidemiological service	preliminary conclusion on the allowability of conducting heating –related construction, engineering and maintenance works according to sanitary, hygiene and epidemiological consideration.
3.	Technical TOR for gasification	UH PIU	ArmRusGas should present with the according letter to be attached to the technical documentations of the project

			(describing the volume, length, locations, connection ties/linkage points).
4.	Technical conditions for water supply and removal	UH PIU/contractor	Water Sewage Agency presents the technical conditions for water supply and removal to PIU, design institution or contractor.
5.	Fire safety conditions	Fire Department	
6.	Boiler operation safety review and compliance with technical requirements	State Mountain Control Authority	
7.	Post-design monitoring	designated authority	could be the Municipal environmental service, State Monitoring Agency, SanEpidemilologicla Service or any other independent monitoring service.
<p><u>Representatives of all of the above authorities should be present and sign the “act” of acceptance or the implemented works and all the preliminary rules have been complied with and the object is allowed for operation.</u></p>			

Technical requirements

The Independent Technical Expertise of the Urban Construction Ministry, State Mountain Technical Control Service and the State Architectural Technical Control Service provide the technical requirements for boiler house design and operation. Those of them related to environmental impact mitigation are provided below.

Capacity and placement limitations

#	Boiler house type	Maximum Allowed Capacity
1.	autonomous boiler facilities constructed on roof or inside building and operating on gas or liquid fuel	3MW
2.	Adjunct boiler houses operating on solid fuel	1.5MW
		Note: The adjunct boiler houses should not be constructed in the front segment of buildings (amenity value, stack pipe emissions).

Asbestos safety regulations: Isolation materials (non-burning) used in existing heating facilities may include asbestos-based plaster. The safety requirement for such materials is to cover the plaster with oil-based paint the color of which must be agreed with the State Mountain Technical Control service. The work should be conducted with proper protective gear for workers (gloves, uniform, respirators, etc.).

Fire Safety: The fire department should conduct inspection and provide preliminary permission for boiler-on-roof heating schemes, in case if the building height is over 26.5m.

Annex 13- Procurement Under Commercial Practices

1. GENERAL PROVISIONS

The overall procurement shall be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", both dated May 2004, and the provisions of the DCA. The procurement procedures applied for various projects are described under respective paragraphs of this OM. The procurement under the sub-loans shall be made in accordance with the applicable commercial practices described in this Annex.

- 1.1 The interrelation between the Beneficiaries and suppliers, contractors and service providers shall be regulated through the contracts⁴ signed between them. The sub-loan Beneficiaries are responsible for procurement and supervision of the implementation of contractual obligations by the contractor/supplier and execution of his obligation under the contract.
- 1.2 The Beneficiaries should be governed by the need for economy and efficiency in the implementation of the project for which sub-loan is provided.
- 1.3 Except for the Sub-loan Beneficiaries, no other third party may claim for the sub-loan proceeds.
- 1.4 Sub-loan Beneficiaries are encouraged to follow transparent and open procurement processes.
- 1.5 The PFI may suspend, terminate or claim for refund of disbursed amount if whenever discovers that the Sub-loan Beneficiary is in breach procurement rules specified by this OM.
- 1.6 The Sub-loan Beneficiaries, as well as potential suppliers, contractors and service providers are requested to maintain norms of the highest standards of ethics, excluding corruption and fraudulent practice⁵.

While implementing the procurement procedures by the Sub-loan Beneficiaries, the applicable environmental rules and norms shall be followed.

2. APPLICABLE COMMERCIAL PRACTICE

While arranging procurement the Sub-loan Beneficiaries should clearly specify:

- a) description and quantity of good(s), work(s) and service(s),
- b) preferable terms and conditions of good(s), work(s) and service(s) supply,
- c) brief description of payment terms and conditions.

In case if a bidder recommended for contract award refuses to sign the Contract, Beneficiary may sign contract with the next lowest bidder. In other and extraordinary cases, the Beneficiary of Sub-loan may cancel the procurement procedure and organize a new procurement.

In cases described below subject to the prior agreement with the Fund and the PFI, the Beneficiaries may procure through direct contracting, in the following cases:

- (a) An existing contract for goods or works may be extended for additional goods or works of a similar nature, if no advantage could be obtained by further competition and that the prices on the extended contract are reasonable. Provisions for such an extension, if considered likely in advance, shall be included in the original contract.
- (b) Standardization of equipment or spare parts, to be compatible with existing equipment, may justify additional purchases from the original Supplier. For such purchases to be justified, the original equipment shall

⁴ Or Purchase Orders.

⁵ See details in paragraph 1.14 of "Guidelines. Procurement under IBRD loans and IDA credits"

be suitable, the number of new items shall generally be less than the existing number, the price shall be reasonable, and the advantages of another make or source of equipment shall have been considered and rejected on grounds acceptable to the Bank.

(c) The required equipment is proprietary and obtainable only from one source.

(d) The Contractor responsible for a process design requires the purchase of critical items from a particular Supplier as a condition of a performance.

(e) In exceptional cases, such as in response to natural disasters.

If required, the Sub-loan Beneficiaries may engage specialized organizations with the purpose of procurement of works and services. While carrying out the procurement activities, the engaged specialized organizations on behalf of Sub-loan Beneficiaries shall also maintain provisions set out in this Operational Manual.

Sub-loan Beneficiaries shall record the procurement process.

3. REVIEW OF PROCUREMENT ACTIVITIES

The Beneficiary should keep all procurement related documentation at least twelve months after the completion of its project implementation and be ready to submit such documentation to the PFI or the Fund upon request.

**AGENCY AGREEMENT
on Management of Proceeds
under Renewable Energy Project DCA between RA and IDA**

This AGREEMENT is made on July 12, 2006 in Yerevan between *the Republic of Armenia* (hereinafter the Principal) represented by the Ministry of Finance and Economy of the RA on the one hand and *the Armenia Renewable Resources and Energy Efficiency Fund* (hereinafter the Fund or Agent) on the other hand, hereinafter jointly referred to as the Parties.

Whereas by a “*Development Credit Agreement*” (the DCA) between the *International Development Association (IDA)* and *the Republic of Armenia* signed on April 7, 2006 the IDA has extended a credit (hereinafter **IDA credit**) to the Republic of Armenia in an amount equal to **USD 5,000,000 (five million)** to assist in the carrying out of the **Renewable Energy Project** (hereinafter **Project**) that shall be implemented by the Fund in accordance with the Agency Agreement signed between the RA and the Fund,

Now therefore the parties enter into this Agreement on the following:

3. AGREEMENT TERMS

The Parties hereby agree that the terms used in this Agreement obtain the meaning, content and interpretation ascribed to them in the DCA. The provisions of the General Conditions and the terms and conditions of the DCA shall, mutatis mutandis, apply in full force and effect to this Agreement.

2. SUBJECT AND OBJECTIVE OF AGREEMENT

- 2.1 The Fund, acting as an Agent, shall undertake to carry out legal and other Project-based activities against respective remuneration on behalf of the Principal, following the Principal’s instructions and at the Principal’s expenses.
- 2.2 The Principal shall undertake to manage the DCA proceeds provided within the scope of the Project by implementing the activities envisaged by Component B of the Project as specified in Schedule 2 of the DCA, specifically to extend a subsidiary loan to *Cascade Credit UCO CJSC* (hereinafter **CC**) for on-lending to the potential beneficiaries in the frames of the Project (hereinafter **Activities**).
- 2.3 For the implementation of the Activities specified in paragraph 2.2 of this Agreement the Fund shall enter into a Subsidiary Loan Agreement with the CC, within the scope of which the Fund shall ensure sufficient control over the CC and timely apply its rights of the lender under such agreement so as to ensure that the provided funds are duly redeemed and utilized in a targeted manner.

**3. FUNDS FOR IMPLEMENTATION OF ACTIVITIES
AGENCY REMUNERATION**

- 3.1 For the implementation of the Activities specified under paragraph 2.2 of this Agreement the Principal shall allocate the following funds to the Agent:

<i>Category</i>	<i>Amount (expressed in USD)</i>
1. Sub-loans	5,000,000

- 3.2 The Principal shall channel the funds for the Project in accordance with the budget estimates for the given fiscal year approved by the senior governing body of the Fund (the Board of Trustees) and based on the Withdrawal Applications in the format established by the IDA as well as other respective allocation documents pursuant to the Armenian laws.

- 3.3 The allocation of the amounts to each Category under financial applications may not exceed the amounts established by the DCA, unless the RA and the IDA shall otherwise decide.
- 3.4 The difference between the interest rate against the IDA credit under the DCA and the interest rate against the subsidiary loan provided to the CC by the Fund shall be considered as agency remuneration payable by the Principal to the Fund which shall be channeled to cover the operating costs of the Fund in proportions established by the Fund's Board of Trustees.

4. IMPLEMENTATION OF ACTIVITIES; RESPONSIBILITIES OF AGENT

- 4.1 While in the implementation of the Activities the Agent shall act within the framework of the Project and function as an office to implement a project under the foreign funding provided to the Republic of Armenia and thereby perform its functions in conformity with the Armenian Laws governing such offices.
- 4.2 The coordination of the project-related activities of the Agent shall be carried out by the Board of Trustees of the Fund (hereinafter **BOT**) which shall as well act as the Project Management Board.
- 4.3 The Agent shall submit to the Principal Project progress reports in the established format, which shall be deemed as an Agent Report on the execution of the assignments under this Agreement.

4.4 The functions of the Fund shall involve:

- 4.4.1 Given its activity as an Agent of the Republic of Armenia, concluding loan provision bargains on behalf and at the expenses of the Republic of Armenia and exercising the lender's rights and obligations arising out of such bargains;
- 4.4.2 Compiling the schedule for lending under the Project and submission thereof to the BOT for approval;
- 4.4.3 Ensuring the Project implementation monitoring, including preparation and submission of Project status reports required by the financing institution as well as the RA Laws;
- 4.4.4 Filing of applications required for withdrawals under the Project and submission thereof to the respective financing institution following the verification obtained from the authorized Treasury officials;
- 4.4.5 Supervising over the loan proceeds to be repaid by the borrowers, including: in case of non-fulfillment or unduly fulfillment of the liabilities, to launch a claim or a lawsuit, with all judiciary authorities, on behalf of the Principal for collection of debt; therewith the base, subject and volume of the claim as well as the claim rejection or conciliation issues shall be preliminary agreed with the Ministry of Finance and Economy of Armenia or the respective materials required for such claims shall be submitted to the Ministry of Finance and Economy of the RA;
- 4.4.6 Performing Project-related disbursement, submission of applications to the chief officers responsible for budget allocations with the aim of accessing the co-financing amounts to be channeled from the state budget;
- 4.4.7 Submission of monthly, quarterly, annual reports in the manner specified by the Government of RA, as well as submission of a summarized analytical report to the Government of Armenia following the completion of the Project.

4.5 The Agent shall be responsible to:

- f) use the proceeds specified in Part 3 of this Agreement solely for the execution of the Project;
- g) promptly notify the Principal on any event impeding or threatening to impede the processes carried out within the framework of the Project;
- h) carry out recording and accounting of proceeds channeled through the Agency Agreement in conformity with the Armenian laws;

- i) perform annual audit of the Project pursuant to the DCA through the independent auditors selected for that purpose, which also covers the audit of the Activities under this Agreement. The audit selection is carried out in conformity with the DCA. The Agent shall submit audit reports for the given fiscal year to the Principal not later than within six months after the end of the tax year.

For the supervision of the Activities implemented within the Agreement framework or in case of the Principal's request for a separate audit the overall expenses related to the selection of the auditor or its remuneration shall be covered by and at the expense of the Principal. The expenditures with respect to the inspection made by the authorized department of the Principal shall also be covered by the Principal

- j) ensure access for the Principal's auditors and inspectors to the Project related accounting records and other data;
- 4.6 Upon the consent of the Principal, the Agent may authorize the implementation of the Activities defined by this Agreement, either in a whole or in part, to a third party under a Sub-agency Agreement, with the prior agreement of the IDA.
- 4.7 The decisions of the BOT shall be mandatory for the Fund, as instructions of the Principal to the Agent, from which the Agent may deviate when proved that such action has been vital for the protection of the Principal's interests. In this case, the Fund shall initiate convocation of an extraordinary BOT session and if the previous decision is not altered by the BOT, the Fund shall be obliged to adhere to this decision irrespective of the potential losses inflicted on the RA, without bearing any property responsibility for such risk.

5. MANAGEMENT OF PROJECT FUNDS AND ASSETS. BANK ACCOUNTS OF THE AGENT

- 5.1 The funds specified in Section 3.1. of the Agency Agreement and managed by the Agent belong to the state with the authority of expenditure granted to the Agent on terms of this Agreement. The right to claim obtained based on these funds shall be considered state property.
- 5.2 Designated banking accounts (hereinafter the Project banking account) shall be opened with commercial banks for carrying out the disbursement transactions under the Project. The Republic of Armenia shall be the owner of the funds available on such accounts and the Fund shall be authorized under the Agency Agreement to perform the Project-based disbursements from the account.
- 5.3 The banking account (accounts) of the Fund (hereinafter Fund Banking Account) shall be used for covering the Fund's maintenance expenses and the Fund shall own the funds available on such account/s. The disbursements related to the Project may not be executed through the Fund Banking Account and vice versa.
- 5.4 The overall agreements obtained by the Fund respective and for opening of the banking account of the Project shall be carried out pursuant to the DCA.
- 5.5 The Agent shall quarterly submit data relating to the banking accounts of the Project to the Ministry of Finance and Economy of the RA, specifically: the servicing bank, its location, account number, currency, the rate of interests accrued against the balance, the name, address and ID of the person(s) authorized to withdraw proceeds, or otherwise submit a notification certifying that the previously submitted information has remained unchanged.
- 5.6 Any arrest, prohibition and confiscation against the Fund's liabilities may only be applied towards the banking account and assets of the Fund.
- 5.7 Pursuant to the DCA provisions, the Principal shall be the main respondent in judicial proceedings launched by any third parties which claim towards the Project banking accounts.
- 5.8 The Fund shall instruct the bank which services the Project account that the disclosure of information related to the Project account to the Ministry of Finance and Economy, which is the representative of the Principal, shall in no way deemed as a violation of the Fund's banking secret.

- 5.9 While carrying out the Activities specified in Section 2.2 of this Agreement, the amounts (principal, interest and penalty) receivable due to repayments under the subsidiary loans extended to the CC shall be debited into the designated banking account of the Project opened with a commercial bank. At the end of each month the difference between the interest rates specified in Section 3.4 of this Agreement is separated from the funds available therein. Those funds shall be managed under the decision of the Board of Trustees so as to cover the operating costs of the Fund or other activities that the Fund can finance according to its Charter. The remaining part of the collected funds shall be used within the scope of this Agreement for replenishment of the credit resources specified in Part B of the Project under Schedule 2 of the DCA.
- 5.10 Under the Agency Agreement, the Project accounting (budgeting of project proceeds, project performance and progress reports) shall be maintained by the Fund also in the project currency.
- 5.11 The Agent may deposit the funds extended for the Activities, which temporarily remain unused and unallocated, in any bank acceptable to the Principal, furthermore the Agent shall bear the risk for the loss of these funds. The interests receivable against the depositing of funds shall be considered the property of the Fund and may be used for the purposes defined by its Charter subject to the decision of the Board of Trustees.

6. RESPONSIBILITY OF THE AGENT

- 6.1. During the implementation of the Project the Agent shall bear property responsibility for the damage incurred to any third parties through its activity (negligence).

7. AGREEMENT SUSPENSION

- 7.1 The Principal shall retain the right to suspend the execution of the Activities under the Agreement based on the following circumstances:
- 7.1.1 an extraordinary event has emerged upon which there are reasonable doubts that the Agent would be able to perform its obligations under this Agreement;
 - 7.1.2 the right of the Republic of Armenia to withdraw the proceeds of the IDA Credit is suspended, cancelled or terminated, either in whole or in part, or pursuant to the terms of the DCA the credit becomes due and payable prior to the agreed maturity thereof.
- 7.2 Notwithstanding any cancellation or suspension, all the provisions of this Agreement shall remain effective as long as they regulate the relations between the Fund and Principal.
- 7.3 The suspension shall cease upon the decision of the Principal in case the circumstances to ground the suspension cease to exist.

8. PREMATURE TERMINATION OF THE AGREEMENT

- 8.1 The Principal may demand the premature termination of the Agreement from the Agent if one of the following events occur separately or simultaneously (qualified as *considerable violation or considerable change of conditions*):
- 8.1.1 the court has launched a judicial proceeding against the Agent for petition of bankruptcy;
 - 8.1.2 deterioration of the Agent's financial condition according to the financial statements and/or audit conclusion;
 - 8.1.3 non-targeted use of proceeds allocated under the Agency Agreement, or inaccuracy of information disclosed in the reports specified in Subsection 4.4.13 of this Agreement with the aim of misinforming the Principal;

- 8.1.4 if based on the events specified under the DCA the IDA demands the Republic of Armenia for immediate redemption of the credit principal. This shall never serve as a basis for the Fund to claim against the Lender for damages incurred;
- 8.2 The Principal shall submit the demand for premature termination to the Lender in writing following the agreement obtained from the IDA, other than in the case stipulated by Subsection 8.1.1 of this Agreement. The parties undertake to fulfill all of their obligations, including commitments, within 2(two) weeks upon receiving the demand.

9. CONCLUDING CLAUSES

9.1 Applicable laws and dispute resolution

This Agreement shall be governed by the laws of the Republic of Armenia. Any disputes arising out of this Agreement shall be settled through negotiations or otherwise launched to the court of competent jurisdiction in case the parties fail to reach mutual understanding.

9.2 Notifications

Within the framework of this Agreement the overall notifications and other correspondence shall be made in writing and delivered by hand (against acknowledgement) or by fax or E-mail to the contact details below or through an ordered letter addressed to the respective party.

9.3 Amendments

Any amendments or supplements to this Agreement shall be made only upon the written consent of the Parties in the form of a countersigned document. Any unilateral notification made by one of the Parties and the reply or non-reply thereof shall be in no way deemed as an amendment or supplement to this Agreement.

9.4 Transfer and Pledge

9.4.1 The Fund shall not be entitled to transfer its rights and responsibilities under this Agreement to any third party without the written consent of the Principal.

9.4.2 The Principal shall be entitled to assign its right to claim under this Agreement to any third party acting on the territory of the RA at any time throughout the effectiveness of this Agreement upon the prior consent of the IDA. In this case the Fund shall be legally bound to fulfill its liabilities under this Agreement towards the new assignee starting from the date the notification on the assignment of such right is received.

9.5 Splitting of provisions

The annulment of any of the provisions under this Agreement shall in no way be deemed as a basis for annulment of the whole Agreement or any other provisions thereof. Neither of the Parties hereto shall abuse the complete or partial annulment of this Agreement for avoiding from the liabilities assumed by them under this Agreement. Furthermore, the Parties shall undertake all necessary measures to pursue the objectives and intentions under this Agreement in conformity with the applicable legislation.

9.7 Agreement comprehensiveness

This Agreement represents the comprehensive agreement obtained between the Parties and prevails over the entire previous arrangements between the Parties related thereto.

9.8 Effectiveness

This Agreement is signed in two original copies in Armenian with one copy for the Fund and one for the Principal. This Agreement shall become effective upon the final date of signing by the authorized representatives of both parties and shall not cease as long as the commitments of the parties hereto

remain effective pursuant to the legislation. The activities stipulated by this Agreement shall be implemented following the effective date of the DCA.

PRINCIPAL	AGENT
1 M.Adamyan str. 375010, Yerevan	1 M.Adamyan 375010, Yerevan
Republic of Armenia	Republic of Armenia
RA Ministry of Finance and Economy	Armenia Renewable Resources and Energy Efficiency Fund
V.Khachatryan _____	T.Babayan _____

Annex 15- Grant Agreement (REP)

AGREEMENT
on Provision of Grant from GEF Grant proceeds
for the Renewable Energy Project

Yerevan

July 10, 2006

This AGREEMENT was entered into between the **REPUBLIC OF ARMENIA** (hereinafter “**Grantor**”), represented by the Ministry of Finance and Economy of the Republic of Armenia, and **ARMENIA RENEWABLE RESOURCES AND ENERGY EFFICIENCY FUND** (hereinafter “**Fund**” or “**Grantee**”), hereinafter jointly referred to as **the Parties**.

Whereas by **GRANT AGREEMENT (“GA”)** dated April 7, 2006 between *the Republic of Armenia* and *International Bank for Reconstruction and Development (“IBRD”)*, acting as administrator of the Global Environmental Facility (“**GEF**”), the Republic of Armenia has been provided a grant in an amount of USD 3 000 000 (three million) to assist in the carrying out of **the Renewable Energy Project (“Project”)** to be implemented by the Fund;

Now therefore, the Parties hereby agree as follows:

1 AGREEMENT TERMS

- 1.1 The Parties hereby agree that the provisions of the General Conditions and the terms and conditions of the GA shall, mutatis mutandis, apply in full force and effect to this Agreement. In case of interpretation discrepancies the terms under the GA shall be prevailing.

2 SUBJECT OF THE AGREEMENT

- 2.1 Under this Agreement the Grantor irrevocably grants USD 3 000 000 (three million) to the Fund and the Fund undertakes to use these funds solely for the Project purposes to ensure the implementation of the

activities (“**Grant Activities**”) specified under Schedule 2, Part A of the GA.

- 2.2 The Fund shall allocate the grant proceeds to finance the expenditures in following categories and amounts:

Activity Category	Amount of Allocation (expressed in USD)
1. Goods	300 000
2. Consultant services, including audit	1, 900,000
3. Training	160,000
4. Incremental operating costs	480,000
5. Unallotted	160,000

- 2.3 The Fund shall finance the expenditures for the implementation of the Activities specified in Part A of the Project in accordance with the budget summary and estimates for the given fiscal year approved by the Board of Trustees, which is the senior governing body of the Fund.

3 GRANT PROVISION AND ALLOCATION

- 3.1 The total amount of the grant shall make USD 3,000,000 (three million).
- 3.2 Following the effective date of this Agreement the Grantor shall commence transfer of the Grant funds to the separate designated account of the Grantee (Special Account of the Grant) according to the disbursement procedures specified in the GA. Each amount of the Grant withdrawn from the Grant Account under GA shall be deemed as grant provided to the Fund on the date of the corresponding withdrawal from the Grant Account.
- 3.3 The proceeds granted under this Agreement shall be allocated solely for the Project purposes. If the Grantee fails to use the granted assets for the purpose specified by the Grantor or such purpose has been changed contrary to the provisions of paragraph 6.1 of this Agreement, the Grantor shall retain the right to recall the grant.
- 3.4 Upon necessity the proceeds may be reallocated between the categories of the Activities with the prior consent of the Grantor and IBRD.
- 3.5 The Grantee shall submit reports to the Grantor and IBRD related to the Project implementation and grant allocations in the format established by the GA and RA Laws.

4 TERM

- 4.1 This Agreement shall come into effect on the date of signing by the Parties hereto. This Agreement and all obligations of the parties under it and the GA shall terminate when all such obligations have been fully performed.

5 RESPONSIBILITY

During the implementation of the Project the Grantee shall be held liable by its assets for the damage incurred to any third parties through its activity (negligence).

6 CANCELLATION, SUSPENSION AND MODIFICATION

- 6.1 No provision of this Agreement shall be modified or amended by either party unless a mutual consent on such modification or amendment is obtained between the Parties hereto. If due to the changes in conditions the granted assets can no longer be used for the established purpose, they may be used for other purposes only subject to the Grantor's consent. No cancellation or modification shall be effective except in writing executed by each of the Parties hereto.
- 6.2 The Grantor shall be entitled to suspend the execution of this Agreement based on the following circumstances:
- 6.2.1 an extraordinary event has emerged upon which there are reasonable doubts that the Grantee would be able to perform its obligations under this Agreement;
- 6.2.2 the right of the Republic of Armenia to withdraw the proceeds of the GEF Grant is suspended, either in whole or in part.
- 6.3 The Grantor shall be entitled to demand earlier termination of this Agreement based on the following circumstances:
- 6.3.1 the court has launched a judicial proceeding against the Grantee for petition of bankruptcy;
- 6.3.2 deterioration of the Grantee's financial condition according to the financial statements and/or audit conclusion;
- 6.3.3 non-targeted use of proceeds allocated under this Agreement, or inaccuracy of information disclosed in the reports specified in Paragraph 3.1 of this Agreement with the aim of misinforming the Grantor;
- 6.3.4 if based on the events specified under the GA the right of the Republic of Armenia to withdraw the proceeds of the GEF Grant is entirely suspended.
- 6.4 The Grantor shall submit the demand for early termination or suspension to the Grantee in writing following the agreement obtained from GEF, other than in the case stipulated by Subsection 6.3.1 of this Agreement. The suspension shall cease upon the decision of the Grantor in case the circumstances to ground the suspension cease to exist.
- 6.5 Notwithstanding any cancellation, suspension or modification, all the provisions of this Agreement shall remain effective as long as they regulate the relations between the Grantor and the Grantee.

7 MISCELLANEOUS

- 7.1 This Agreement is made in Armenian and executed in two (2) copies, each of which shall be deemed an original and legally binding on both the Parties. Each of the Parties shall hold one copy of it.
- 7.2 The Grantee shall notify the Grantor and IBRD of any condition which interferes with or threatens to interfere with the execution of the Project.
- 7.3 The Fund shall implement the Project in conformity with its Operational Manual. The OM may be

amended from time to time with the agreement of the IBRD, provided that such amendments shall be in compliance with the terms and conditions of the GA.

- 7.4 Except as the Grantor and the IBRD shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by procurement procedures detailed in Schedule 3 of the GA.

8 FORCE MAJEURE

- 8.1 No party shall be liable for any failure or delay to perform its obligations under this Agreement if such failure or delay was due to causes which occur after the effective date of this Agreement and are beyond the reasonable control of the Parties. This includes, but is not limited to the Acts of God (earthquake, flood, fire), wars, riots or other major upheaval, insurrections, civil unrests, labor actions, disruptions in communication facilities, legal acts, etc. which affect the Parties to perform their obligations herein. If the force majeure event lasts over 3(three) months, either of the Parties hereto shall be entitled to cancel this Agreement by giving a prior written notice to the other party

DOMICILES AND SIGNATURES OF PARTIES

GRANTOR

RA Ministry of Finance and Economy

Address: 1 M.Adamyan, Yerevan

RA Minister of Finance and Economy

V.Khachatryan _____

GRANTEE

Armenia Renewable Resources and Energy Efficiency Fund

Address: 1 M.Adamyan, Yerevan

**Acc: 001-007855-003
HSBC Bank Armenia**

Tax Code: 02580459

Director of Armenia Renewable Resources and Energy Efficiency Fund

T.Babayan _____

SUBSIDIERY LOAN AGREEMENT

This **AGREEMENT** is made on July 13, 2006 in Yerevan between *Armenia Renewable Resources and Energy Efficiency Fund* /hereinafter **the Fund** or the Lender/ on the one hand and *Cascade Credit UCO CJSC* (hereinafter **the CC** or **the Borrower**) on the other hand, jointly referred to as the Parties.

Whereas by *Development Credit Agreement* (the DCA) 4159-AM as of April 7 between the *International Development Association (IDA)* and *the Republic of Armenia*, IDA has provided a credit to the Republic of Armenia to assist in the carrying out of the *Renewable Resources Project* (hereinafter the RE Project); and

Whereas by **AGENCY AGREEMENT** between *the Ministry of Finance and Economy of the Republic of Armenia* and *Armenia Renewable Resources and Energy Efficiency Fund*, the Fund has undertaken to extend the provided amount in the form of a loan (hereinafter *Subsidiary Loan*) to the participating financial institution, namely to the CC, within the scope of the RE Project and on behalf of the Republic of Armenia for on-lending (hereinafter *Sub-loan*) to potential Beneficiaries of the RE Project (hereinafter *Sub-Borrower*); and

Whereas as a co-financing to the RE Project the Cafesjyan Family Foundation, which is the Borrowers' Founder, shall increase the statutory capital of the CC in an amount equal to USD 3 (three) million, at the USD/AMD exchange rate established by the Central Bank of RA as of the date of this Agreement;

Whereas as a co-financing to the RE Project the Borrower has attracted USD 7 million from the European Bank for Reconstruction and Development (hereinafter *EBRD*) under the Framework Agreement signed on May 23, 2006 (Annex 6);

Now therefore, the Parties sign this Agreement (hereinafter the *Agreement*) on the following terms:

2. AGREEMENT TERMS

Whenever used in the Subsidiary Loan Agreement, unless the context shall otherwise require, the several terms defined in the DCA have the respective meanings therein set forth. The provisions of the the terms and conditions of the DCA shall, mutatis mutandis, apply in full force and effect to this Agreement.

3. SUBJECT AND OBJECTIVE OF THE AGREEMENT

- 2.1 The subject of the Agreement is to provide Subsidiary Loan from the Lender to the Borrower within the RE Project framework on behalf of the Republic of Armenia through a credit line, which the Borrower shall return under the terms and conditions set forth in the Agreement together with payment of accrued interests.
- 2.2 The objective of the Agreement is to provide Subsidiary Loan to the Borrower for on-lending (crediting) to RE Project Sub-Borrowers for the RE Project purposes.
- 2.3 The objective of the RE Project is to increase the role of privately-owned and operated power generation utilizing renewable energy.
- 2.4 The RE Project Sub-Borrower (Credit Borrower) may be legal entity beyond the state ownership who is engaged or intends to engage in any economic activity that involves construction of new wind power or small hydro power plants and rehabilitation of the existing plants, and holds construction and/or rehabilitation license issued by the Public Services Regulatory Commission.
- 2.5 The total amount of the Subsidiary Loan (Credit line) shall not exceed US\$5,000,000 (five million).
- 2.6 The credit line shall be available for the Borrower for 5 (five) years upon the effective date of the Agreement.

- 2.7 The amount of the Sub-Loan (Credit) for each single Sub-Borrower may not exceed US\$2,000,000 (two million), including the amount of co-financing provided by the Borrower and EBRD.
- 2.8 Under the Agreement and pursuant to its objective the Borrower shall finance the Sub-Loans based on the following sources and ratios: 20% from the Borrowers own assets, 46.67 % from the funds attracted from EBRD (jointly referred to as **Borrower co-financing**) and 33.33 % from the RE Project proceeds.
- 2.9 Under the Agreement, at least 30% co-financing by the Sub-Borrower shall be a precondition for financing of investment projects.

4. CURRENCIES, TERMS, INTERSTS AND PENALTIES

Under the credit line, the Subsidiary Loan shall be provided in AMD (at the exchange rate established by the Central Bank of RA as of the transaction date) or USD, as the Borrower may request.

The interest rates are set as follows:

For **USD** denominated Subsidiary Loan - 6 months LIBOR plus 1%. In terms of this Agreement LIBOR means London inter-bank offered rates of major banks for deposits in US Dollars. The reference page for LIBOR is the page LIBOR01 on Reuters Service (or such other page that may replace page LIBOR01 on Reuters Service for the purpose of displaying London inter-bank offered rates for deposits in US Dollars);

For AMD denominated Subsidiary Loan - the weighted average interest rate for 91-180 days deposits placed by individuals, calculated for the Armenian banks by the Central Bank of the RA, pursuant to the published rates for the last 6 (six) months but not lower than 6 months LIBOR.

The interest rate is established on January 15 and June 15 of each year, and the interest rate applicable to the CC for each single Sub-Loan shall remain fixed for the entire effective period.

The interests shall be accrued only against the calendar days during which the Subsidiary Loan proceeds have been actually used - admitting 365 days as a calendar year. The interests shall be paid twice a year on May 17 and November 17 of each calendar year or otherwise on the first banking day following these dates if such are non-banking days.

The maturity of the Subsidiary Loan shall match the maturity of the Sub-Loan extended by CC to the Sub-Borrower but shall not exceed 96 (ninety six) months. The principal amount of the Subsidiary Loan shall be repaid in equal installments twice a year, on the 17th of May and 17th of November of every calendar year or on the first banking day following the specified dates if those are non-banking days. Further, a grace period shall be allowed for the repayment of the principal amount within which no repayment of principal is made and only the interest set forth in the Agreement is paid. The grace period shall be maximum 24 (twenty four) months. The grace period covered in this paragraph shall be stipulated in the Sub-Loan Agreement signed between the CC and the Sub-Borrower.

The Borrower shall pay to the Lender penalty of 0.1% calculated against the outstanding amount for each day of overdue interest or principal repayment of the Subsidiary Loan.

5. SUBSIDIARY LOAN PROVISION

To obtain Subsidiary loans under the credit line the Borrower shall duly submit an application to the Fund (the application form is attached as Annex-1 hereto) with specification of the amount sought, amount of the first installment, amount subject to its co-financing, maturity, name of the Sub-Borrower, address, type and scope of the Sub-Borrower co-financing, project implementation site, Subsidiary Loan purpose, security (in case of a real estate to be estimated by an independent, certified evaluator or otherwise in accordance with evaluation procedures established by the CC). A separate application shall be submitted for on-lending to each single Sub-Borrower.

Within the framework of the credit line, each Subsidiary Loan shall be extended based on the Lending Memorandum (Annex 2), which indicates the names of the Lender and the Borrower, the Subsidiary Loan amount, interest rate, maturity, name of the Sub-Borrower. The Lending Memorandum is deemed an integral part of the Agreement.

Within 3 (three) working days upon receiving the application from the CC, the Fund shall notify on the consistency or inconsistency of the application with the requirements of the Agreement.

In case of a positive response, Lending Memorandum and Payment Request (in the attached format) shall be signed between the Lender and the Borrower. Based on such Payment Request within 3 (three) banking days the Subsidiary Loan amount, either in a whole or in respective installment (as may be requested), shall be transferred to the designated accounts (revenue accounts) of the Borrower, provided the following activities are fulfilled:

- j) The Borrower has duly signed a Sub-Loan (Credit) Agreement with the Sub-Borrower; and
- k) The Borrower has duly concluded a transaction to secure the Sub-Borrower's liability (collateral, warranty, bank guarantee, etc.);
- l) The Collateral Agreement on pledging the Borrower's right of claim towards the Sub-Borrower and towards the security facility has been duly concluded between the Borrower and the Lender on behalf of the RA (through notary verification and state registration of rights in cases stipulated by law);
- m) The Borrower has undertaken to provide the respective portion (no less than 66,67%) of its co-financing to the Sub-Loan for the Sub-Borrower.

For any further installments from a Subsidiary Loan, the Borrower shall submit a Payment Request (Annex 3) to the Lender, which shall contain the successive number of the Payment Request and the amount of installment. Within 3 (three) banking days upon receiving of the Payment Request from the Borrower, the Lender shall transfer the respective amount to the Revenue Accounts of the Borrower.

6. SUBSIDIARY LOAN REPAYMENT

The Borrower shall pay the principle and the interests on the Subsidiary Loan as well as make other payments envisaged by the Agreement:

- c) in the currency of allocation, except for the interest and penalty payments, which are made in AMD;
- d) any payment shall be made to the banking account of the Fund.

The Borrower shall ensure that the transfer of funds to the accounts of the Lender is made without any retention and cover any applicable service fees as may be necessary.

The Lender shall allocate the amounts repaid by the Borrower in the following order: penalty against the overdue payments, interests and principal.

The Lender shall notify the Borrower on any changes in its banking requisites.

The Borrower may make early repayment of the principal amount of the Subsidiary Loan with a prior notification of at least 3 (three) banking days to the Lender.

7. RESPONSIBILITIES OF THE BORROWER

The Subsidiary Loan shall be extended in conformity with the RE Project objective for on-lending to Sub-Borrowers, in this regard the Borrower herewith acknowledges its commitment and undertakes to:

conduct its activity and carry out operations in accordance with appropriate financial and administrative standards, practices, laws, other normative legal acts, prudential standards established by the Central Bank of the RA and business practices;

in case of each Subsidiary Loan, exercise its rights in a manner so as to protect its own property interests as well as the property interests of the Lender and the Republic of Armenia;

select Sub-Borrowers, evaluate the project proposals submitted by them, supervise implementation of projects and targeted use of the funds by the Beneficiaries as well as compile, in the format acceptable to the parties, and submit to the Lender quarterly progress reports, which shall disclose information on the Sub-Loan amounts, including the Borrower's own or attracted funds, and progress of projects implemented. The deadline for submission of such reports shall be the 25th day of the month following each quarter. In case of a delay, incomplete or incorrect submission of reports, the Borrower shall pay the Fund a penalty equal to AMD 10.000 (ten thousand) per day until the duly submission of the respective report;

enable the Lender to study projects financed by the Borrower, analyze the outcomes and make site visits by stipulating for a respective provision in a Sub-Loan Agreement signed with the Sub-Borrowers. Furthermore, the Lender shall undertake to give a 3 (three) days prior written notice to the Borrower on any such event;

appoint RE project coordinator to be responsible for regulating the Project-related issues with the Lender, the RA Ministry of Finance and Economy and IDA as well as for submitting the reports covered under paragraph 6.1.3 of the Agreement;

the Lender shall be promptly informed on any conditions which the Borrower considers as impeding or threatening to impede the implementation of the activities under the RE Project, including the circumstances or judicial processes that may impact the eligibility of the Borrower to participate in the RE Project;

in accordance with sound accounting practices, maintain detailed records and accounts adequate to reflect its financial standing, including the financial statements (balance sheets, statements of income and expenses and other statements required by the RA Legislation) for each fiscal year, that should undergo auditing by independent certified auditors in accordance with accounting standards of the RA. Not later than 6 (six) months following the end of each fiscal year, provide the Lender with certified copies of financial statements specified herein and the accounts for the given year as well as the auditors' report in the format and content established by the RA legislation;

control that the projects to be implemented by the Sub-Borrowers are assessed in accordance with the requirements of applicable Environmental Laws and other legal acts of the RA as well as the Environmental Management Plan (Annex 4);

control that all equipment and materials procured from Sub-Loan proceeds comply with minimum safety requirements as specified by the RA Laws or otherwise with the requirements proposed by the Borrower in cases not covered by the legislation, which shall be acceptable to the Lender;

encourage the Sub-Borrowers to create equal opportunities for all suppliers of goods and works to be procured from Sub-Loan proceeds;

while assessing the projects proposed by Sub-Borrowers, ensure that the Sub-Borrowers submit more than one quotations for goods procured at the expense of the Sub-Loan proceeds, specifically: at least 2 (two) quotations- for goods estimated to cost US \$5000-\$100 000, and at least 3 (three) quotations- for goods estimated to cost over US \$100 000. Where the estimated cost of a contract will exceed the threshold of US \$ 1.0 million, WB's International Competitive Bidding procedure will be followed using the World Bank's Standard Bidding Documents;

ensure that the total amount of the Sub-Loan extended to a single Sub-Borrower or any person related to him under the banking legislation and for any interrelated projects implemented thereof does not exceed US \$2 000 000 (two million);

assure that the Sub-Borrowers do not use proceeds provided by CC from Subsidiary Loan to finance procurement of used equipment;

ensure that the information submitted to the Lender or the Ministry of Finance and Economy of the RA is not in violation of the requirements under the RA Law On Banking Secrecy. Specifically, obtain prior written consent of the Sub-Borrowers for disclosing any of their details to the Lender for the reporting purposes;

in order not to violate the RA Law on Banking Secrecy, submit to the Lender a copy of document addressed to the Central Bank of the RA according to which the Lender shall be entitled to obtain from the Central Bank of the RA relevant information on the Borrower's eligibility criteria established by the Operational Manual of the Lender. The copy of the document addressed to the Central Bank shall be deemed as an integral part of the Agreement;

make the RE Project related accounting records and other data accessible to the Borrower's auditors and supervisors;

maintain separate accounting for the Subsidiary Loan provided by the Fund;

accumulate all funds attracted from the EBRD and the Fund in the Revenue Accounts wherefrom the extension of Sub-Loan (credit) shall be made. The amounts repaid by the Sub-Borrowers shall be accumulated in the Revenue Account as well;

while bound under the Agreement, fulfill the requirements of the RA Laws governing the Borrower's activities;

for financing of the projects proposed by the Sub-Borrowers, contribute its own or attracted funds (project co-financing resources) so that based on the outcomes of each year the funds provided by the Lender do not exceed 1/3 of the total financial sources of Projects;

channel the amounts repaid by the Sub-Borrowers to cover its own co-financing and the financing made by the Lender, in adequate proportions.

8. BORROWER ELIGIBILITY CRITERIA

The Borrower shall continuously comply with the following eligibility criteria throughout the Agreement effectiveness;

in a satisfactory manner comply with the requirements of all the normative legal acts of the Republic of Armenia governing the activity of credit organizations;

undergo an annual audit in conformity with the international standards;

ensure co-financing to the Projects in the proportion established by the Agreement.

9. SUSPENSION

The Lender, including its legal successor, shall retain the right to suspend the provision of proceeds to the Borrower within the scope of the credit line based on the following reasonable circumstances:

while receiving the next allocation of the Subsidiary Loan, the Borrower has an overdue payment of the principal amount or the interests of the Subsidiary Loan obtained under the Agreement;

the Borrower fails to comply with the eligibility criteria set forth in Section 6 of the Agreement;

an extraordinary event has emerged upon which there are reasonable doubts that the Borrower would be able to perform the obligations under the Agreement;

within the period of 18 (eighteen) months the Lender fails to receive any application for the Subsidiary Loan from the Borrower;

the right of the Republic of Armenia to withdraw the proceeds of the IDA Credit is suspended, cancelled or terminated, either in whole or in part, or pursuant to the terms of the DCA the IDA credit becomes due and payable prior to the agreed maturity thereof;

the right of the Borrower to use the funds attracted for the co-financing of the Project is suspended.

The suspension shall never serve as a basis for the Borrower to claim against the Lender for damages incurred. Notwithstanding any cancellation or suspension, all the provisions of the Agreement shall remain effective as long as they regulate the relations between the Lender and the Borrower.

10. REPAYMENT PRIOR TO MATURITY ON THE INITIATIVE OF THE LENDER

The Lender may demand the Borrower to make early payment of liabilities defined by the Agreement if one of the following events occurs separately or simultaneously (qualified as *considerable violation* or *considerable change of conditions*):

within the previous one year the Borrower more than twice has had an overdue payment to the Lender for ten or more banking days;

in case of a verdict against the Borrower due to the execution of which the Borrower will lose 15% of its total capital as of the last day of the month preceding the calendar month when such verdict became legally effective;

the Central Bank of the RA has initiated a judicial proceeding against the Borrower for petition of bankruptcy or suspension of the license;

non-targeted use of the RE Project proceeds, violation of the terms of co-financing or inaccuracy of information disclosed in the reports specified in Subsection 5.1.3 of the Agreement with the aim of misinforming the Lender;

the Borrower has in any manner deprived the Lender or the RA Ministry of Finance and Economy from the authority stipulated for under Subsection 5.1.15 of the Agreement.

early termination of the Borrower's right to use the funds, partially or in a whole, attracted by the Borrower for the Project co-financing purpose.

The Lender shall submit the demand for early payment in writing by sending one copy of such notification to the Central Bank of the RA. The Borrower shall fulfill its liabilities towards the Lender within 2 (two) weeks upon receiving of such demand by paying the overall outstanding balances, accrued interests and penalties. Given the financial standing of the Borrower, the Lender may arrange a repayment schedule for collecting the overdue balances from the Borrower.

11. SECURITY MEASURES AND INDISPUTABLE DEBT COLLECTION RIGHT

To secure the fulfillment of liabilities under the Agreement the Fund and the Borrower hereby agree that the Borrower shall fully pledge in favor of the Fund and EBRD, in proportion of their lending to the RE Project, the credit right of claim towards the Sub-Borrower (Project Beneficiary), including the rights to secure the fulfillment of liabilities and collection of outstanding interests.

The Fund and the Borrower hereby agree that as an additional facility to secure the performance of the liabilities under the Agreement, the Borrower shall undertake to pledge in favor of the Fund and EBRD the funds available on the Revenue Accounts. Under the account pledging agreement, the Borrower shall stipulate for the right of the Lender to collect the overall amounts that remain overdue on non-acceptance basis.

All expenses arising in respect to the pledge to be made in favor of the Lender shall be covered by the Borrower.

The Borrower shall fully and severely bear the risk for total or partial non-repayment of the Sub-Loan by any Sub-Borrower financed thereof and the occurrence of any such event shall not free the Borrower from fulfilling its liabilities towards the Fund under the Agreement.

12. NOTIFICATION OF VIOLATION

The Borrower shall promptly notify the Lender on any existing or imminent violations as well as on any events occurred through the fault of the Lender or on any other grounds that may impede the fulfillment of the liabilities assumed for the Borrower under the Agreement.

The Lender shall notify the Borrower in writing on any event of violation by the Borrower or any essential changes in the conditions and consequences thereof within at least 5 (five) banking days prior to the suspension or termination procedures stipulated for under the Agreement. Further, in cases of suspension pursuant to Paragraphs 8.1.4 and 8.1.5 of the Agreement, the Lender shall give a prior written notice to the Borrower within at least 5 (five) banking days.

13. CONCLUDING CLAUSES

Applicable laws and dispute resolution

The Agreement shall be regulated by the laws of the Republic of Armenia. Any disputes arising out of the Agreement shall be settled in judiciary manner in the court of relevant jurisdiction of the Republic of Armenia.

Notifications

Within the framework of the Agreement the overall notifications and other correspondence shall be made in writing and delivered by hand (against acknowledgement) or by fax (against written approval) to the contact details below or through an ordered letter addressed to the respective party as specified below.

Amendments

Any amendments or supplements to the Agreement shall be made only in case of mutual written consent of the Parties in the form of a countersigned document, thus any letter addressed by one of the Parties and the reply or non-reply thereof shall be in no way deemed as an amendment or supplement to the Agreement.

Transfer and Pledge

The Borrower shall not be entitled to transfer any of its rights and liabilities under the Agreement to a third party without the written consent of the Lender and the agreement with IDA.

The Lender shall be entitled to assign its right to claim towards the Borrower, which arises under the Agreement, to any bank or credit organization acting on the territory of the RA, at any time throughout the effectiveness of the Agreement and without the prior or further consent of the Borrower. In this case the Borrower shall be legally bound to fulfill its liabilities under the Agreement towards the new assignee starting from the date the notification on the assignment of such right shall be received.

The Lender hereby identifies and the Borrower admits that the right of the Lender to claim towards the Borrower belongs to the Ministry of Finance and Economy of the RA which is the Principal of the Lender and is entitled to fully and directly exercise the Lender's rights under the Agreement in case the Lender for any reason whatsoever ceases to act as an agent of the Ministry of Finance and Economy of the RA.

Splitting of provisions

The annulment of any of the provisions under the Agreement shall in no way be deemed as a basis for annulment of the whole Agreement or any other provisions thereof. Neither of the Parties hereto shall abuse the complete or partial annulment of the Agreement for avoiding from the liabilities assumed by them under the Agreement. Moreover, the Parties shall undertake all necessary measures to pursue the objectives and intentions under the Agreement in conformity with the applicable legislation.

Confidentiality

The Parties hereby agree not to disclose any information related to the Agreement other than in the cases stipulated for under the Agreement and the law. Under this Agreement the information disclosed to IDA shall not be deemed as a violation of confidentiality.

Agreement comprehensiveness

The Agreement constitutes the comprehensive agreement obtained between the Parties and prevails over the entire previous arrangements between the Parties related thereto.

Effectiveness

The Agreement is signed in four original copies in Armenian and English languages, with two copies for the Borrower and two copies for the Lender, one of which shall be submitted to the Ministry of Finance and Economy of the RA. In case of interpretation discrepancies between the Armenian and English texts, the Armenian version shall be prevailing. The Agreement shall become effective upon the date of signing by the authorized representatives of both parties and shall not cease until the termination of the liabilities of the parties hereto in accordance with the law.

LENDER
(Name, Address)

Signature _____

Name _____

Title _____

BORROWER

(Name, Address)

Signature _____

Name _____

Title _____

ANNEX 1

Subsidiary Loan application

ANNEX 2

Subsidiary Loan Memorandum

ANNEX 3

Payment Request

ANNEX 4

Environmental Management Plan

ANNEX 5

Authorization for Disclosure of Banking Secret (original)

ANNEX 6

Copy of Framework Agreement between “Cascade Credit” UCO CJSC and European Bank for Reconstruction and Development dated May 23, 2006.

ANNEX 7

Lending Guideline of the “Cascade Credit” UCO CJSC

Renewable Energy Project

To Armenia Renewable Resources and Energy Efficiency Fund

for provision of a loan for
the purpose of

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APPLICATION

We hereby request to provide a loan to "Cascade Credit" USO CJSC

Own co-financing

USD/ AMD

EBRD co-financing

USD/ AMD

Subsidiary Loan
Amount

USD/ AMD

First
installment

USD/
AMD

Total Period

Grace
period
included

Name of Beneficiary

Location /address/

Tax Code

--	--	--	--	--	--	--	--

Beneficiary co-financing

Amount

Summary of Project

Security details

Estimated value

Executive Director
Cascade Credit UCO
CJSC
Seal

SUBSIDIARY LOAN MEMORANDUM No

This Memorandum is signed by and between

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--	--	--	--

Armenia Renewable Resources and Energy Efficiency Fund and “Cascade Credit” UCO CJSC

AMOUNT

--

USD/ AMD

PERIOD

--

month

GRACE PERIOD

--

month

INTEREST RATE

--

%

per annum

SUB-BORROWER

--

Fund Director
Seal

Executive Director
Cascade Credit UCO CJSC
Seal

**Subsidiary Loan Installment Payment Request
To Armenia Renewable Resources and Energy Efficiency Fund**

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PAYMENT REQUEST N

Under Subsidiary Loan Memorandum No _____ as of _____

We hereby request to provide to "Cascade Credit" UCO CJSC the following installment of the Subsidiary Loan:

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Amount

--

USD/AMD

Executive Director Cascade
Credit UCO CJSC
Seal

REPUBLIC OF ARMENIA

RENEWABLE ENERGY PROJECT

ENVIRONMENTAL MANAGEMENT PLAN (EMP)

ABBREVIATIONS

EBRD	European Bank of Reconstruction and Development
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
KfW	Kreditanstalt fuer Wiederaufbau
CC	Cascade Credit, universal credit institutions
GEF	Global Environmental Facility
SHPP	Small Hydro Power Plant
IDA	International Development Agency
ICR	Implementation Completion Report
MOFE	Ministry of Finance and Economy
MONP	Ministry of Natural Protection
MOUC	Ministry of Urban Construction
NGO	Non governmental organization
PFI	Participating Financial Institution
R2E2 Fund	Renewable Resources and Energy Efficiency Fund
GNCO	Governmental Non-commercial Organization

A. Overview

1. **Introduction.** The Government of the Republic of Armenia and the World Bank are cooperating to alleviate poverty and to achieve a sustainable economic growth in the Republic of Armenia. As a part of this effort, the World Bank is providing the IDA credit and GEF grant to finance the Renewable Energy Project (REP), which will be implemented in close cooperation with EBRD, KfW, and other financiers. The REP will be executed by the R2E2 Fund, which already is in charge of implementing the World Bank-IDA funded Urban Heating Project.

B. Proposed Project

2. The objective of the proposed Renewable Energy Project is to increase the share of privately owned and operated power generation utilizing renewable energy. Project also aims at reduction of the greenhouse gas emissions (CO₂) by overcoming the barriers to the development of the renewable energy.

3. By targeting the development of a niche area of power generation capacity, the Renewable Energy (mainly SHPPs and WPPs) Project will increase the share of renewable resources in Armenia's electricity generation structure. The development of renewable energy is worthwhile since: (i) the production costs in general are competitive with other forms of electricity generation; (ii) it will increase diversification of electricity supply and energy security; (iii) it will contribute to the reduction of emissions and pollution. While the capacity added through the Project support will not be sufficient to completely replace nuclear generation, it will still be an important contribution for the retirement of the nuclear plant.

4. REP will be implemented over the period of about 5 years. The proposed project budget is around US\$24.40 million, of which \$US5.0 million would be provided by the International Development Agency (IDA) as a credit, and US\$ 3.0 million - by the Global Environmental Facility, as grant. The rest will be contributed by the Recipient and European Bank for Reconstruction and Development.

5. Project components. A. Technical assistance to remove barriers and support project implementation (indicative amount US \$3 million from the GEF):

1. Improvement of legal and regulatory framework and capacity building for state agencies (US\$ 400,000);
2. Capacity building and other support to the private sector (US\$ 1,600,000);
3. Mechanisms to leverage additional financing (US\$ 340,000);
4. Project implementation and monitoring (US\$ 660,000).

6. Financing of investments (indicative amount: US \$21.4 million, of which US \$5.0 million from the IDA credit and US \$7 from the EBRD):

Private investors will be able to access financing for the development of renewable energy projects. Based on comparative analysis of economic and financial feasibility of different types of renewable projects, it is expected that the financing will be mainly targeted at SHPPs on natural (run-of the river) and artificial (irrigation and drinking water pipes and canals) water flows, and wind farms. The sub-loans are expected to be in the range of US \$100,000 to US \$2 million with an average project size of US \$500,000. Sub-borrowers will be required to contribute at least 30% of total project costs as equity financing. It is expected that the total financing, which will be mobilized from IDA, EBRD, PFI as well as the equity financing of project developers will allow adding around 40MW of new renewable capacity to the country's generation mix, representing roughly 125GWh of annual electricity generation.

C. Environmental review.

7. Environmental and Safeguards Screening. The project has been placed in environmental screening category "FI" under the provisions of World Bank Operational Policy 4.01, "Environmental Assessment". The limited adverse impacts which will inevitably occur during construction and operation of the Small Hydro Power Plants and Wind Turbines can be prevented or minimized by appropriate measures in the process of design and implementation of specific activities. In the unlikely event, that Category A projects, entailing large scale and long term environmental impacts, are proposed for financing by the R2E2 Fund or other participating financial institution, the loan officers will approach the World Bank for additional guidance on the scope of environmental assessment.

8. Project also triggers OP 7.50 Projects on International Waterways and the OP 4.37 Dam Safety. In accordance with provisions of OP 7.50, the riparian countries have been notified about the activities to be financed. The OP 4.37 is triggered because there is a possibility that some water for small hydro power plants may be derived from the reservoirs already controlled by the existing dams (para. 7 of the OP). However, all the dams in Armenia are covered by the on-going Irrigation Dam Safety 2 Project which is aimed at ensuring required minimum safety standards at all the existing dam controlled reservoirs in the country. That's why, for purposes of the Renewable Energy project there was no need to arrange for one or more independent dam specialists to conduct reviews, evaluations and provide with recommendations as per provisions of para.8 of the Policy. If deemed necessary, the required information about the status of the dam in question will be obtained from the team implementing the Irrigation Dam Safety 2 Project.

9. Environmental Management Plan. The Environmental Management Plan (EMP) for the REP summarizes the recommended design measures, construction supervision methods and monitoring actions to minimize and/or avoid the potential short- and long-term as well as the cumulative impacts of activities financed under the Project. EMP identifies potential environmental impacts related to construction and/or rehabilitation of small hydro-power plants and wind turbines. These potential impacts and their mitigation, as well as the monitoring actions are described below and summarized in Table A, "Mitigation and Monitoring Actions" of Annex 1.

D. Project supported activities

10. The project will finance both the "run-of-river", which in most of the cases are believed not to alter the natural flow regime in the river; and "the diversion" SHPPs, when water is diverted to the powerhouse via channels and/or penstocks. It is anticipated that the majority of proposed SHPP will be the "high head" plants which will not require of building dams and/or significant water chambers to regulate the discharge. The capacity of the plants is expected not to exceed 10MW, while the majority will be limited to capacity of just 1MW.

11. Project anticipates supporting erection of only few wind turbines in mountainous areas of Armenia.

. **Potential impacts**

12. Background. The project is expected to have mainly positive long-term environmental effects, since it will contribute to eventual reduction of air pollution with greenhouse gases due to reduced use of fossil fuels for power generation. Potential direct, indirect, cumulative and residual adverse environmental impacts of the project financed activities will occur during construction and operation phases. These are well known, limited in scope, and the mitigation measures are developed and ready available.

13. However, if not properly addressed, the potential impacts may include the following:
 - Pollution of the air, soil, the surface and underground water at construction sites and adjacent areas;
 - Dust and noise due to demolition and construction;
 - Dumping of construction wastes and accidental spillage of machine oil, lubricants, etc.;
 - Disposal of construction waste in unauthorized dump sites;
 - Disturbances of sensitive ecosystems, and threat to endangered plant and animal species;
 - Disruption and loss of topsoil due to erosion;
 - Risk of damage to unknown historical, cultural and architectural monuments;
 - Damage to the buildings and installations located in proximity to construction area;
 - Adverse impact on livelihoods of local population due to increased noise levels during construction; and
 - Damage to health of contractors' staff if applicable work safety and occupational health standards are not observed

14. Potential Impacts resulting from development of Small Hydropower plants. SHPP may include:
 - Inundation of natural habitats and/or agricultural land;
 - Damage to aquatic ecosystem in case the reserved minimum flow conditions in the river are not ensured and too much water is directed into diversion channel;
 - Damage to migrating fish stocks if no proper fish by-passes are installed, where required;
 - Damage to fish stocks if no proper precautionary measures are implemented to avoid fish being sucked and killed in the turbines;
 - Littering of territories adjacent to the SHPP if the trash collected at the screens in front of the water intakes or turbines, is not delivered to authorized landfills;
 - Alteration of habitats in backwater areas due to inadequate design;
 - Damage to habitats due to badly selected routing of the headrace and tailrace channels;
 - Increase of erosion due to inadequate design characteristics of the headrace and tailrace channels;
 - Increased sedimentation due to poor design of tailrace channel
 - Activation of erosion processes if no proper landscaping is done during and after completion of construction penstocks;
 - During operation, the area adjacent to turbines may be exposed to increased noise and vibration levels;
 - Pollution of the river and the areas adjacent to the powerhouse with lubricants and sewage due to gross negligence or willful action.
 - Visual disturbance of landscape due to odd architectural features or coloring schemes of the powerhouse.

15. Potential Impacts resulting from development of Wind Turbines
 - Disruption of wildlife and plant habitats related to construction and decommissioning of wind turbines (including of the access roads, the sub- or above- surface power lines, and ancillary buildings),
 - Deaths of birds (both the "local" and migrating species) due to collision with wings of the wind turbines;
 - Dislocation of bird nesting sites due to increased noise levels;
 - Nuisance to nearby population due to increased noise levels during construction and operation of the wind turbines;

- Increased soil erosion as a result of increased run off of storm waters due to poor landscaping and/or re-vegetation of the construction site;
- Littering of the construction area with solid and human waste during construction;
- Visual disturbance of the landscape

F. Mitigation measures

16. Overview. The mitigation measures outlined in this section will be undertaken as part of the project implementation process to mitigate potential impacts from construction activities. Table A summarizes the activities, mitigation issues and measures to be taken, and the monitoring and supervisory responsibilities.

17. In parallel to fulfillment by the sub-project proponents the requirements of the national legislation, the environmental and social aspects of the proposed sub-projects will be screened by the F2E2 and the PFI staff. If deemed necessary, the R2E2 staff may recommend including in to the sub-projects additional preventive and mitigatory measures in order to minimize the negative environmental and/or social impact of the proposed investment. The key mitigation measures would include but not be limited to:

- selection of optimal capacity and the sites for construction of new SHPP and wind turbines to avoid/minimize negative environmental and social impact;
- laying of access routes to the construction site with due respect to local environmental conditions;
- prohibition of an off-road traffic to the construction sites;
- identification of designated landfills/dumpsites where construction waste has to be delivered;
- timely identification and provision of appropriate funding for land reclamation measures;
- strict enforcement of usage of environmentally and human health-wise safe construction materials;
- noise reduction measures;
- topsoil preservation and site recultivation measures;
- strict adherence to occupational health requirements;
- proper supervision and regular monitoring of construction activities by implementing agency and respective national and local level authorities;

18. Adherence to the environmental protection measures would be achieved by:

- Requirement to obtain all required environmental clearances and construction permits from respective national authorities prior the beginning of civil works, based on findings of the EIA Report/EMP, acceptable to R2E2 and PFI, which would identify potential environmental impacts and ways for their mitigation;
- Additionally, for SHPPs: obtaining a water use permit from relevant national authorities which would be based on a subproject specific EIA Report or Environmental Management Plan, acceptable to national authorities and the R2E2 fund and PFI;
- Requirement to project proponent to include into bidding documents and to prospective contractors - into their respective bids the provisions for minimizing/mitigating adverse environmental impacts, as identified in the EIA report/EMP (and the water use permit – in case SHPPs);

19. National Water Use Permit. As per stipulations of the Armenian Water Code, adopted on June 4, 2003, the Water use permit *inter alia* shall contain the following data:

- The specific locations of water extraction and water use;
- Description of the types of water use allowed;
- Quantity of water used;
- Time periods when water use may occur;
- Control mechanisms to support compliance with water use permit requirements,;
- Water standards to be followed and/or reference to publications listing these standards;
- Any special measures to be taken to promote efficient water use, protect and improve water quality, and conserve wetlands, significant coastal habitats and associated biodiversity;
- Adequate means of recording, monitoring, reporting and verifying water use;
- Adequate mitigation measures to reduce negative impact on water resources;
- Associated water use permit fees and payment schedules determined by this code.

20. Validity of the Water Use Permit. For locations where “River Basin Management Plan” has been adopted, the permit is valid for a period for up to 25 years. In locations where no River Basin Management Plan

exists, the permit is issued for a period up to 5 years, after which it has to be renewed. The Water permit can be suspended, amended or revoked at any time, if its holder does not comply with conditions contained in the permit.

21. Obtaining permits for construction of small Hydropower plants. In order to secure funding from the CC, the project proposals will have to be screened by respective Armenian authorities and the R2E2 Fund and CC staff for compliance with the valid national legislation and the WB safeguard policies. Working in close cooperation with the national authorities, the R2E2 and the PFI may require implementing additional precautionary and/or mitigatory measures before the decision to approve funding is passed.

22. Contractor Requirements to Minimize Environmental Impacts. Individual management plans, as mentioned above, will provide guidelines and actions to mitigate potential environmental impacts, through instructions to design engineers and construction contractors to undertake certain actions on a site specific basis in compliance with the requirements of the present EMP. Specific provisions should be included in construction contracts to mandate the use of health and safety measures to minimize accidents during the construction and post-construction process. Particular emphasis will be put on use of non-hazardous materials in new construction. Appropriate provisions will be included into bidding documents for construction works.

23. Archeological “Chance Find” Procedures. Although the chances to unearth valuable archeological artifacts are slim, provisions will be included in contract documents to address archeological “chance finds” should they be encountered during the course of construction activities. These provisions will follow procedures accepted by the national and/or local authorities responsible for archeological and historical sites and materials.

24. Project implementation monitoring. Project implementation process will be closely monitored by the R2E2 Fund and CC staff and respective environmental and occupational health (sanitary epidemiological and hygienic) authorities through regular reviews of the investment specific environmental management plans and regular site visits. The R2E2 Fund staff will pay visits to randomly selected sites during the semi-annual implementation review missions.

The table “Criteria for Monitoring of Small Hydro Power plant Projects” (Annex 2), is complementary to Annex 1 and shall be used as a guidance in assessing whether the subproject at various stages of preparation, construction and operation meets the due diligence criteria.

3.3.1.1 G. Social aspects, Consultation and Disclosure of information

25. Social analysis. The Project has undergone extensive social assessment during design and preparation phase. Local population in general views development of such projects positively, as they offer additional employment and investment in to the infrastructure of nearby infrastructure. Nevertheless, in accordance both with the national and the WB requirements, the consultations with the local public and the concerned organizations shall be held, and their concerns, to the extent reasonable, shall be taken into account while finalizing the sub-project proposals. Only after addressing the concerns of the local public the sub-project proposals can be approved for financing.

26. During the preparation of the whole project a variety of consultations were held with a wide range of stakeholders, which included NGOs at the regional, national and local level. As mentioned above, this process will continue during the project implementation period which will allow for inputs from stakeholders especially at the activity specific level.

27. The EMP will be made available to the public through the Info-Shop at the World Bank, and through the Ministry of Nature Protection and information service of R2E2 Fund. It is also available at the World Bank office in the Republic of Armenia.

28. The consultation processes during project preparation were diverse and used a range of formats including meetings with responsible representatives of the Ministries of Finance and Economy (MOFE), Nature Protection (MONP) and Urban Construction (MOUC), local government/municipalities and nongovernmental organizations. These consultations emphasized the need to maintain a balance between meeting the technical objectives on the one hand, and improving environmental and social conditions at the local level on the other.

29 The renewable energy activities will not involve resettlement and land acquisition related to it. With these provisions a Resettlement Policy Framework Paper is not needed.

30. This Environmental Management Plan for REP will be endorsed by the Ministry of Nature Protection and the WB.

I. Estimated costs

31. The costs for implementation of management and monitoring activities included in the EMP have been integrated into the estimated budgets for the individual activities and management costs for the Project. This approach reflects the environmental management orientation of the project and the fact that most mitigation actions are associated with project supported management plans, design approaches and specifications in construction contracts. Monitoring of project supported implementation is an element of the work program of the project management team.

J. Reporting and supervision

32. **Reporting.** The Project will comply with the “Guidelines for Financial Reporting and Auditing of Projects Financed by the World Bank.” The Bank together with R2E2 will agree upon reporting requirements for Financial Monitoring Reports (FMR). Project progress will be reported through annual, semi-annual and quarterly Project progress reports. An Implementation Completion Report (ICR) will be prepared within six months of Project completion.

33. **Supervision.** The R2E2 Fund and CC staff will supervise the monitoring of project supported activities on a routine basis. This will be complemented by Bank supervision of the project. The process will include the participation of relevant Bank staff in implementation review missions, as appropriate, to review progress in the implementation of the EMP. The performance of the R2E2 Fund and CC in these project activities will be a standard element of supervision reports and the Implementation Completion Report (ICR).

Annex 1

Table A. Impact Mitigation and Monitoring

Project activities	Potential Impacts	Mitigation Measure	Phase	Responsible for Execution of Mitigation Measures	Monitoring Requirements	Responsible for Monitoring
Selection of the site and design of SHPPs and wind turbines	Damage to ecosystems, the plant and animal species	Selection of sites, including those for impoundment of the backwater areas, is done in a way that disturbances to plant, fish and animal species, are minimal or can be easily mitigated,	Design	Design Consultant	Project expertise	State Environmental Expertise GNCO
	Visual impact	Adequate architectural design, use of natural materials and vegetation for covering the banks of the head- and tale-races as well as the backwaters; Use of neutral colors to “mask” the installations	Design	Design Consultant	Project expertise	State Environmental Expertise GNCO

	Damage to aquatic ecosystems due to exceeding the reserved minimum flow	Selection of sites on rivers with sufficient water debit; selection of appropriate head and capacity of the small hydropower plant	Design	Design Consultant	Project Expertise	State Environmental Expertise GNCO
	Noise pollution	Selection of site with due respect to proximity of human settlements and habitats of birds and wildlife	Design	Design Consultant	Project Expertise	State Environmental Expertise GNCO
	Reduced amenity values of the area	Proper siting of SHPPs and wind turbines; selection of neutral design and coloring schemes in order to reduce visual disturbances	Design	Design Consultant	Project Expertise	State Environmental Expertise GNCO
	Damage to fish stocks	Foresee appropriate fish by-passes for migrating fish; foresee measures to deter fish so that they are not sucked into turbines; foresee, where feasible, fish-friendly turbines	Design	Design Consultant	Project Expertise	State Environmental Expertise GNCO
Disturbances during construction	Digging of soil, damage to endangered plant species	Checking for endangered plant species on construction site, if found – replanting; Establishment of temporary access roads, exclusion of off-road movement of trucks and other transport	Design, Construction	Design consultant And Contractor	Check of contract documents. Supervision of construction	Urban ecological services and departments.
	Pollution of soil and water at construction site with oil materials	Daily checks of machinery for leaking of oil, ban to wash machinery at construction site	Construction	Contractor	Constant supervision of construction site for contamination	State Environmental Expertise GNCO
	Littering of construction site	Instructions to contractor to which landfill the waste has to be delivered. If insulation contains asbestos, workers must wear protective measures – wear respirator	Construction	Contractor	Regular inspection of construction site for contamination	Local authorities

	Topsoil disturbance	Topsoil preservation, storage and recultivation	Construction	Contractor		State Environmental Expertise GNCO
	Noise pollution	Works performed strictly during the daytime and with due respect to the spawning migration of fish species	Construction	Contractor		
	Reduced amenity values of the area	Proper landscaping and replanting of construction area after completion of repair works	Construction	Contractor		State Environmental Expertise GNCO
	Archeological” chance find”	Stopping works and calling in respective local authorities and experts	Construction	Contractor		R2E2, Local authorities
Operation of SHPPs and Wind Turbines	Fish do not find the bypasses due sedimentation, or ”blurred” maximum flow line	Remove the sediments	Construction	Contractor	Supervision of construction	State Environmental Expertise GNCO
	Fish do not use the bypasses	Wrong type of by pass used. Consider building a different type of the bypass (fish ladder, fish lift, a by-pass imitating the hydrology and morphology of the “real” river)	Operation	Operator, Contractor	Constant supervision of execution of appropriate measures	Operator, State Environmental Expertise GNCO
	Stimulation of erosion of land, disturbance of topsoil	Proper landscaping of slopes and replanting of vegetation	Design, Construction, Operation	Design Consultant, Contractor	Supervision of observance of security measures	State Environmental Expertise GNCO
	Trash collected at the trash rack	Indicate landfill to which the collected trash has to be delivered	Design, Operation	Design Consultant	Project expertise and supervision of construction	Local environmental authorities
	Water pollution with sewage	Foresee appropriate sanitary water treatment next to the SHPP and wind turbines and maintain them properly	Design, construction, operation	Designer, contractor, operator	Regular inspections	State Environmental Expertise GNCO
	Littering of area by solid waste	Timely delivery of the solid waste collected at screens to the designated landfill	Operation	Operator	Regular Inspections	State Environmental Expertise GNCO
Occupation	Damage to	When asbestos	Construction	Contractor	Project	Local hygiene

al health issues	human health due to exposure to asbestos containing materials Damage to human health due to potential ice-throw from the blades of wind turbines.	containing materials encountered, the workers should wear protective gear; asbestos containing waste promptly delivered to designated landfills/dumpsites Designate safe areas around the wind turbine and prevent trespassing by fencing them	Design, Construction, Operation	Owner/operator	expertise and supervision of observance of security measures of construction	services;
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Annex 2

Criteria for Monitoring of Small Hydro Power Projects

Criteria	Descriptor	Evidence
<p>Regulatory Compliance: The facility complies with the requirements of national environment, health and safety laws.</p>	<p>The facility, or proposed facility, has all the necessary permissions and permits required under Armenian national law.</p>	<ul style="list-style-type: none"> •The developer has undertaken an Environmental Impact Assessment, as required by national legislation and that EIA has been disclosed to the public in accordance with national requirements and requirements of the financiers. •The developer has obtained the required licenses and permits to build and operate the facility.
<p>Water Flow: The facility maintains a minimum flow in the river that is adequate for the existing fish population, wildlife and water quality taking into account seasonal fluctuations in flow levels.</p>	<ul style="list-style-type: none"> • Maintain a minimum wetted channel perimeter, at all control structures, with a constant flow in the river throughout the year. • Facility viability to be based on minimum flow required for river to sustain existing environment. 	<ul style="list-style-type: none"> •The developer has obtained a watert use permit •Case-by-case assessment demonstrating that eligibility criteria has been met.
<p>Water Quality: The facility does not contribute to deterioration of water quality either upstream or downstream of the facility.</p>	<p>The facility has minimal impact on water quality in the head pond, bypassed reach and the reaches downstream of the tailrace and diversion dams / dykes.</p>	<p>The facility has not contributed to a deterioration of water quality post construction.</p>
<p>Fish Passage and Protection: The facility had minimal impact on</p>	<ul style="list-style-type: none"> • There should be minimal loss of 	<ul style="list-style-type: none"> •Information has been gathered on

local fish populations, provides effective fish passage for local and migrating fish species and also protects fish from entrainment.

- fish or fish habitat.
- Facility preserves resident fish communities.
- Facility preserves ability of fish to move and migrate.
- Flows in the bypassed reach and downstream of the tailrace are adequate to support aquatic and riparian species at pre-facility ranges

- both the local and migrating fish populations.
- The developer understands the particular structure and needs of the fish within the area of the facility.
- The developer has provided adequate mitigation measures to ensure that the eligibility criteria are met.

Watershed Protection:

The facility does not negatively impact environmental conditions in the watershed.

- The facility does not affect the integrity of the existing ecosystem either upstream or downstream of the facility.
- Additional components of the facility e.g. access roads, powerlines, and generation facilities have minimal impact on the riparian environment.

- An assessment of impacts associated with additional components has been made.
- An assessment of upstream and downstream impacts has been made.
- Adequate mitigation measures have been provided to ensure the eligibility criteria are met.

Threatened & Endangered Species Protection:

The facility does not negatively impact any threatened or endangered species nor any areas designated for their protection.

- The facility is not constructed on a protected or sensitive river.
- The facility does not threaten or harm the habitat or migration patterns of endangered species, threatened species or species of regional concern.
- The facility has no significant impact on existing wildlife habitat and populations.

- Sensitive or protected areas on or around the river have been identified.
- Endangered or threatened species present in the area of, or downstream from, the facility have been identified.
- The developer has assessed the potential impact of the facility on any such areas or species.
- The developer has provided adequate mitigation measures to ensure that the eligibility criteria are met.

Recreation:

The facility does not stop or limit recreational uses of the river.

Access to the water remains unchanged by the facility and accommodates recreational activities on the river.

Identification of any current recreational uses of the river around the site of the facility and confirmation that these will not be affected by the development of the facility.

Cultural Issues:

The facility does not inappropriately impact cultural property

Cultural property includes sites having archaeological (prehistoric), paleontological, historical, religious and unique natural values. Cultural property therefore includes remains left by previous human inhabitants and unique natural features such as canyons and waterfalls.

- Cultural property in the vicinity of the facility has been identified.
- Adequate mitigation measures have been put in place to ensure eligibility criteria are met.

Community Issues:

The facility does not reduce local community use of either the river or the surrounding lands.

The facility does not stop or limit local communities ability to utilise the river to provide a livelihood, i.e. by fishing, as a leisure amenity or to utilise the land around the river where they may rely on the river for irrigation purposes.

- Local community uses of the river have been identified.
- The locally affected community has been notified and consulted prior to the development of the facility.
- Adequate mitigation measures have been agreed to ensure that eligibility criteria are met. Such mitigations measures might include providing access to power particularly in situations where local power supply is inadequate.

Attachment 1

Draft Environmental Review Chapter for Operations Manual

Environmental Review at CC (or any other PFI)

The environmental review process comprises the following 7 steps:

Step 1: The borrower (developer) prepares an initial investment project concept. Following informal discussions with the PFI/R2E2 Fund, in which the PFI/R2E2 Fund alert the borrower of its environmental assessment requirements, the borrower prepares Part A of the environmental screening form and attaches the screening form to the initial project concept. At this time, it is the responsibility of the borrower to initiate clearance process with the competent environmental authorities in Armenia in order to fulfill any local and national environmental review or environmental clearance requirements. It will be the responsibility of the borrower to obtain the appropriate permits and licenses as required by national law in order to facilitate the clearance process with the authorities.

In practical terms, the loan officer at PFI (and R2E2 Fund– if appropriate) has to visit the proposed project site together with project proponent. In relation to environmental, social and occupational health impacts of the project, the loan officer shall guide himself by Environmental Management Plan for the Project. However, s/he may wish to pay particular attention to the following:

- will natural ecosystems or habitats, if any, be affected as a result of digging the pit for foundations of the buildings or trenches for the pipelines?
- Are there any rivers or other water bodies in vicinity which potentially can be polluted during construction or operation of the small hydro-power plant
- Will the water after passing through the turbines be returned to the river/canal, or used for other purposes, e.g. irrigation or drinking?
- Ask the project proponents and local residents what kind of activities, if any, had been taking place on the site earlier. If liquid fuel was stored and used, it is likely that soil is contaminated with oil products. PFI may wish to include the cost of site clean-up into the cost of the project.
- What construction materials the proponent intends to use? Any asbestos containing materials proposed for insulation or roofing⁶?

⁶ E.g., the use of asbestos containing materials shall not be rejected outright. Rather, a balanced approach shall be used in decision making, based on the feasibility, available alternatives and common sense. However, if it is decided to use asbestos containing materials, the applicable occupational safety measures shall be foreseen in order to protect workers.

- What turbines/transformers will be installed?
- Are the proposed sites for wind turbine construction located in protected areas? If yes, how the proposed construction will affect the protection regime? The amenity values of the landscape also may be an issue in certain cases.
- Are the proposed wind turbines in the vicinity of bird nesting sites, as the noise from operating windmills may have a negative impact on them
- At early stage obtain information on which landfill will be used for delivery of construction waste.

Step 2: Based in documentation provided and findings of the field visit, the PFI/R2E2 Fund informs the borrower of the environmental risk category. There are three environmental risk categories:

Category A: Projects that may result in diverse and significant adverse environmental impacts⁷. For such project, the applicant must prepare an Environmental Assessment (EA), including an Environmental Impact Assessment (EIA) and an Environmental Management Plan (EMP)

Category B: Projects that may have moderate, specific environmental impacts for which mitigating measures are well known and easily implementable. A concise EMP is enough to describe potential issues and ways for mitigating them.

Category C: Projects that have no or only negligible anticipated direct or indirect environmental impact. No EIA action is required by the applicant.

Normally, the projects will fall into categories “B”. However, the loan officer shall use his/her judgment and when in doubt – contact the World Bank staff for guidance.

PFI/R2E2 Fund shall also inform the borrower if the environmental assessment and any additional permits from authorities are required.

If additional environmental assessment is deemed not necessary, proceed to Step 6.

Step 3: The borrower, or its environmental consultants, prepare the environmental analysis and/ or project specific Environmental Management Plan (EMP). While the Environmental Impact Assessment/EMP will be prepared in accordance with Armenian legislation, the PFI/R2E2 Fund may require on including into TOR for preparing a project specific EMP the tasks to clarify specific issues which PFI/R2E2 Fund consider to be important. The Contents of EMP is broadly described in Annex [...] to the Operations Manual. However for practical purposes, the specific project EMPs may follow the layout of the overall Environmental Management Plan which has been prepared for the Armenia Renewable Energy Project (Annex [...] to the Operations Manual).

Step 4: The PFI/R2E2 Fund review the environmental analysis/EMP, which has been submitted and reports its findings to the borrower. The PFI/R2E2 Fund provide their clearance once the Environmental Impact Assessment/EMP is judged to be satisfactory.

Step 5: The borrower incorporates the recommendations (including the associated costs) provided in the environmental analysis/EMP into the investment project design, implementation plan, and bidding documents.

⁷ Bank’s OP 4.01 Environmental Assessment: “A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented”. However, this is very unlikely to be the case in Armenia Renewable Energy Project, given its the scope and nature.

Step 6: The borrower finalizes the loan package, including the relevant environmental and other clearances from authorities, and submits it to the PFI/R2E2 Fund for its final appraisal.

- The Loan officer has to review whether the proposed project designs are in conformity findings of environmental analysis/EMP and the permits issued.

Step 7: The PFI/R2E2 monitors the implementation of the mitigation plan for identified environmental issues. Responsibilities of key participants are summarized in Table A of the project-wide EMP (Annex [...] to the Operations Manual).

- Loan officer has to visit the construction site several times during construction to check whether the conditions set forth by PFI/R2E2 Fund are adhered to. Final payment shall not be made until the small hydro-power plant or the windmill are commissioned, the construction site cleaned up and waste delivered to the designated landfill

ENVIRONMENTAL SCREENING FORM

PART A (To be completed by final beneficiaries)

- A.1 Financing Institution:
- A.2 Project Title:
- A.3 Brief description of project (project cost, physical size, capacity, reconstruction of existing facilities or new construction)
- A.4 Preliminary environmental information (List of environmental documents already available at the time of loan application, description of emissions, materials to be used, if applicable, etc.)

PART B (To be completed by financing institution)

- B.1 Environmental Screening Category:
- B.2 Environmental issues apparent at screening (What environmental issues are raised by the project?)
- B.3 Compliance with pollution control, nature and water protection, fire safety, construction and occupational health standards
- B.4 Proposed mitigation measures (if not done already by applicant, indicate measures to be taken to address the environmental issues raised by the project, how they may be incorporated into the project design, and any potential covenants)
- B.5 Terms of Reference for Environmental Studies to be undertaken (Indicate briefly, scope, timeframe, and approximate cost of any environmental study required)
- B.6 Community participation requirements (List any requirements under national or local laws for the final beneficiary to inform, consult or involve the public entities)
- B.7 Next Steps (List actions for the financing institution, the final beneficiary, the environmental consultant)

SIGNATURES:

LOAN OFFICER _____ DATE:
ENVIRONMENTAL SCREENER: _____ DATE:

Attachment 2

MINUTES

of Public Discussion of Environmental Management Plan within the Framework of Renewable Energy Project
(IDA/WB/EBRD/GEF)

Chairman: A. Marjanyan – “Energyinvest PIO” State Institution, Grant Project Coordinator

Participants:

1.	Director of the R2E2 Fund	Tamara Babayan
2.	Executive Director of CC	Garegin Gevorgyan
3.	Environmental Monitoring Specialist /CC /	Aren Hovhannisyan
4.	Environmental Impact Assessment, independent expert, Ex-Minister of RA Ministry of Nature Protection	Vram Tevosyan
5.	“Environmental Expertise” State Non-Commercial Organization, Expert	Arthur Minasyan
6.	Alliance to Save Energy MUNEE Program Manager	Astghine Pasoyan
7.	Member of Public Board of Renewable Energy in Armenia, Doctor of State Engineering University of Armenia	Joseph Panosyan
8.	Deputy Chairman of “E ³ ” NGO	Suren Shatvoryan
9.	Grant Project Specialist of “Energyinvest PIO” SI	Nona Mirzoyan

A. Marjanyan welcomed the participants of the discussion and shortly introduced the objectives and main achievements of the GEF/WB grant project currently under implementation. The implementation of the current project was pointed out to be the preparation stage of the IDA/WB/EBRD/GEF Renewable Energy Project. Renewable Energy Project main objectives, scope of activities, scope of the expected outcomes and the evaluation criteria were introduced. The role and involvement of the R2E2 Fund, as well as those of CC financial institution during implementation of the project were outlined.

T. Babayan detailed the structure, scope of activities and main objectives of the R2E2 Fund. Thoroughly were introduced the main trends and peculiarities of the Fund’s Environmental Management Plan of the activities in district heating.

A. Marjanyan introduced the provisions and approaches of the Environmental Management Plan of the Renewable Energy Project. It was underlined that as a result of construction and operation of small HPPs (SHPP) and wind power plants (WPP) the inevitable negative impact on the environment has a limited character and comparatively low level. This impact does not lead to long-lasting or cumulative negative environmental consequences. Thus, it is classified into the category FI specified in the World Bank Environmental Assessment operational policy 4.01. Moreover, through a long period the implementation of the project will result in positive environmental effect, as it will contribute to the prevention of emission of greenhouse gases.

It was underlined that the efficiency of the Environmental Management Plan within the framework of Renewable Energy Project is anchored on the facts that each SHPP or WPP program under consideration shall have its Environmental Management Program already in the stage of the detailed design describing the potential environmental impact and description of mitigation actions for such impact. Besides, the projects under discussion shall be granted all the environmental permits and Environmental Impact Assessment as stipulated by the RA Legislation. Finally, in the bidding documents the programs for support of the R2E2 Fund shall cover the description of actions for mitigation of the environmental impact.

The list of actions for mitigation of environmental impact of the Environmental Management Program and the provisions of activities for monitoring the implementation thereof were introduced.

G. Gevorgyan pointed out that CC being an affiliate of Cascade Holding of Cafesjian Foundation in its activities attends also to environmental issues. In particular, during the implementation of the Renewable Energy Project when discussing the perspectives of energy projects the compliance of these to the requirements of the Environmental Management Program will be considered as mandatory.

A. Pasoyan underlined the issue of possible negative impact on existence of endemic species of fauna, highlighting the importance of corresponding provisions of Environmental Management Plan of Renewable Energy Project in the stage of selection of perspective platforms of SHPPs and WPPs. It was pointed out that

this issue is most important from the point of view of biodiversity and has also global importance especially now, that the Republic of Armenia has ratified the respective convention and implements projects for biodiversity protection.

V. Tevosyan highlighted the importance of proper and timely notification of the independent experts of the sphere of environment on energy projects to be carried out in the near future. The importance of a number of improvements in the sphere was indicated. But also was pointed out the fact that during EIA of energy structures the experts still had to be based on normative documents of Soviet period. These apart from some positive aspects are generally obsolete. And for such fields of renewable energy as wind power, geothermal energy or biomass energy the required normatives, methodologies and description of assessment criteria are currently missing. With this respect Mr. Tevosyan underlined the importance and urgency of acquirement of the respective approaches of the World Bank.

T. Babayan, G. Gevorgyan, A. Marjanyan provided clarifications to the questions addressed at the discussion. The participants of the discussions positively assessed the provisions and approaches of the Environmental Management Program of Renewable Energy Project. With the objective of higher awareness of the interested organizations and public it was proposed to post the Environmental Management Program in the constantly available internet sites of the World Bank Armenian Representative Office and of international conference for issues of renewable energy development in Armenia, as well as submit it to the Armenian representative office of Orhuss convention.

FRAMEWORK AGREEMENT

between

CASCADE CREDIT UCO CJSC
and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 23 May 2006

KING & SPALDING

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FRAMEWORK AGREEMENT

THIS FRAMEWORK AGREEMENT dated 23 May 2006 is made **BETWEEN:**

- (1) **CASCADE CREDIT UCO CJSC**, a universal credit organisation registered and licensed in the Republic of Armenia (the *Borrower*); and
- (2) **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the *Bank*).

WHEREAS:

- (A) The Borrower wishes to finance the development of various Sub-Projects.
- (B) In order to finance the development of the Sub-Projects, the Bank is willing, subject to the terms and conditions of this Agreement, to provide loans to the Borrower to enable the Borrower to finance Sub-Borrowers who in turn will develop specific Sub-Projects.
- (C) The Parties wish to set down herein the principal terms on which such financing will be provided.

3. DEFINITIONS

Wherever used in this Agreement (including the Schedules), unless the context otherwise requires, the following terms shall have the following meanings:

Account Bank	means the account bank under the Accounts Agreement.
Accounts Agreement	means the agreement to be entered into between the Finance Parties, the Account Bank and the Borrower relating to the Project Revenue Account and the Equity Account.
Affected Project Loan	has the meaning ascribed to such term in paragraph (b) of Clause 9 (<i>Regulatory or Political Risk Event</i>).
Affected Sub-Loan	has the meaning ascribed to such term in paragraph (b) of Clause 9 (<i>Regulatory or Political Risk Event</i>).
Auditors	means such firm of independent accountants as the Borrower may from time to time appoint as its auditors in accordance with paragraph 7.7.3 of Clause 7.7.3 (<i>Accounting</i>).
Bank Account Pledge	means the instrument pursuant to which the Borrower grants to the Bank, the R2E2 Fund and the Security Trustee (or, as applicable, through the Security Trustee) a first ranking security interest in the Project Revenue Account together with the notices and acknowledgements and consents in the forms attached thereto, which instrument shall be in form and substance satisfactory to the Finance Parties.
Business Day	means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, England and, if on that day a payment in or a purchase of US Dollars is to be made, a day on which commercial banks and foreign exchange markets settle payments in New York.
Charter	means, in respect of any company, corporation, partnership, enterprise, Government Authority or other entity, its founding act, articles of incorporation and bylaws, memorandum and articles of association, statutes or similar instrument.
Commitment Period	means the period from and including the date of this

	Agreement up to the earlier of the fourth anniversary of the date of this Agreement and the date the obligation of the Bank to make Disbursements terminates in accordance with the terms of this Agreement.
Dangerous Substances	means any radioactive emissions and any natural or artificial substance (whether in solid or liquid form or in the form of a gas or vapour and whether alone or in combination with any other substance) capable of causing harm to man or any other living organism or damaging the environment or public health or welfare including but not limited to any controlled, special, hazardous, toxic, radioactive or dangerous waste.
Default	means any Event of Default or any event which, with the giving of notice, the passage of time or the making of any determination, or any combination thereof, would become an Event of Default.
Disbursement	means the disbursement of funds under a Project Loan Agreement.
Electricity Network of Armenia	means Electricity Network of Armenia CJSC, the company responsible for the distribution of electric power in the Republic of Armenia.
Enforcement Action	means any action whatsoever taken by the Borrower, or as the case may be, the Bank, or any agent or trustee on their behalf against a Sub-Borrower, or as the case may be, the Borrower to: <p style="margin-left: 40px;">3.3.1.2 demand payment, declare prematurely due and payable or otherwise to seek to accelerate payment of all or any part of any relevant Financial Indebtedness;</p> <p style="margin-left: 40px;">3.3.1.3 take any action to recover all or any part of any relevant Financial Indebtedness including without limitation, by exercising any rights of set-off or combination of accounts); or</p> <p style="margin-left: 40px;">3.3.1.4 exercise or enforce, or require the Security Trustee to exercise or enforce, any Security Interest.</p>
Environmental Laws	means any law, regulation or directive concerning the protection of human health or the environment or concerning Dangerous Substances.
Environmental Management Plan	means the set of procedures for the environmental screening and monitoring of Sub-Projects and potential Sub-Projects delivered pursuant to paragraph 5.1.2 of Clause 5.1 (<i>Initial conditions precedent</i>).
Equity Account	means an account opened by the Borrower with the Account Bank pursuant to the Accounts Agreement into which all committed but undisbursed equity of the Borrower to the Project in accordance with the Financing Plan is to be deposited.
Event of Default	means any of the events or occurrences specified in Clause 10 (<i>Events of Default</i>).
Facility	has the meaning ascribed to it in Clause 4.1.1 (<i>The Facility</i>).
Finance Documents	means: <p style="margin-left: 20px;">(a) this Agreement;</p>

Finance Party
Financial Indebtedness

- (b) the R2E2 Facility Agreement;
- (c) each Security Document;
- (d) the Accounts Agreement; and
- (f) the Intercreditor Agreement.

means the Bank, the R2E2 Fund and the Security Trustee.

means any indebtedness for or in respect of:

moneys borrowed or debit balances at banks and other financial institutions;

3.3.2 any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

3.3.3 any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

3.3.4 any lease entered into primarily as a method of raising finance or financing the acquisition of the asset leased;

3.3.5 receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

3.3.6 any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

3.3.7 any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

3.3.8 any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

3.3.9 the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

Financial Statements

means the financial statements (including a balance sheet, income statement and statement of changes in financial position, and notes thereon) of the Borrower, prepared in accordance with International Accounting Standards.

Financing Plan

means the plan for the financing of the Project set out below:

<i>Source of Financing</i>	<i>USD</i>
<i>EBRD (debt)</i>	<i>7,000,000</i>
<i>R2E2 Fund (debt)</i>	<i>5,000,000</i>

<i>Shareholder (equity)</i>	3,000,000
Total Financing	\$15,000,000

Government Authority	means the government of the Republic of Armenia and any agency or subdivision thereof.
Intercreditor Agreement	means the intercreditor agreement to be entered into between the Finance Parties.
Interest Payment Date	means 17 May and 17 November in each year, provided that, if any Interest Payment Date would otherwise fall on a day which is not a Business Day, such Interest Payment Date shall be changed to the next succeeding Business Day.
International Accounting Standards	means international accounting standards promulgated by the International Accounting Standards Board.
Lending Guidelines	means the document outlining the guidelines and including the eligibility criteria pursuant to which the Borrower will make Sub-Loans available to Sub-Borrowers for the purposes of funding Sub-Projects as delivered pursuant to paragraph 5.1.2 of Clause 5.1 (<i>Initial conditions precedent</i>), as approved by the Bank (and as such document may be amended from time to time, in form and substance acceptable to the Bank).
Lending Policy	means the document outlining the guidelines and processes for taking and managing credit risk adopted by the Borrower and as approved by the Bank, and delivered pursuant to paragraph (b) of Clause 3.1 (<i>Initial conditions precedent</i>) (and as such document may be amended from time to time, in form and substance acceptable to the Bank).
Letter of Information	means the letter of information provided by the Borrower to the Bank and dated 19 May 2006.
Margin	means 3.75% per annum.
Material Adverse Effect	means a material adverse effect on: <ul style="list-style-type: none"> (a) the ability of the Borrower to perform or comply with any of its obligations under any Finance Document; (b) the rights and remedies of the Finance Parties under the Finance Documents; (c) the legality, validity, enforceability and binding nature of any Finance Document or the legal rights, remedies and priorities of the Bank under any of the Finance Documents; (d) the Borrower's ability to implement the Project substantially in the manner contemplated by the Finance Documents; or (e) the Borrower's business, operations, financial condition or prospects.
Notes Issuance Activities	means the issuance by the Borrower of debt instruments on the Armenian Securities Exchange (ARMEX). Such debt instruments will be either partially guaranteed by the United States Government's Development Credit Authority or backed by mortgages or other financial assets, excluding assets subject to the Security Documents.
Party	means a party to this Agreement.
Project	means the financing of the Borrower in order to capitalise a program whereby the Borrower will provide long-term debt financing to Sub-Borrowers to develop various Sub-Projects.
Project Documents	means the: <ul style="list-style-type: none"> (a) Lending Guidelines;

	(b) Lending Policy;
	(c) Letter of Information; and
	(d) Environmental Management Plan.
Project Loan	means a term loan made under a Project Loan Agreement.
Project Loan Agreement	means an agreement, substantially in the form attached as Schedule 1 (<i>Form of Project Loan Agreement</i>) to be entered into between the Bank and the Borrower to document the terms on which the Bank will make a Project Loan to the Borrower.
Project Loan Commitment Period	has the meaning ascribed to it in Clause 2.2(d) (<i>Terms of Project Loans</i>).
Project Revenue Account	means an account opened by the Borrower with the Account Bank pursuant to the Accounts Agreement into which all payments to be made to the Borrower by a Sub-Borrower pursuant to a Sub-Loan Agreement will be paid.
PSRC	means the Public Services Regulatory Commission of Armenia.
R2E2 Facility	means the USD5,000,000 (five million US Dollars) re-drawable term loan facility to be provided to the Borrower by the R2E2 Fund.
R2E2 Facility Agreement	means the agreement to be entered into between the R2E2 Fund and the Borrower which sets out the terms and conditions upon which the R2E2 Fund will make the R2E2 Facility available to the Borrower.
R2E2 Fund	means the Armenian Renewable Resources and Energy Efficiency Fund.
Reference Calculation Date	means, in respect of any Disbursement the date which is 120 (one hundred and twenty) days from the date of such Disbursement.
Regulatory Framework	means the regulatory regime as it applies to a Sub-Project at the date of signing the Sub-Loan Agreement relating to that Sub-Project and as set forth by the Armenian Energy Law of 2001 and applicable resolutions of the PSRC in force on the Signing Date.
Regulatory or Political Risk Event, or RPR Event	means: <ul style="list-style-type: none"> (a) an event whereby a Government Authority changes the Regulatory Framework or creates new rules which conflict with the Regulatory Framework; or (b) an event whereby the Electricity Network of Armenia does not honour its obligation under the Regulatory Framework to provide for the purchase of renewable energy resources .
RPRE Notice	has the meaning ascribed to such term in paragraph (b) of Clause 9 (<i>Regulatory or Political Risk Event</i>).
RPRE Standstill Period	means, in relation to each RPRE Event, the period commencing on the date of the relevant RPRE Notice and ending on the earlier of: <ul style="list-style-type: none"> the date falling (sixty) days after that RPRE Notice; and the date of the relevant RPRE Termination Notice.
RPRE Termination Notice	has the meaning ascribed to it in paragraph (d) of Clause 9 (<i>Regulatory or Political Risk Event</i>).

Security Agreement	means the agreement to be entered into between the Borrower, the Bank, the R2E2 Fund and the Security Trustee pursuant to which the Borrower assigns its rights and benefits in and to the Sub-Project Security to the Security Trustee on behalf of the Bank and the R2E2 Fund, in form and substance satisfactory to the Bank, the R2E2 Fund and the Security Trustee.
Security Documents	means: <ul style="list-style-type: none"> (a) the Security Agreement; and (b) the Bank Account Pledge, and any other document evidencing or creating any Security Interest over any asset of the Borrower to secure any obligations to a Finance Party under the Finance Documents.
Security Interest	means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.
Security Trustee	means the person nominated by the Bank and the R2E2 Fund to act as security trustee on their behalf.
Shareholder	means Cascade Capital Holdings, a company registered in the Republic of Armenia and established by the Cafesjian Family Foundation.
Signing Date	means the date of this Agreement.
Sub-Borrower	means a legal entity incorporated in the Republic of Armenia which carries out or intends to carry out a Sub-Project.
Sub-Loan	means any loan which is made or proposed to be made by the Borrower to a Sub-Borrower partially out of the proceeds of a Project Loan and in accordance with the Lending Guidelines and the Financing Plan.
Sub-Loan Agreement	means an agreement to be entered into between the Borrower and a Sub-Borrower documenting the terms of a Sub-Loan.
Sub-Projects	means renewable energy projects (primarily mini hydro, wind power and biomass projects) in the Republic of Armenia that satisfy the eligibility criteria set out in the Lending Guidelines.
Sub-Project Document	means, in relation to each Sub-Project, the agreements to be entered into by the relevant Sub-Borrower for the financing (including the Sub-Loan Agreement), construction, operation and maintenance and offtake in respect of each Sub-Project.
Sub-Project Security	means, in respect of each Sub-Project: <ul style="list-style-type: none"> (a) an assignment by the Sub-Borrower in favour of the Borrower of the receivables and revenues due to each Sub-Borrower from the Electricity Network of Armenia; . (b) an assignment by the Sub-Borrower in favour of the Borrower of each Sub-Borrower's interest in the Sub-Project Documents; (c) a pledge granted by the Sub-Borrower in favour of the Borrower over its accounts (and the balance thereof); (d) an assignment by the Sub-Borrower in favour of the Borrower of insurances relating to the Sub-Project;

and

- (e) an assignment by the Sub-Borrower in favour of the Borrower of each personal guarantee given by the primary individual with an interest in the Sub-Borrower or any other security provided by a third party to support a Sub-Borrower.

Sub-Project Security Documents means the documents which serve as the basis for the establishment of the Sub-Project Security.

Subsidiary means, with respect to any entity, any other entity over 50% of whose capital is owned, directly or indirectly, by such entity or which is otherwise effectively controlled by such entity.

Tax means any tax, royalty, stamp or other duty, assessment, levy, charge, value added tax, or impose of any nature whatsoever (including any related penalty or interest) imposed under any law.

Transaction Documents means the Finance Documents, Project Documents, Project Loan Agreements and Sub-Loan Agreements.

US Dollars or USD means the lawful currency of the United States of America.

3.4 Interpretation

3.4.1 In this Agreement, unless the context otherwise requires, words denoting the singular include the plural and vice versa, words denoting persons include corporations, partnerships and other legal persons and references to a person include its successors and permitted assigns.

3.4.2 In this Agreement, a reference to a specified Clause or Schedule shall be construed as a reference to that specified Clause of, or Schedule to, this Agreement.

3.4.3 In this Agreement, a reference to an agreement shall be construed as a reference to such agreement as it may be amended, varied, supplemented, novated or assigned from time to time.

3.4.4 In this Agreement, the headings and the Table of Contents are inserted for convenience of reference only and shall not affect the interpretation of this Agreement.

4 THE FACILITY

4.1 The Facility

4.1.1 Subject to the terms and conditions of this Agreement and of each Project Loan Agreement, the Bank agrees to make available to the Borrower a USD 7,000,000 (seven million US Dollars) re-drawable term loan facility during the Commitment Period.

4.1.2 The Borrower may utilize the Facility by entering into a Project Loan Agreement and subject to the terms and conditions of the relevant Project Loan Agreement, submitting requests for Disbursements during the Project Loan Commitment Period.

4.1.3 The Borrower shall apply each Project Loan towards funding a Sub-Loan to finance the development of a Sub-Project.

4.1.4 Subject to the terms of this Agreement, any amount of the Facility which is re-paid during the Commitment Period may be re-borrowed in accordance with the terms of this Agreement.

4.2 *Terms of Project Loans*

- 4.2.1 Each Project Loan Agreement will be substantially in the form set out in Schedule 1 (*Project Loan Agreement*). In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any Finance Document specific to a Sub-Project, the terms of this Agreement shall prevail.
- 4.2.2 The minimum amount of the Facility to be made available under each Project Loan Agreement shall be USD 50,000 (fifty thousand US Dollars), or if lower, an amount equal to the uncommitted balance of the Facility. The minimum amount of any Disbursement to be made under any Project Loan Agreement shall be USD 50,000 (fifty thousand US Dollars).
- 4.2.3 The Borrower shall pay interest on the principal amount of each Disbursement from time to time outstanding under each Project Loan Agreement during each Interest Period (as defined in each Project Loan Agreement) at a rate equal to the sum of the Margin and the Interbank Rate (as defined in each Project Loan Agreement) for such Interest Period. The Borrower may elect to pay interest at a fixed interest rate, in accordance with the provisions of paragraph (b) of Clause 3.4(*Interest*) of each Project Loan Agreement, provided however that the aggregate principal amount of the Project Loans under the Facility which are proposed to be converted from a variable interest rate to a fixed interest rate is not less than USD 5,000,000 (five million US Dollars).
- 4.2.4 The Borrower shall not deliver more than one (1) request for a Disbursement under a Project Loan Agreement, and not more than 3 (three) requests for Disbursements under different Project Loan Agreements, in any calendar month. The tenor of any Project Loan shall not be more than 8 (eight) years.
- 4.2.5 Depending on the date of signing of the relevant Project Loan Agreement during the Commitment Period (and as set forth in Clause 3.2 (*Disbursements*) of each Project Loan Agreement), a Project Loan shall be available for disbursement for a period not in excess of 3 (three) years from the date of signing the relevant Project Loan Agreement (the *Project Loan Commitment Period*). On termination of the Project Loan Commitment Period, the Borrower shall be deemed to have cancelled any undisbursed portion of the relevant Project Loan. Amounts of any Project Loan which are not disbursed shall be made available for further Disbursements during the Commitment Period.
- 4.2.6 Each Project Loan disbursed under the Facility shall be repaid by the Borrower in semi-annual instalments on the Interest Payment Dates, commencing on the first Interest Payment Date falling 2 (two) years after the date of signing the relevant Project Loan Agreement, and on such other terms and conditions set forth in such Project Loan Agreement.
- 4.2.7 All Project Loans shall have been repaid in full by the date which is the 12th (twelfth) anniversary of the date of this Agreement.
- 4.2.8 The Borrower shall deliver to the Bank, for independent assessment, all the Sub-Project Documents relating to a Sub-Project proposed to be financed by the Borrower using the proceeds of a Project Loan. The Bank may, in its sole discretion, elect not to make a Disbursement in respect of any Sub-Projects for which Sub-Project Documents are submitted to it pursuant to this Clause 2.2(h) (*Terms of each Project Loan*), provided that, after the Bank has made a Disbursement under 2 (two) separate Project Loan Agreements, this right of independent assessment will lapse and any further Disbursement under any Project Loan Agreement shall be subject exclusively to the satisfaction of the conditions precedent set forth in Clause 3 (*Conditions Precedent*).
- 4.2.9 The obligation of the Bank to make any Disbursement shall be subject to the condition that the aggregate amount of Disbursements by the Bank under a Project Loan Agreement shall not at any

time exceed 7/15ths (seven fifteenths) of the amount of the Sub-Loan proposed to be made by the Borrower to the Sub-Borrower in respect of a Sub-Project.

4.3 ***Suspension and cancellation***

From time to time, the Bank may, by notice to the Borrower, suspend or cancel the right of the Borrower to request further Disbursements under the Facility if:

- 4.3.1 the first Disbursement has not been made by 31 May 2007;
- 4.3.2 a Default has occurred and is continuing; or
- 4.3.3 the Board of Governors of the Bank has decided in accordance with Article 8, paragraph 3, of the Agreement Establishing the European Bank for Reconstruction and Development that access by the Republic of Armenia to Bank resources should be suspended or otherwise modified.

Upon the issuance of such notice by the Bank, the right of the Borrower to request further Disbursements under the Facility shall be suspended or cancelled as indicated in the notice. The exercise by the Bank of the right of suspension shall not preclude the Bank from exercising its right of cancellation as provided in this Clause 4.3 (*Suspension and cancellation*), either for the same or another reason, and shall not limit any other rights of the Bank under the Finance Documents.

4.4 ***Charges, commissions and fees***

- 4.4.1 The Borrower shall pay to the Bank, until the end of the Commitment Period, a commitment charge at the rate of 0.5% (one half of a per cent) per annum on so much of the Facility as has not, from time to time, been disbursed or cancelled. The commitment charge shall accrue from day to day from the date which is 45 (forty-five) days after the date of this Agreement. The commitment charge shall be calculated on the basis of the actual number of days elapsed in the relevant period and a 360-day year and shall be due and payable in arrears on each Interest Payment Date (even though no interest may be payable on such date).
- 4.4.2 The Borrower shall pay to the Bank a front-end commission of 1% (one per cent) of the Facility. Such front-end commission shall be due and payable on the earlier of the date which is 90 (ninety) days from the date of this Agreement (or, if such date is not a Business Day, the next Business Day immediately following such date) and the date which is 10 (ten) Business Days after the date of the first Project Loan Agreement.
- 4.4.3 The Borrower shall pay the Bank a non-refundable appraisal fee of US \$25,000 (twenty-five thousand US Dollars) on the earlier of the date of the first Disbursement or 45 (forty-five) days after the Signing Date (or, if such date is not a Business Day, the next Business Day immediately following such date). The amount of the front-end commission payable by the Borrower under paragraph (b) above shall be reduced by an amount equal to the appraisal fee paid by the Borrower.
- 4.4.4 The charges, commissions and fees referred to in this Clause 4.4 (*Charges, commissions and fees*) are exclusive of any Tax which might be chargeable in connection with such charges, commissions or fees. If any such Tax becomes chargeable, the Borrower shall pay such Tax to the Bank at the same time that the relevant charge, commission or fee becomes due and payable.

5 **CONDITIONS PRECEDENT**

5.1 ***Initial conditions precedent***

Without prejudice to the provisions of paragraphs (g) and (h) of Clause 2.2 (*Terms of Project Loan*), the obligation of the Bank to make the first Disbursement under the Facility shall be subject to the prior fulfilment, in form and substance satisfactory to the Bank, or at the sole discretion of the Bank the waiver, whether in whole or part and whether subject to conditions or unconditional, of the following conditions precedent:

- 5.1.1 Finance Documents. The Bank shall have received duly executed originals of all Finance Documents.
- 5.1.2 Project Documents. The Bank shall have received certified copies of all the Project Documents.
- 5.1.3 Security. The Bank shall have received evidence that Security Interests created by the Security Documents have been validly created and perfected in a manner satisfactory to the Bank.
- 5.1.4 Charter. The Bank shall have received a certified copy of the Charter of the Borrower.
- 5.1.5 Corporate authorisations. The Bank shall have received certified copies of all corporate authorisations necessary for the due execution, delivery and performance of the Finance Documents, and any other documents in implementation thereof, by all parties to such agreements and, at the request of the Bank, any other parties thereto and for the transactions contemplated thereby.
- 5.1.6 Specimen signatures. The Bank shall have received:
 - 5.1.6.1 a certificate of incumbency and authority of the Borrower in the form of Schedule 3 (*Form of Certificate of Incumbency and Authority*) to this Agreement; and
 - 5.1.6.2 a certificate of an appropriate officer of any other party to the Finance Documents certifying the specimen signature of each person authorised to sign, on behalf of such party, the Finance Documents to be entered into and performed by such party.
- 5.1.7 Governmental and other authorisations. The Bank shall have received certified copies of all authorisations necessary for the execution, delivery and performance of the Finance Documents and Project Documents by the parties thereto and for the transactions contemplated thereby, other than any authorisation of a routine or minor nature which is not necessary for the implementation of the Project at the time of the proposed disbursement or which may only be obtained as each Sub-Project progresses or after construction is completed and in each case which is customarily granted in due course after timely application, and in respect of which the Borrower is not aware of any reason for it being unable to obtain in due course such authorisation.
- 5.1.8 Auditor's letter. The Bank shall have received a certified copy of a letter to the Auditors from the Borrower in the form set out in Schedule 2 (*Form of Letter to Auditors*).
- 5.1.9 Process agent appointments. The Bank shall have received written confirmation from the agents for service of process appointed by the Borrower pursuant to the Finance Documents of their acceptances of such appointments.
- 5.1.10 Legal opinions. The Bank shall have received the following legal opinions regarding such matters incident to the transactions contemplated by the Finance Documents and Project Documents as the Bank reasonably requests:
 - 5.1.10.1 the opinion of Armenian counsel to the Borrower, in form and substance acceptable to the Bank;
 - 5.1.10.2 the opinion of Harutiunian & Associates, special Armenian counsel to the Bank; and

- 5.1.10.3 the opinion of King & Spalding International LLP, special English counsel to the Bank.
- 5.1.11 Financial Statements. The Bank shall have received a copy of the Borrower's latest audited Financial Statements.
- 5.1.12 Borrowing limit. The Bank shall have received a certificate of the Borrower (signed by a director) confirming that borrowing the full amount of the Facility would not cause any borrowing or similar limit binding on the Borrower to be exceeded.
- 5.1.13 Project Revenue Account. The Bank shall have received a letter from the Account Bank confirming that the Project Revenue Account has been opened in accordance with the Accounts Agreement.
- 5.1.14 Energy specialist. The Bank shall have received written confirmation and evidence of the employment (or similar engagement) of an energy specialist, on a no objection basis with the Bank. The Bank shall have received a copy of the energy specialist's curriculum vitae and contact details prior to giving its approval.
- 5.1.15 Environmental Sub-Project approval. The Bank shall have received evidence that a satisfactory environmental Sub-Project approval and monitoring regime has been established with the R2E2 Fund and evidence of the ability of the R2E2 Fund to implement such approval and monitoring regime.
- 5.1.16 Fees and expenses. The Bank shall have been reimbursed for all amounts due and owing to it under the Finance Documents, including under Clause 2.4 (*Charges, Commissions and Fees*) and Clause 19 (*Expenses*) of this Agreement.

5.2 *All Disbursements*

Without prejudice to the provisions of paragraphs (g) and (h) of Clause 2.2 (*Terms of Project Loan*), the obligation of the Bank to make the first Disbursement and any further Disbursement shall be subject to the fulfilment, in form and substance satisfactory to the Bank, or at the sole discretion of the Bank the waiver, whether in whole or part and whether subject to conditions or unconditional, of the conditions that, on the date of the Borrower's application for such Disbursement:

- 5.2.1 Loan agreements. The Bank shall have received duly executed originals of the Project Loan Agreement and the Sub-Loan Agreement.
- 5.2.2 Security. The Bank shall have received evidence that the Security Interests created by the Sub-Project Security Documents have been validly created and perfected in a manner satisfactory to the Bank.
- 5.2.3 Continuing validity of documents. The Bank shall have received confirmation that all agreements, documents and instruments delivered to the Bank pursuant to Clause 5.1 (*Initial conditions precedent*) shall be in full force and effect and unconditional.
- 5.2.4 No default. The Bank shall have received confirmation from the Borrower that no Default shall have occurred and be continuing or
- 5.2.5 No Material Adverse Effect. Nothing shall have occurred which, in the reasonable opinion of the Bank, might have a Material Adverse Effect.
- 5.2.6 Use of proceeds. The Bank shall have received evidence as to the proposed utilisation of the proceeds of the disbursement of the Sub-Loan.

- 5.2.7 Corporate Authorisations. The Bank shall have received certified copies of all corporate authorisations necessary for the due execution, delivery and performance of the Sub-Loan Agreements, and any other documents in implementation thereof, by all parties to such agreements and, at the request of the Bank, any other parties thereto and for the transactions contemplated thereby.
- 5.2.8 Legal Opinions. The Bank shall have received the legal opinion of Armenian counsel to the Borrower, regarding such matters incident to the transactions contemplated by the Sub-Loan Agreements as the Bank reasonably requests, in form and substance acceptable to the Bank
- 5.2.9 Financing Plan. The Bank shall have received evidence that the Sub-Project will be financed in accordance with the Financing Plan and that all contributions envisioned to be made by the R2E2 Fund and the Borrower as provided in the Financing Plan have or will be made.
- 5.2.10 Representations and Warranties. The representations and warranties made or confirmed by the Borrower in the Finance Documents and the Project Loan Agreement shall be true on and as of such dates with the same effect as though such representations and warranties had been made on and as of such dates.
- 5.2.11 Disbursement Applications. The Bank shall have received an original of the Borrower's timely application for such Disbursement substantially in the form of Exhibit A to the Project Loan Agreement, supported by the relevant Sub-Borrower's application for a disbursement under a Sub-Loan Agreement.
- 5.2.12 Environmental Management Plan. The Bank is satisfied that the Sub-Project to be financed by the Disbursement meets the eligibility criteria set forth in the Environmental Management Plan based on proper environmental due diligence.
- 5.2.13 Insurance. The Bank shall have received evidence that all required insurance for the Borrower and the proposed Sub-Borrower is in full force and effect and has received certified copies of such insurance policies and any endorsements thereon.
- 5.2.14 Other. The Bank shall have received such other documents and legal opinions as the Bank may reasonably request.

6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and warranties

The Borrower makes the representations and warranties set out in this Clause 6 (*Representations and Warranties*) to the Bank.

6.2 Incorporation

It is a universal credit organisation duly organised and validly existing under the laws of the Republic of Armenia.

6.3 Corporate power

- 6.3.1 It has the power to conduct its business and to enter into and perform, and has taken all necessary action to authorise such conduct of business, the entry into, performance and delivery of the Transaction Documents to which it is or will be a party and the transactions contemplated by such Transaction Documents.

6.3.2 No limit on its powers will be exceeded as a result of the borrowing or grant of security contemplated by the Finance Documents to which it is a party.

6.4 *Binding obligations*

6.4.1 The obligations expressed to be assumed by it in each Transaction Document to which it is a party are legal, valid, binding and enforceable obligations.

6.4.2 Without limiting the generality of paragraph (a) above, each Security Document to which it is a party creates the security interests which that Security Document purports to create and those security interests are valid and effective.

6.5 *Non-conflict*

The entry into and performance by it of, and the transactions contemplated by, the Transaction Documents to which it is or will be a party and the implementation and operation of the Project does not and will not:

6.5.1 conflict with, or result in a breach of, any law or regulation or judicial or official order applicable to the Borrower;

6.5.2 conflict with the constitutional documents of the Borrower; or

6.5.3 conflict with, or result in a breach of, any document which is binding on the Borrower.

6.6 *No default*

No Default is continuing or is reasonably likely to result from the Disbursement or the entering into, the performance of, or any transaction contemplated by, any Transaction Document.

6.7 *Authorisations*

All authorisations required as at the date this representation is given or deemed to be given, in connection with the entry into, performance, validity and enforceability of the Transaction Documents and the transactions contemplated by the Transaction Documents (including the carrying out of the Project) have been obtained or effected, are in full force and effect and no steps have been taken to revoke or cancel any authorisation obtained or effected.

6.8 *Financial Statements*

The balance sheet of the Borrower as of 31 December 2005, as set forth as Schedule E to the Letter of Information, and the related income statement, statement of changes in equity, cash flow statement and notes, comprising a summary of significant accounting policies and other explanatory notes of the Borrower for the financial year ending on that date, certified by the Auditors, present fairly the financial position, financial performance and cash flows of the Borrower as of the date of such balance sheet and for the period covered by such income statement were prepared in accordance with International Accounting Standards. The Borrower had, as of the date of such balance sheet, no material contingent obligations, liabilities for taxes or unusual forward or long term commitments not disclosed by, or reserved against in, such balance sheet or notes thereto. Since the date of such balance sheet, the Borrower has not suffered any Material Adverse Effect, incurred any substantial or unusual loss or liability or undertaken or agreed to undertake any substantial or unusual obligation except under the Transaction Documents.

6.9 *Material contracts*

As of the date of this Agreement, the Borrower is not a party to, or committed to enter into, any agreement, other than the Transaction Documents:

6.9.1 that relate to the Project; or

6.9.2 that would or might affect the judgment of a prospective lender considering whether to enter into this Agreement and lend to the Borrower.

6.10 *Litigation*

It is not a claimant or defendant in or otherwise a party to any litigation, arbitration or administrative proceedings which are in progress or, to the best of the Borrower's knowledge, threatened or pending against or concerning the Borrower or any of its assets the outcome of which may have a Material Adverse Effect.

6.11 *Ranking*

The Security Interests created or expressed to be created in favour of the Security Trustee pursuant to the Security Documents have and will have the ranking in priority which they are expressed to have in the Security Documents and they are not subject to any prior ranking or *pari passu* ranking Security Interests.

6.12 *Compliance with the Lending Guidelines*

It is in compliance with the Lending Guidelines.

6.13 *No Material Adverse Effect*

Save for the facts and matters set out in this Agreement or otherwise set out in writing to the Bank and for facts and matters likely to affect to a similar extent generally all companies carrying on similar businesses in the Republic of Armenia, there are no other facts or matters of which the Borrower is aware having made reasonable enquiries which might reasonably be expected to have a Material Adverse Effect.

6.14 *Compliance with laws*

It is not in violation of any law applicable to it and presently in effect. To the best of the Borrower's knowledge, no law has been proposed or is expected in the Republic of Armenia which may have a Material Adverse Effect. All tax returns and reports of the Borrower required by law to be filed have been duly filed and all Taxes upon the Borrower, its properties and its income, which are due and payable, have been paid, other than those currently payable without penalty or interest. The Borrower is in compliance with all applicable laws concerning money laundering. Neither the Borrower nor any of its officers, directors or authorised employees, agents or representatives has:

6.14.1 paid, promised to pay or offered to pay, or authorised the payment of, any commission, bribe, pay-off or kickback related to the Project that violates any applicable law or entered into any agreement pursuant to which any such commission, bribe, pay-off or kickback may or will at any time be paid; or

6.14.2 offered or given any thing of value to influence the action of a public official, or threatened injury to person, property or reputation, in connection with the Project in order to obtain or retain business or other improper advantage in the conduct of business.

6.15 *Financial position*

It is able to pay its debts as they fall due, and:

6.15.1 is not insolvent or bankrupt for the purposes of applicable law;

6.15.2 no petition for bankruptcy, liquidation or reorganisation has been presented in relation to the Borrower;

6.15.3 no decree or court order adjudging the Borrower bankrupt or insolvent has been made; and

6.15.4 to the best of the Borrower's knowledge, no analogous proceeding to those specified in subparagraphs (a)-(c) above has occurred in any other jurisdiction.

6.16 *Environment*

It is and has been in compliance with all applicable Environmental Laws.

6.17 *Repeating representations and warranties*

The representations and warranties set out in this Clause 6 (*Representations and Warranties*) are made on the date of this Agreement and are deemed to be repeated by the Borrower on the date of each application for a Disbursement and the date of each Disbursement with reference to the facts and circumstances then existing.

7 AFFIRMATIVE COVENANTS

7.1 *Duration*

The undertakings in this Clause 7 (*Affirmative Covenants*) remain in force from the Signing Date for the duration of the Commitment Period and for so long as any amount is or may be outstanding under this Agreement unless the Bank otherwise agrees in writing.

7.2 *Project implementation*

The Borrower shall cause the proceeds of each Disbursement to be applied exclusively towards the making of Sub-Loans in the manner set forth in the Lending Guidelines.

7.3 *Maintenance and continuity of business*

The Borrower shall maintain its corporate existence in compliance with all applicable laws.

7.4 *Conduct of business; environment, health and safety*

The Borrower shall, and shall ensure that each Sub-Borrower shall, conduct its business with due diligence and efficiency, in accordance with sound financial and business practices in compliance with all applicable laws and with due regard to the environment and public and occupational health and safety. The Borrower shall, and shall ensure that each Sub-Borrower shall, carry out each Sub-Project in accordance with all Environmental Laws and the Environmental Management Plan.

7.5 *Pari passu ranking*

The Borrower shall procure that its payment obligations under the Finance Documents rank at least *pari passu* with all its other present and future unsecured and unsubordinated payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

7.6 *Insurance*

7.6.1 The Borrower shall, and shall ensure that each Sub-Borrower shall, maintain insurance against loss, damage and liability in a manner and with insurers satisfactory to the Bank and shall provide evidence of such insurance to the Bank, in the form of certificates issued by the

insurer. The Bank shall be named as an additional insured and sole loss payee (except with respect to liability insurance) under the insurance policies of the Borrower and the interests of the Bank shall be noted thereon. The Borrower shall be named as an additional insured and sole loss payee (except with respect to liability insurance) under the insurance policies of the Sub-Borrowers and the interests of the Borrower shall be noted thereon.

7.6.2 All insurances must be with reputable independent insurance companies or underwriters.

7.7 *Accounting*

7.7.1 The Borrower shall maintain accounting, cost control, and management information systems satisfactory to the Bank.

7.7.2 The Borrower shall maintain books of account and other records in accordance with International Accounting Standards and shall ensure that all financial reporting obligations are made on the basis of International Accounting Standards consistently applied.

7.7.3 The Borrower shall maintain Auditors acceptable to the Bank. The Borrower shall authorise by a letter substantially in the form of Schedule 2 (*Form of Letter to the Auditors*), the Auditors to communicate directly with the Bank at any time regarding the Borrower's accounts and operations.

7.8 *Continuing government and other approvals*

The Borrower shall, and shall ensure that each Sub-Borrower shall, obtain and maintain in force (or, where appropriate, renew), all governmental, corporate, creditors', shareholders' and other necessary licenses, approvals, consents, filings and registrations required as a condition precedent to a Disbursement of a Project Loan and for the operation of the Sub-Projects. The Borrower shall, and shall ensure that each Sub-Borrower shall, perform and observe all the conditions and restrictions contained in, or imposed on the Borrower or the Sub-Borrower by such licenses, approvals, consents, filings and registrations.

7.9 *Compliance with obligations*

The Borrower shall, and shall ensure that each Sub-Borrower shall, comply with all agreements to which it is a party or by which it or its properties or assets is bound, and shall take any and all actions necessary or desirable to enable it to comply with its obligations in the Transaction Documents.

7.10 *Taxes*

7.10.1 The Borrower shall pay when due all of its Taxes, rates, charges and assessments. The Borrower shall make timely filings of all tax returns and governmental reports required to be filed or submitted by it under any applicable law.

7.10.2 The Borrower shall pay all Taxes (including stamp taxes), duties, fees or other charges payable on, or in connection with, the execution, issue, delivery, registration or notarisation of any Transaction Documents or any other document related to this Agreement. Upon notice from the Bank, the Borrower shall pay to the Bank, or reimburse the Bank for, an amount equal to any such Taxes, duties, fees or other charges levied on or paid by the Bank.

7.11 *Security Documents*

The Borrower shall create, perfect, maintain and, if applicable, renew the Security Interests created by the Security Documents in a manner satisfactory to the Bank.

7.12 *Security Documents; Sub-Project Documents*

The Borrower shall ensure that each Sub-Borrower shall:

- 7.12.1 create, perfect, maintain and, if applicable, renew the Sub-Project Security in a manner satisfactory to the Bank;**
- 7.12.2 maintain all Sub-Project Documents and Sub-Project Security Documents to which it is a party in full force and effect without modification or waiver and perform its obligations under, not commit any breach under, and exercise its rights under, all Sub-Project Documents and Sub-Project Security Documents to which it is a party; and**
- 7.12.3 ensure that each Sub-Project meets the criteria and other requirements set out in the Lending Guidelines.**

7.13 Further documents

The Borrower shall execute all such other documents and instruments and do all such other acts and things as the Bank may determine are necessary or desirable to give effect to the provisions of the Transaction Documents and to cause the Transaction Documents to be duly registered, notarised and stamped in any applicable jurisdiction. The Borrower hereby irrevocably appoints and constitutes the Bank as the Borrower's true and lawful attorney with right of substitution (in the name of the Borrower or otherwise) to execute such documents and instruments and to do such acts and things in the name of and on behalf of the Borrower in order to carry out the provisions hereof.

7.14 Financial information

- 7.14.1 As soon as the same are available (and, in any event within 60 (sixty) days of the end of each quarter of its financial years), the Borrower shall supply to the Bank:**
 - 7.14.1.1 its and each Sub-Borrower's unaudited Financial Statements for such quarter;**
 - 7.14.1.2 a certificate of compliance with the financial covenants set out in Clause 9 (*Financial Covenants*), signed by a director of the Borrower; and**
 - 7.14.1.3 a certificate of compliance with the financial covenants in each Sub-Loan Agreement, signed by a director of the Sub-Borrower party to such Sub-Loan Agreement.**
- 7.14.2 As soon as the same are available (and, in any event within 180 (one hundred and eighty) days of the end of each of its financial years), the Borrower shall supply to the Bank:**
 - 7.14.2.1 its and each Sub-Borrower's audited Financial Statements for such financial year;**
 - 7.14.2.2 a certificate of compliance with the financial covenants (*Financial Covenants*), signed by a director of the Borrower;**
 - 7.14.2.3 a certificate of compliance with the financial covenants in each Sub-Loan Agreement, signed by a director of the Sub-Borrower party to such Sub-Loan Agreement;**
 - 7.14.2.4 its projected Financial Statements for the term of the Facility;**
 - 7.14.2.5 a budgeted cash flow statement for the forthcoming financial year demonstrating the Borrower's ability to meet its costs, service all pending debt and interest payments to the Finance Parties, and meet its obligations to provide its**

proportionate funding for the Sub-Projects (in accordance with the Financing Plan) expected to be provided in the next twelve (12) months; and

7.14.2.6 the projected Financial Statements for each Sub-Borrower for the term of the relevant Sub-Loan Agreement.

7.14.3 Within 30 (thirty) days after the end of each half of its financial years, the Borrower shall certify to the Bank that it was in compliance with all applicable regulations and financial ratios issued by the Central Bank of Armenia in respect of its previous half financial year.

7.14.4 All financial information shall be presented in accordance with International Accounting Standards, and in US Dollars, unless the Bank has requested that any such information be also made available in the local currency of the Borrower.

7.15 *Project report*

Within 30 (thirty) days after the end of each half of its financial years, the Borrower shall supply to the Bank a detailed report of the Borrower's overall loan portfolio, including a breakdown of loan volume by:

7.15.1 sector of lending;

7.15.2 risk classification (eg. standard, sub-standard and so forth) as mandated by the standards of the Central Bank of Armenia; and

7.15.3 overdue amounts (principal, interest or other amounts due and payable) and related provisions categorised as: amounts overdue by up to 30 days, 31 to 90 days, 91 to 120 days and more than 120 days.

Such report will include a detailed description of any modifications to the schedule (time and/or budget) of any Sub-Project.

7.16 *Project information*

The Borrower shall immediately notify the Bank of:

7.16.1 any change in the nature or scope of the Project or any Sub-Project;

7.16.2 any proposed change in the nature or scope of the Borrower's or any Sub-Borrower's operations;

7.16.3 any insurance claim against the Borrower or any Sub-Borrower;

7.16.4 any insurance claim made by the Borrower or any Sub-Borrower; or

7.16.5 any event or condition which might have a Material Adverse Effect on the Project.

7.17 *Litigation*

The Borrower shall immediately supply to the Bank details of any material litigation, arbitration or administrative proceedings by or against the Borrower or any Sub-Borrower which are current or pending or of any material dispute with any Government Authority together, in each case, with details of how it proposes to conduct the litigation, arbitration or proceedings or otherwise resolve the dispute in question.

7.18 *Default*

7.18.1 Immediately upon the occurrence of any Default, the Borrower shall give the Bank notice thereof by facsimile transmission specifying the nature of such Default and any steps the Borrower is taking to remedy the same.

7.18.2 Immediately upon the Borrower becoming aware of the occurrence of a default (howsoever defined) by a Sub-Borrower under any Sub-Project Document, the Borrower shall give the Bank notice thereof by facsimile transmission specifying the nature of such default (howsoever defined) and any steps the Sub-Borrower is taking to remedy the same.

7.18.3 The Borrower shall, immediately it becomes aware of the same, supply to the Bank details of any material default by a party to a Sub-Project Document or any frustration, rescission, repudiation, termination or cancellation of a Sub-Project Document.

7.19 *Environmental*

7.19.1 Immediately upon the occurrence of any incident or accident relating to the Sub-Borrower or Sub-Project which is likely to have a Material Adverse Effect on the environment, health or safety, the Borrower shall give the Bank notice thereof by facsimile transmission specifying the nature of such incident or accident and any steps the Borrower is taking to remedy the same. Without limiting the generality of the foregoing, an incident or accident is likely to have a Material Adverse Effect on the environment, health or safety if any applicable law requires notification of such incident or accident to any Government Authority, such incident or accident involves fatality or multiple serious injuries requiring hospitalisation or such incident or accident has become public knowledge whether through media coverage or otherwise.

7.19.2 The Borrower shall immediately supply to the Bank details of which the Borrower is aware or ought to be aware of any non-compliance in any material respect with any Environmental Law or the Environmental Management Plan, and of any claim, notice or other communication served on it or any Sub-Borrower under any Environmental Law or any suspension, revocation or modification of any environmental license, together in each case with details of the actions proposed to be taken in respect of those matters.

7.20 *Other documents*

The Borrower shall supply to the Bank all documents dispatched by the Borrower to the Shareholder or its creditors generally at the same time as they are dispatched.

7.21 *Other information and access*

The Borrower shall furnish promptly to the Bank such other information as the Bank may from time to time reasonably request (including for the purpose of “know your customer” checks) and shall procure access to each Sub-Project and the Borrower’s and each Sub-Borrower’s premises, books of account and records. The Borrower shall procure and permit representatives of the Bank (including, without limitation, any consultants engaged by the Bank) to visit any of the Sub-Projects or any of the other premises where the businesses of the Borrower or Sub-Borrowers are conducted or where the Sub-Projects are being carried out and to have access to the books of account and records of the Borrowers and the Sub-Borrowers.

7.22 *Applications for Sub-Loans*

The Borrower shall promptly (and in no event later than the date of presentation to the Borrower’s Credit Committee), supply to the Bank a copy of each Sub-Borrower’s application for a Sub-Loan, with a hard copy to be delivered to the Bank’s resident office in Yerevan, Armenia and an electronic or soft copy to be provided to the Bank in London.

8 **NEGATIVE COVENANTS**

8.1 *Duration*

The undertakings in this Clause 8 (*Negative Covenants*) remain in force from the Signing Date for the duration of the Commitment Period and for so long as any amount is or may be outstanding under this Agreement, and unless the Bank otherwise agrees.

8.2 *Dividends*

The Borrower shall not declare or pay any dividend, or make any allocation or distribution on its respective share capital or any profit, unless:

8.2.1 **no Default has occurred and is continuing; and**

8.2.2 **immediately after such payment, the Borrower shall be in full compliance with all covenants contained in this Agreement and no Default shall occur or continue as a result of such payment.**

8.3 *Reduction to or redemption of share capital*

The Borrower shall not make any reduction to, or permit a reduction to be made to, its share capital nor shall it redeem or allow the redemption of its share capital.

8.4 *Security Interests*

The Borrower shall not create or permit to exist any Security Interest on any property, revenues or other assets, present or future, of the Borrower other than:

8.4.1 **the Security Interests constituted by the Security Documents;**

8.4.2 **any statutory lien arising in the ordinary course of business if such lien is for a sum not yet delinquent or is discharged within 30 (thirty) days of its creation or if such lien is being contested, adequate reserves have been set aside and it is discharged within 30 (thirty) days after final adjudication; and**

8.4.3 **any tax or other non-consensual lien arising by operation of law or other statutory lien arising in the ordinary course of business, provided that such lien (other than a lien for a sum which is not yet delinquent) is discharged within 30 (thirty) days after the date it is created or, if the validity or amount of such lien or the sum secured by such lien is being contested in good faith and by proper proceedings and adequate reserves have been set aside for the payment of such sum, within 30 (thirty) days after final adjudication.**

8.5 *Disposals*

The Borrower shall not enter into any single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, transfer, lease or otherwise dispose of any asset, save for any sale, transfer or lease made in the ordinary course of trade, on ordinary commercial terms and on the basis of arm's-length arrangements.

8.6 *Management arrangements*

The Borrower shall not enter into any management contract or similar agreement or arrangement whereby its business or operations are managed by any third party.

8.7 *Subsidiaries*

The Borrower shall not form or have any Subsidiary, nor make or permit to exist an equity investment in any company or joint venture.

8.8 *Change in business*

8.8.1 The Borrower shall not make changes, or permit changes to be made, to the nature of its present business or operations or to the Project. The Borrower shall not carry out any business or activity other than business or activities which are ancillary to, or incidental to, the Project, save for its Notes Issuance Activities.

8.8.2 The Borrower shall not transfer or change its principal place of business to anywhere outside the Republic of Armenia.

8.8.3 The Borrower shall not make changes, or permit changes to be made, to its Charter in any manner which would be inconsistent with the provisions of the Transaction Documents.

8.9 *Merger; dissolution*

8.9.1 The Borrower shall not enter into any amalgamation, demerger, merger or reconstruction, or sell all or substantially all of its assets.

8.9.2 The Borrower shall not undertake voluntarily any dissolution, liquidation or reconstruction.

8.10 *Financial Indebtedness*

The Borrower shall not incur or allow to remain outstanding any Financial Indebtedness other than:

8.10.1 under the Finance Documents;

8.10.2 any Financial Indebtedness arising pursuant to the Borrower's Notes Issuance Activities; and

8.10.3 any Financial Indebtedness incurred in connection with any business activity the Borrower has engaged in with the Bank's consent under paragraph (a) of Clause 6.8(*Change in Business*) above.

8.11 *Project Documents and Sub-Project Documents*

The Borrower not shall amend, vary, novate, supplement, supersede, waive or terminate any term of any Sub-Loan Agreement, and the Borrower shall ensure that no Sub-Borrower shall amend, vary, novate, supplement, supersede, waive or terminate any Sub-Project Document or any other document delivered to the Bank pursuant to Clause 5 (*Conditions Precedent*) in a way which could reasonably be expected materially and adversely to affect the interests of the Bank.

8.12 *Payments to Project Revenue Account*

The Borrower shall not permit any Sub-Borrower to make any payment due or prepayment under a Sub-Loan Agreement into any bank account other than the Project Revenue Account.

8.13 *Financial year*

The Borrower shall not change its financial year end.

6.14 Equity Account

The Borrower shall not use the funds on deposit in the Equity Account except:

8.13.1 to finance Sub-Projects;

8.13.2 to make short-term investments, with a maturity of one year or less (such as Armenian Government securities or commercial bank deposits) for cash management purposes; and

8.13.3 to finance short-term working capital needs.

9 FINANCIAL COVENANTS

9.1 Duration

The financial covenants in this Clause 9 (*Financial Covenants*) shall remain in force from the Signing Date for the duration of the Commitment Period and for so long as any amount is or may be outstanding under this Agreement.

9.2 Minimum disbursements

The Borrower covenants that, as at each Reference Calculation Date, the aggregate value of the outstanding disbursements that it has made under all of the Sub-Loan Agreements shall be equal to at least 70 (seventy) per cent of the aggregate value of the outstanding Disbursements the Bank has made to the Borrower under the Facility.

9.3 Financial ratios

The Borrower covenants that it shall at all times maintain and comply with all relevant financial ratios required by the laws and regulations of the Republic of Armenia and applicable to credit organisations.

10 EVENTS OF DEFAULT

Each of the events and circumstances set out in Clause 10 (*Events of Default*) is an Event of Default.

10.1 Non-payment

The Borrower does not pay any amount payable pursuant to a Finance Document or a Project Loan Agreement at the place and in the currency which it is expressed to be payable, unless such failure is caused by administrative or technical error and payment is made within 3 (three) Business Days of its due date.

10.2 Other obligations

10.2.1 The Borrower does not comply with any provision of a Transaction Document (other than those referred to in Clause 10.1 (Non-payment)).

10.2.2 No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within 30 days of the Bank giving notice to the Borrower or the Borrower becoming aware of the failure to comply.

10.3 Misrepresentation

Any representation or statement made or deemed to be made by the Borrower in or in connection with any Transaction Document or any other document delivered by the Borrower under or in connection with any Transaction Document is or proves to be false or misleading when made or deemed to be made and, if capable of remedy (and unless it has already resulted, in the Bank's opinion, in a Material Adverse Effect), is not remedied or corrected within 30 (thirty) days after the date it was originally made or repeated.

10.4 *Cross-default*

10.4.1 Any Financial Indebtedness of the Borrower is not paid when due in or within any originally applicable grace period.

10.4.2 Any Financial Indebtedness of the Borrower is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (howsoever described).

10.4.3 Any commitment for any Financial Indebtedness of the Borrower is cancelled or suspended by a creditor as a result of an event of default (however described).

10.4.4 Any creditor of the Borrower becomes entitled to declare any Financial Indebtedness of the Borrower due and payable prior to its specified maturity as a result of an event of default (however described).

10.4.5 Any Security Interest securing Financial Indebtedness over any asset of the Borrower becomes enforceable.

10.5 *Nationalisation*

Any Government Authority condemns, nationalises, seizes, expropriates, or takes other similar action toward all or any substantial part of the property or other assets of the Borrower or of its share capital, or assumes custody or control of such property or other assets or of the business or operations of the Borrower, or of its share capital, or acquires majority ownership of the Borrower, or takes any action for the dissolution or disestablishment of the Borrower, or any action that would prevent the Borrower, or its officers from carrying on its business or operations or a substantial part thereof.

10.6 *Insolvency*

10.6.1 The Borrower is unable or admits inability to pay its debts as they fall due or is deemed to or declared to be unable to pay its debts under applicable law, suspends or threatens to suspend making payments on any or its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.

10.6.2 The value of the assets of the Borrower is less than its liabilities (taking into account contingent and prospective liabilities).

10.6.3 A moratorium is declared in respect of any indebtedness of the Borrower. If a moratorium occurs, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.

10.7 *Insolvency proceedings*

10.7.1 Any corporate action, legal proceedings or other procedure or step is taken in relation to:

10.7.1.1 the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Borrower;

10.7.1.2 a composition, compromise, assignment or arrangement with any creditor of the Borrower;

10.7.1.3 the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the Borrower or any of its assets; or

10.7.1.4 enforcement of any Security over any assets of the Borrower;

or any analogous procedure or step is taken in any jurisdiction.

10.7.2 Paragraph (a) shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 14 days of commencement or, if earlier, the date on which it is advertised.

10.8 *Creditors' process*

Any expropriation, attachment, sequestration, distress or execution or any analogous process in any jurisdiction affects any asset or assets of the Borrower.

10.9 *Unlawfulness and invalidity*

10.9.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Document created or expressed to be created or evidenced by the Security Documents ceases to be effective or any subordination created under the Intercreditor Agreement is or becomes unlawful.

10.9.2 Any obligation or obligations of the Borrower or any other party under any Finance Document ceases to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Bank under the Finance Document.

10.9.3 Any Finance Document ceases to be in full force and effect or any subordination created under the Intercreditor Agreement ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it (other than a Finance Party) to be ineffective.

10.10 *Intercreditor Agreement*

10.10.1 Any party to the Intercreditor Agreement (other than the Bank or the Borrower) fails to comply with the provisions of, or does not perform its obligations under, the Intercreditor Agreement; or

10.10.2 a representation or warranty given by that party in the Intercreditor Agreement is incorrect in any material respect,

and, if the non-compliance or circumstances giving rise to the misrepresentation are capable of remedy, it is not remedied within 10 (ten) days of the earlier of the Security Trustee giving notice to that party or that party becoming aware of the non-compliance or misrepresentation.

10.11 *Security*

Any Security Document or Sub-Project Security Document is not effective or is alleged by the Borrower to be ineffective for any reason.

10.12 Business

The Borrower or any Sub-Borrower ceases, or threatens to cease, to carry on all or a substantial part of its business.

10.13 Abandonment

All or a material part of the Project or any Sub-Project is abandoned.

10.14 Litigation

Any litigation, arbitration or administrative or regulatory proceedings are pending or outstanding against the Borrower, and if adversely determined, the litigation, arbitration or administrative or regulatory proceedings has, or is reasonably likely to have, a Material Adverse Effect.

10.15 Change of ownership

The Borrower ceases to be owned by the Shareholder.

10.16 Amending constitutional documents

The Shareholder or the Borrower amends, varies, supplements, supersedes, waives or terminates the Charter of the Borrower.

10.17 Material Adverse Effect

Any circumstance or event occurs which, in the reasonable opinion of the Bank, is likely to have a Material Adverse Effect.

10.18 Consequences of Default

10.18.1 Subject to paragraph 10.18.2 below, on and at any time after the occurrence of an Event of Default the Bank may at its option, by notice to the Borrower:

10.18.1.1 cancel commitments made available under the Facility;

10.18.1.2 demand that all or part of the Project Loans, together with accrued interest and all other amounts accrued under this Agreement, be immediately due and payable, whereupon they shall become immediately due and payable;

10.18.1.3 demand that all or part of the Project Loans, together with accrued interest and all other amounts accrued under this Agreement be payable on demand, whereupon they shall become payable on a demand from the Borrower;

10.18.1.4 give notice to the Account Bank pursuant to the Accounts Agreement; or

10.18.1.5 exercise or direct to Security Trustee to exercise any or all of its rights under the Security Documents.

10.18.2 To the extent that a Default has occurred under Clause 8 (*Events of Default*) as a direct and sole result of a Regulatory or Political Risk Event (a *RPRE Default*) and such Regulatory or Political Risk Event and the consequences that arise from it (including the

RPRE Default) are subject to the processes in Clause 11 (Regulatory Political Risk Event), that RPRE Default shall not constitute an Event of Default.

11 REGULATORY OR POLITICAL RISK EVENT

11.1.1 The Borrower shall, immediately it becomes aware of the same, notify the Bank of any Regulatory or Political Risk Event.

11.1.2 If the Borrower determines that as a direct and sole result of the Regulatory or Political Risk Event a Sub-Borrower is unable to meet its payment obligations under its Sub-Loan Agreement (the *Affected Sub-Loan*), the Borrower shall immediately notify (each a *RPRE Notice*) the Bank that a Sub-Borrower has defaulted on its payment obligations under a Sub-Loan Agreement and indicate that it wishes to suspend its payment obligations (inclusive on any payment of principal, interest and any charges thereon) under the corresponding Project Loan Agreement (the *Affected Project Loan*).

11.1.3 The Borrower agrees that, during a RPRE Standstill Period that it shall not take any Enforcement Action in respect of the Affected Sub-Loan.

11.1.4 During a RPRE Standstill Period, the Bank:

11.1.4.1 shall not take any Enforcement Action in respect of the Affected Project Loan;

11.1.4.2 may address the relevant Regulatory Political Risk Event with the Government Authorities, the relevant Sub-Borrower and any other relevant party; and

11.1.4.3 if it determines that it is unable to resolve the Regulatory Political Risk Event, may notify the Borrower (each a *RPRE Termination Notice*) of such determination.

11.1.5 If during the RPRE Standstill Period the Bank determines that no Regulatory or Political Risk Event has occurred and that the Sub-Borrower's inability to meet its payment obligations under its Sub-Loan Agreement is not the direct and sole result of a Regulatory or Political Risk Event, the Bank shall promptly notify the Borrower and the Borrower shall immediately pay to the Bank all amounts in respect of the Affected Project Loan that would have been payable during the RPRE Standstill Period, and shall resume repayments on the relevant Affected Project Loan.

11.1.6 If Section 9(e) above is not applicable and:

11.1.6.1 (A) a Regulatory Political Risk Event referred to in a RPRE Notice has not been cured during the relevant RPRE Standstill Period; or

(B) if a RPRE Termination Notice has been issued in relation to an Affected Sub-Loan; and

11.1.6.2 the Sub-Borrower has not paid all amounts payable in respect of the Affected Sub-Loan,

then the Borrower may take Enforcement Action in respect of the relevant Affected Sub-Loan.

An amount equal to 7/15 (seven fifteenths) of the proceeds of any Enforcement Action in respect of an Affected Sub-Loan shall be applied towards repayment of the Affected Project Loan. To the extent the Affected Project Loan is not repaid in full from the proceeds of any Enforcement Action, the Bank may release the Borrower from its obligation to pay any further amounts in respect of that Affected Project Loan.

12 EXPENSES

12.1 *Initial and special costs*

The Borrower shall pay to the Bank or as the Bank may direct, within 30 (thirty) days of the Bank furnishing to the Borrower the invoice therefore (but, in any event, on or prior to the date of the first Disbursement in the case of costs and expenses incurred prior to the date of the first Disbursement), all out-of-pocket costs (including, without limitation, travel expenses and the fees and expenses of outside counsel to the Bank and all other financial, accounting, engineering, environmental, insurance and other consulting fees and expenses) incurred by the Bank in connection with:

12.1.1 the review of the Sub-Project Documents and any other agreements to which the Borrower is or becomes a party;

12.1.2 the negotiation, preparation, printing and execution of:

12.1.2.1 this Agreement and any other document referred to in this Agreement; and

12.1.2.2 any other Finance Document executed after the Signing Date;

12.1.3 where appropriate, the registration and notarisation of the Finance Documents, the Security Documents and any other documents related thereto;

12.1.4 any amendment, waiver, consent or suspension of rights (or any proposal for any of the foregoing) and relating to a Finance Document or a document referred to in any Finance Document;

12.1.5 the giving of any legal opinions hereunder; and

12.1.6 the administration of the Finance Documents and the Security Documents

and provided that the maximum amount of expenses incurred into by the Bank in connection with the activities described in paragraph (a) above and for which the Bank is entitled to reimbursement under the provision of paragraph (a) of Clause 10.1(*Initial and Special Costs*) shall be USD 25,000

12.2 *Enforcement costs*

The Borrower shall pay to the Bank or as the Bank may direct, on demand, all fees, costs and expenses (including legal fees and expenses) incurred by the Bank:

12.2.1 in the determination of whether there has occurred a Default under any Finance Document; and

12.2.2 in respect of the preservation or enforcement of any of its rights under any Finance Document and any Security Document and the collection of any amount owing to the Bank.

13 MISCELLANEOUS

13.1 *Term of Agreement*

This Agreement shall continue in force until all moneys payable under the Finance Documents have been fully paid in accordance with the provisions thereof; provided that the indemnities and warranties of the Borrower shall survive repayment of the Project Loans and termination of this Agreement.

13.2 *Entire agreement; amendment and waiver*

This Agreement and the documents referred to herein constitute the entire obligation of the Parties hereto with respect to the subject matter hereof and shall supersede any prior expressions of intent or understandings with respect to this transaction. Any amendment to, waiver by the Bank of any of the terms or conditions of, or consent given by the Bank under, this Agreement (including this Clause 13.2 (*Entire agreement; amendment and waiver*)) shall be in writing, signed by the Bank and, in the case of an amendment, by the Borrower. In the event that the Bank waives a condition to any Disbursement, the Borrower shall, by receiving the proceeds of such Disbursement, be deemed to have agreed to all of the terms and conditions of such waiver.

13.3 *Giving of notices*

All notices or other communications under or in connection with the Finance Documents shall be given in writing and, unless otherwise stated may be made by letter, facsimile or telex. Any such notice will be deemed to be given as follows:

13.3.1 if by letter, when delivered personally or on actual receipt; and

13.3.2 if by facsimile or telex, when received in legible form.

However, a notice given in accordance with the above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

13.4 *Addresses for notices*

13.4.1 The address, facsimile and telex number of each Party for all notices under or in connection with the Finance Documents are:

For the Borrower:

Cascade Credit UCO CJSC
5/1 H. Kochar Street
0033 Yerevan
Armenia

Attention: Garegin Gevorgyan
Executive Director

Tel: +374-10-2787-76
Fax: +374-10-2782-21

or such other details as the Borrower may notify the Bank by not less than five (5) Business Days' notice.

For the Bank:

European Bank for Reconstruction and Development
One London Exchange Square
EC2A 2JN

United

Kingdom

Attention: Operation Administration Unit

Fax: +44-20-7338-6100

Telex: 8812161

Answerback: EBRD L G

or such other details as the Bank may notify the Borrower by not less than five (5) Business Days' notice.

13.5 Language

All documents to be furnished or communications to be given or made under the Finance Documents shall be in the English language or, if in another language, shall be accompanied by a translation into English certified by the sender, which translation shall be the governing version between the Parties.

13.6 Financial calculations

All financial calculations to be made under, or for the purposes of, this Agreement shall be made in accordance with International Accounting Standards and, except as otherwise required to conform to the definitions contained in Clause 0 (*Definitions*) or any other provisions of this Agreement, shall be made using the then most recently issued quarterly Financial Statements which the Borrower is required to furnish to the Bank from time to time under Clause 5.14(a) (*Financial Information*), provided that:

13.6.1 if the relevant quarterly Financial Statements should be in respect of the last quarter of a financial year then, at the Bank's option, such calculations may instead be made from the audited Financial Statements for the relevant financial year; and

13.6.2 if there should occur any material adverse change in the financial condition of the Borrower after the end of the period covered by the relevant Financial Statements, then such material adverse change shall also be taken into account in calculating the relevant figures.

13.7 Rights, remedies and waivers

13.7.1 The rights and remedies of the Bank in relation to any misrepresentations or breach of warranty on the part of the Borrower shall not be prejudiced by any investigation by or on behalf of the Bank into the affairs of the Borrower by the execution or the performance of this Agreement or by any other act or thing which may be done by or on behalf of the Bank in connection with this Agreement and which might, apart from this Clause 13.7.1 (*Rights, remedies and waivers*), prejudice such rights or remedies.

13.7.2 No course of dealing or waiver by the Bank in connection with any condition of Disbursement under this Agreement shall impair any right, power or remedy of the Bank with respect to any other condition of Disbursement or be construed to be a waiver thereof.

13.7.3 No action of the Bank in respect of any Disbursement shall affect or impair any right, power or remedy of the Bank in respect of any other Disbursement. Without limiting the foregoing, the right of the Bank to require compliance with any condition under this Agreement, which may be waived by the Bank in respect of any Disbursement is, unless otherwise notified to the Borrowers by the Bank, expressly preserved for the purposes of any subsequent Disbursement.

13.7.4 No course of dealing and no delay in exercising, or omission to exercise, any right, power or remedy accruing to the Bank upon any default under this Agreement or any other agreement shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence therein. No single or partial exercise of any such right, power or remedy shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy. No action of the Bank in respect of any such default, or acquiescence by it therein, shall affect or impair any right, power or remedy of the Bank in respect of any other default.

13.7.5 The rights and remedies provided in this Agreement and the other Finance Documents are cumulative and not exclusive of any other rights or remedies, whether provided by applicable law or otherwise.

13.7.6 The Borrower assumes full liability for, and agrees to and shall indemnify and hold harmless the Bank and its officers, directors, employees, agents and servants against and from, any and all liabilities, obligations, losses, damages (compensatory, punitive or otherwise), penalties, claims, actions, taxes, duties suits, costs and expenses (including, without limitation, reasonable legal counsel's fees and expenses and costs of investigation) of whatsoever kind and nature, including, without prejudice to the generality of the foregoing, those arising in contract or tort (including, without limitation, negligence) or by strict liability or otherwise, which are imposed on, incurred by or asserted against the Bank or any of its officers, directors, employees, agents or servants (whether or not also indemnified by any other person under any other document) and which in any way relate to or arise out of, whether directly or indirectly:

13.7.6.1 any of the transactions contemplated by any Transaction Document the execution, delivery or performance thereof;

13.7.6.2 the operation or maintenance of the Borrowers' facilities or the ownership, control or possession thereof by the Borrower; or

13.7.6.3 the exercise by the Bank of any of its rights and remedies under any of the Finance Documents;

provided that the Bank shall not have any right to be indemnified hereunder for its own gross negligence, wilful misconduct or breach of the laws of any jurisdiction.

13.8 *Acknowledgement*

The Borrower acknowledges that the Bank is entering into this Agreement, and has acted, solely as a lender, and not as an advisor, to the Borrower. The Borrower represents and warrants that, in entering into the Finance Documents, it has engaged, and relied upon advice given to it by, its own legal, financial and other professional advisors and it has not relied on and will not hereafter rely on any advice given to it by the Bank.

13.9 *Governing law*

This Agreement shall be governed by and construed in accordance with the laws of England.

13.10 *Arbitration and jurisdiction*

13.10.1 Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. There shall be one arbitrator

and the appointing authority shall be the LCIA. The seat and place of arbitration shall be London, England and the English language shall be used throughout the arbitral proceedings. The parties hereby waive any rights under the Arbitration Act 1996 or otherwise to appeal any arbitration award to, or to seek determination of a preliminary point of law by, the courts of England. The arbitral tribunal shall not be authorised to take or provide, and the Borrower agrees that it shall not seek from any judicial authority, any interim measures of protection or pre-award relief against the Bank, any provisions of UNCITRAL Arbitration Rules notwithstanding. The arbitral tribunal shall have authority to consider and include in any proceeding, decision or award any further dispute properly brought before it by the Bank (but no other party) insofar as such dispute arises out of any Finance Document, but, subject to the foregoing, no other parties or other disputes shall be included in, or consolidated with, the arbitral proceedings. In any arbitral proceeding, the certificate of the Bank as to any amount due to the Bank under any Finance Document shall be prima facie evidence of such amount.

13.10.2 Notwithstanding paragraph (a) above, the other Finance Documents, and any rights of the Bank arising out of or relating to this Agreement, any other Finance Document, may, at the option of the Bank, be enforced by the Bank in the courts of England or in any other courts having jurisdiction. For the benefit of the Bank, the Borrower irrevocably submits to the non-exclusive jurisdiction of the courts of England with respect to any dispute, controversy or claim arising out of or relating to this Agreement, any other Finance Document, or the breach, termination or invalidity hereof or thereof.

13.10.3 The Borrower covenants and agrees that, so long as it has any obligations under this Agreement, it shall maintain a duly appointed agent to receive service of process and any other legal summons in England for purposes of any legal action or proceeding brought by the Bank in respect of any Finance Document and shall keep the Bank advised of the identity and location of such agent.

13.10.4 Nothing herein shall affect the right of the Bank to commence legal actions or proceedings against the Borrower in any manner authorised by the laws of any relevant jurisdiction. The commencement by the Bank of legal actions or proceedings in one or more jurisdictions shall not preclude the Bank from commencing legal actions or proceedings in any other jurisdiction, whether concurrently or not.

13.10.5 The Borrower irrevocably waives any objection it may now or hereafter have on any grounds whatsoever to the laying of venue of any legal action or proceeding and any claim it may now or hereafter have that any such legal action or proceeding has been brought in an inconvenient forum.

13.11 Privileges and immunities of the Bank

Nothing in this Agreement shall be construed as a waiver, renunciation or other modification of any immunities, privileges or exemptions of the Bank accorded under the Agreement Establishing the European Bank for Reconstruction and Development, international convention or any applicable law.

13.12 Waiver of sovereign immunity

The Borrower represents and warrants that this Agreement and the incurring by the Borrower of the Loan are commercial rather than public or governmental acts and that the Borrower is not entitled to claim immunity from legal proceedings with respect to itself or any of its assets on the grounds of sovereignty or otherwise under any law or in any jurisdiction where an action may be brought for the enforcement of any of the obligations arising under or relating to this Agreement. To the extent that the Borrower or any of its assets have or hereafter may acquire any right to immunity from set-off, legal proceedings, attachment prior to judgment, other attachment or execution of judgment on the grounds of sovereignty or otherwise, the

Borrower hereby irrevocably waives such rights to immunity in respect of its obligations arising under or relating to this Agreement.

13.13 *Successors and assigns; third party rights*

13.13.1 This Agreement shall bind and inure to the benefit of the respective successors and assigns of the parties hereto, except that the Borrower may not assign or otherwise transfer all or any part of its rights or obligations under this Agreement without the prior written consent of the Bank.

13.13.2 The Bank may sell, transfer, assign, novate or otherwise dispose of all or part of its rights or obligations under this Agreement, the other Finance Documents upon the consent of the Borrower provided that such consent shall not be unreasonably withheld or delayed and provided further that no such consent shall be required if a Default has occurred and is continuing.

13.13.3 Except as provided in paragraphs (a) and (b) above none of the terms of this Agreement are intended to be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999 by any Person who is not a party to this Agreement.

13.14 *Illegality, invalidity or unenforceability*

The illegality, invalidity or unenforceability of any provision of this Agreement under the law of any jurisdiction will not affect its legality, validity or enforceability under the law of any other jurisdiction nor the legality, validity or enforceability of any other provision.

13.15 *Disclosure*

The Bank may disclose such documents, information and records regarding the Borrower and this transaction (including, without limitation, copies of any Transaction Documents, as the Bank deems appropriate in connection with any dispute involving the Borrower or any other party to a Finance Document, for the purpose of preserving or enforcing any of the Bank's rights under any Finance Document or collecting any amount owing to the Bank or in connection with any proposed sale, transfer, assignment, novation or other disposal contemplated by Clause 13.13 (*Successors and assigns; third party rights*)).

13.16 *Counterparts*

This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties, acting through their duly authorised representatives, have caused this Agreement to be signed in their respective names as of the date first above written.

CASCADE CREDIT UCO CJSC

By: _____

Name: Garegin

Title: Executive Director

Gevorgyan

**EUROPEAN
FOR RECONSTRUCTION AND DEVELOPMENT**

By: _____

Name: Jean Lemierre Title: President

BANK

SCHEDULE 1
Project Loan Agreement
SCHEDULE 2

Form of Letter to Auditors

[To Be Typed on Letterhead of the Borrower]

[Date]

[Name

of

Auditors]

[Address]

Dear Sir/Madam:

We hereby authorise and request you to give to European Bank for Reconstruction and Development (the **Bank**) all such information as it may reasonably request with regard to the Financial Statements, both audited and unaudited, which we have agreed to furnish to the Bank under the terms of the Framework Agreement dated 23 May 2006 (the **Framework Agreement**) between ourselves and the Bank. For your information, we enclose a copy of the Framework Agreement.

We authorise you to send 2 copies of our audited accounts to the Bank and copies of all future management letters. When submitting such audited accounts to the Bank, you are also requested to send, at the same time, a copy of your full report on such accounts in a form acceptable to the Bank.

For our records, please ensure that you send to us a copy of every letter, which you receive from the Bank immediately upon receipt and a copy of each reply made by you immediately upon the issue thereof.

Yours faithfully,

By:

Authorised Representative

Enclosure: Framework Agreement

cc: European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom
Attention: Operation Administration Unit

SCHEDULE 3
Form of Certificate of Incumbency and Authority
 [To Be Typed on Letterhead of the Borrower]

[Date]

European Bank for Reconstruction and Development
 One London Exchange Square
 United Kingdom EC2A 2JN
 Attention: Operation Administration Unit
 Subject: Operation No. 34841
 Certificate of Incumbency and Authority⁸

Dear Sir/Madam:

With reference to the framework agreement dated 23 May 2006 (the Framework Agreement) between Cascade [Credit UCO CJSC]i (the Borrower) and European Bank for Reconstruction and Development ("EBRD"), I, the undersigned [President]/[Chairman of the Board of Directors]/[Director] of the Borrower, duly authorised by its Board of Directors, hereby certify that the following are the names, offices and true specimen signatures of the persons, any one of whom is and will continue to be (until EBRD has received actual written notice from the Borrower that they or any of them no longer continue to be) authorised, on behalf of the Borrower, individually:

- (1) to sign the Loan Agreement, any Disbursement applications, certifications, letters or other documents to be provided under the Framework Agreement and any other agreements to which EBRD and the Borrower may be party in connection therewith; and
- (2) to take any other action required or permitted to be taken by the Borrower under the Framework Agreement or any other agreement to which EBRD and the Borrower may be party in connection therewith:

NAME	OFFICE	SPECIMEN SIGNATURE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Words used but not otherwise defined herein shall have the same meaning ascribed to them in the Framework Agreement.

IN WITNESS WHEREOF, I have signed my name on the date first above written.

Yours faithfully,

CASCADE CREDIT UCO CJSC

By: _____

Name:
 Title: [President]
 [Chairman of the Board of Directors]
 [Director]

⁸ Designation may be changed by the Borrower at any time by providing a new Certificate of Incumbency and Authority to EBRD.

ARMENIA RENEWABLE ENERGY PROGRAM

LENDING GUIDELINES

Preamble

Armenia Renewable Energy Project (R2) aims at creating electric power generation capacity through development of small hydro power stations (SHPS), wind and solar power projects. Major stakeholders of the project are World Bank (WB) and its International Development Agency (IDA), European Bank for Reconstruction and Development (EBRD), Global Environmental Fund (GEF) Cafesjian Family Foundation (CFF) and its Cascade Capital Holdings (CCH) and Cascade Credit (CCR), Government of Armenia (GoA) and its Armenian Renewable Energy Foundation (AREF), and Power Station Developers. International Financial Corporation (IFC) may be interested in joining the project.

CCR will act as the lending institution which will aggregate and then channel funds to developers through on-lending.

This document (hereinafter “AREP Guideline”) sets standards for lending activities for Armenia Renewable Energy Program (hereinafter “AREP”) and provides a framework for achieving asset quality, earnings objectives, sets risk tolerance levels and ensures adherence to adopted strategy. AREP Guideline defines criteria for portfolio composition, individual credit decisions, fair lending, and compliance management. AREP Guideline also determines major approaches used within the structure of Cascade Credit (hereinafter “CCR”) Lending Procedure by CCR Lenders for AREP.

AREP Guideline is based on CCR Business Development Plan. It is an integral part of CCR policies and procedures and is driven by CCR business philosophy and adopted strategies. Standards set in Lending Policy apply to AREP lending activities unless otherwise specifically outlined hereunder.

AREP Guideline may include annexes and attachments to determine specific approaches and guidelines.

AREP Guideline will be revised as required. Suggestions for additions, corrections and other changes should be submitted in writing to CCR Lending Team.

The standards outlined herein are general guidelines for CCR Lending Team. As such, in certain situations alternative approaches may result in actions that are in the best interest of CCR. Any exception should be justified in writing for approval to the corresponding party with adequate lending authorities.

AREP Guideline covers the following aspects of Armenia Renewable Energy Program:

1. Purpose of Lending.
2. Participation.
3. Flow of Funds.
4. Portfolio distribution.
5. Borrower Eligibility.
6. Performance analysis.
7. Collateral requirements.
8. Pricing.
9. Structuring.
10. Documentation.
11. Affiliate transactions, conflicts of interest.
12. Environmental compliance.
13. Procurement.

1. Purpose of Lending. CCR extends funds to businesses, whose core business is in the development of small hydro power stations, wind and solar power projects. The purpose of lending is to create electricity generation capacity from renewable sources, namely:

- a. Run of the river SHPS
- b. Irrigation canal SHPS
- c. Irrigation pipeline SHPS
- d. Drinking water pipeline SHPS
- e. Wind power stations (WPS)
- f. Solar power stations (SPS)

Specifically CCR lending instruments can be utilized for:

- a. Generators and turbines acquisition, transportation and installation
- b. Pipe acquisition, transportation and installation
- c. Electrical equipment acquisition, transportation and installation
- d. Other related equipment acquisition, transportation and installation
- e. Construction raw material purchase
- f. Construction financing on supplementary basis within small proportions

2. Participation. Each selected project shall be financed on pro rata basis, based on CCR equity contribution and EBRD and AREF lines of credit proportions, US\$ 3 mln , US\$ 7 mln and US\$ 5 mln respectively. CCR proportion of financing may be in Armenian Drams, proportion calculated at the indicative exchange rate of Central Bank of Armenia as of the date of CCR equity capital increase registration.

3. Flow of Funds. CCR shall designate a special banking account, acceptable to EBRD and AREF, to channel funds related to AREP exclusively through the above-mentioned account. CCR equity capital contribution funds may be channeled through any CCR banking account at CCR discretion.

4. Portfolio distribution. The AREP portfolio shall consist of facilities extended to developers of SHPS, WPS and SPS. CCR does not put any limitation on composition of portfolio. Developers shall be companies registered and operating in Armenia. The selection criteria are the economic efficiency of a project.

5. Borrower Eligibility. CCR targets developers with the following parameters:

- a. **Developer Actual Investment Expense:** at least 30% of total actual cost of the project.
- b. **Station planned installed capacity:** Maximum 10 MW
- c. **Licenses:** The developer shall have all licenses, land rights and water permits
- d. **Environmental compliance:** The project must meet the requirements of sound environmental practice and must have obtained all environmental clearances.
- e. **Sources of financing:** The developer shall have obtained needed financing commitments for the total cost of the project.
- f. **Return:** Project revenues must support the investment, ongoing costs of operations and maintenance and return on equity to the owner.
- g. **Expertise:** The borrower management must demonstrate a minimum of 2 (two) years of verifiable experience and expertise in specific industry. For new business lines the borrower management must demonstrate some acquired knowledge or skill obtained through training or exposure at least.
- h. **Reputation:** The borrower shall not have any previous or pending defaults, bankruptcies, civil or criminal charges or tax liens on the part of the business or its management. The borrower shall have a reputation of business in good faith.

6. Performance analysis. The following factors shall be subject to detailed analysis:

- a. **The character and management capability of Borrower to manage the business.** It is critical to conduct the necessary inquiries in order to determine that the borrower’s reputation for honesty, competence and integrity is completely satisfactory. There is no substitute for personal knowledge of the borrower or the borrower’s management.
- b. **The sources of repayment.** Every loan must have a secondary source of repayment in the event the first source (sales proceeds) fails to materialize. The secondary source usually consists of collateral, guarantees and liquidation of working capital assets.
- c. **Reliability and accuracy of Customer’s financial statements.** Complete financial statements must be analyzed. The focus shall be on cash flow generation through studying operational and earnings performance, asset quality, liquidity and financial leverage. The financial statements shall balance, total and tie into loan appraisal package (hereinafter “LAP”). In case of start up companies, this factor may be downplayed.
- d. **External Credit Check:** The Central Bank of Armenia Credit Register shall be enquired for Borrower external credit check. Alternatively, Armenian credit Rating Agency may be enquired.
- e. **Project quality:** An analysis shall be conducted to determine projects quality based on the following matrix:

Criteria	Sub – criteria	Estimation		
		Excellent	Good	Bad
Technical consistency	Project authorization status (land rights, water permits, construction licenses, etc.)			
	Adequacy of the project plan, including design and equipment			
	Sufficiency of the cost estimated (investment per capacity unit, capacity utilization efficiency factor etc.)			
	Sufficiency of hydrology and proven hydrologic record			
	Ability of the project to produce projected revenue under normal			

	and adverse conditions, such as - changes of tariffs for 20% and more - changes of current USD/AMD rate for 20% and more - changes of water volume and pressure for 20% and more			
	Conclusion on technical consistency:			
Economic viability	Project development current situation (volume of completed construction works)			
	Ability of the project to produce power at the fixed tariff			
	Conclusion on economic viability:			
Financial soundness	Realistic cost estimate			
	Means of project financing (own cash contribution, co-financing etc.)			
	Cash flow analysis			
	Ratio analysis (levels of IRR, rate of profitability)			
	Project contingency			
	Financial stability of the borrower			
	Adequacy of collateral provided			
	Conclusion on financial soundness:			
Organizational capacity	Qualification and competence of key staff			
	Borrower's potential to develop, follow-up and finalize the project			
	Qualification and competence of contractors			
	Conclusion on organizational capacity:			
Environmental soundness	Existence of environmental study of appropriate standard			
	Environmental approval issued by the appropriate authorities			
	Sound planning for the identified environment			
	Valid operating construction permits			
	Environmental liabilities in terms of pollution fees and fines			
	Conclusion on environmental soundness:			

7. Collateral requirements. CCR requires collateral, which meets the following conditions:

- a. The proof of ownership can be clearly identified;
- b. Collateral has an ascertainable market value;
- c. Collateral is controllable;
- d. Can be sold or liquidated without additional consent from government entities.

Specifically the following can be accepted as collateral:

- a. Residential Real Estate
- b. Commercial Real Estate
- c. Equipment and other fixed assets
- d. Inventory
- e. Vehicles
- f. Receivables
- g. Equity
- h. Claims
- i. Personal Guarantees
- j. Corporate Guarantees
- k. Bank Guarantees
- l. Securities, including promissory notes
- m. Other, set at Credit Committee

- 8. Pricing.** CCR determines pricing for each particular loan based on its risk estimates and matching reward expectations. The basic terms and conditions are:

Min Volume in US\$	30,000
Max Volume US\$	1,000,000
Developer's participation	At least 30% of project cost
Currency	AMD and/or USD
Max Maturity in Years	8
Grace in Months	24
Commitment fee	0.5%
Processing fee	required
Prepayment Penalty	n/a
Downpayment	n/a
Repayment	reducing balance
Min APR	12%
Collateral	controllable pledge
Max Funds to Collateral Value	70%
Insurance	required

- 9. Structuring.** The deal may be structured to include separate contracts. For example a deal may be structured as contracts on leasing for equipment financing, AMD loan for raw material financing and USD loan for pipe acquisition.
- 10. Documentation.** An extensive set of documents shall be collected at each stage of loan processing. The set of required documents is a part of application package. See attached the list of required documents.
- 11. Affiliate transactions, conflicts of interest.** All affiliate transactions shall be implemented on equal opportunity basis. All affiliate transactions shall be approved by Credit Committee. No affiliate lending shall be permitted within AREP unless there is simultaneous equity investment on part of CCR affiliates.
- 12. Environmental compliance.** Lending shall be carried out in an environmentally and socially responsible manner, and in accordance with the legal and regulatory framework of Armenia. Borrower operations are expected to be environmentally friendly. No impact shall be irreversible. Lenders must assess potential environmental and social risks, impacts and opportunities to ensure that environmental reviews, audits or assessments are conducted where appropriate. The environmental component shall be integrated into the credit decision-making and monitoring. All borrowers shall be judged based on the following criteria.
- Category A: Projects that may result in diverse and significant adverse environmental impacts. These types of projects shall develop Environmental Management Plan.
- Category B: Projects that may have moderate, specific environmental impacts for which mitigating measures can be designed. These types of projects shall develop Environmental Management Plan.
- Category C: Projects that have no or only negligible anticipated direct or indirect environmental impact.
- 13. Procurement.** Borrower shall conduct procurement based on best available market prices where applicable. For uniquely designed products such as generators and turbines borrower shall decide on the cost/quality trade-off. CCR shall verify declared costs through invoices submitted, market survey for widely available product prices and market research for uniquely designed products. Borrower shall obtain initial CCR approval for all expenses in excess of US\$ 10,000.

CREDIT AGREEMENT No _____

Yerevan _____

“Cascade Credit” Universal Credit Organization Closed Joint Stock Company, represented by its Executive Director Garegin Gevorgyan, acting on the basis of the company Charter, hereinafter referred to as the **LENDER**, on the one hand, and _____, represented by its Executive Director _____, acting on the basis of the company Charter, hereinafter referred to as the **BORROWER**, on the other hand, hereinafter jointly or separately referred to as a **PARTY** or **PARTIES**, entered into this Agreement as follows.

WHEREAS:

- a) The Lender is ready to finance the activity envisaged by _____ project developed and subject to implementation by the Borrower;
- b) The Lender is ready to extend a credit to the Borrower on the terms and conditions of this Agreement to finance the activities of the project developed by the Borrower;
- c) The Parties are determined to establish the principal terms for such financing under this Agreement;

NOW THEREFORE the Parties hereby agree on the following:

1. Definitions

The following terms and expressions used in this Agreement (including its Annexes) will obtain the meanings therein set forth:

Agreement – the present Agreement

Entity – physical or legal entity

Project- _____ project for reconstruction and operation of hydro power plants for the purposes of power generation, developed on _____ and submitted to the Lender by the Borrower, for the implementation of which the Borrower shall request and the Lender shall finance the project.

Project credit- a credit provided by Lender for the implementation of the project envisaged by this Agreement.

Dangerous materials- dangerous, toxic, destructive, radioactive and natural or artificial materials (solid or liquid, gas or steam, separate or combined with other materials), which can cause harm to human or other living organisms, environment, health or well-being of people.

Reasonable term-

Reasonable activity-

Certificate

Other definitions may also be ascribed.

2. SUBJECT OF AGREEMENT

- 2.1 The Lender shall undertake to extend a Project Credit and the Borrower shall undertake to repay the credit with payment of interests in compliance with this Agreement on the following terms and conditions:
 - 2.1.1 Type of the Project Credit: _____ credit.
 - 2.1.2 Currency of funding: _____
 - 2.1.3 Amount: _____ (_____)
 - 2.1.4 Interest rate: _____% (_____) per annum.
 - 2.1.5 The maturities for allocation and repayment of funds are set forth in Annex 1 hereto, which shall be signed between the Parties upon duly execution of the commitments specified in Section 5 of the Agreement.
 - 2.1.6 The schedule and dates for repayment of the credit principal and interests, hereinafter referred to as **Repayment Schedule**, are disclosed in Annex 1 deemed as integral part to this Agreement. Should the date specified in Repayment Schedule be a non banking day, the respective payment shall be made on the following banking day with necessary adjustments.
 - 2.1.7 The credit shall be provided for the term of _____ (_____) months.
- 2.2 The Borrower shall undertake to use the credit only for the Project implementation purposes.

3. DISBURSEMENT AND REPAYMENT

- 3.1 The credit shall be deemed allocated once the funds are credited into the Borrower's bank account by the Lender.
- 3.2 The credit principal and interests set forth in this Agreement shall be repaid in conformity with Repayment Schedule by transferring the funds to the Lender's bank account specified in this Agreement. The credit, in the respective amount, shall be deemed repaid once the funds are credited into the Lender's bank account.
- 3.3 The interests shall be accrued against the balance of the amount credited by the Lender for the actual calendar days past, assuming 365 days as a year.
- 3.4 If the Project Credit principal becomes overdue or in cases stipulated under Section 4.1.4 of this Agreement as well as for non-complying with the requirement set forth in Section 2.7 herein, the Borrower shall pay a penalty of __ % calculated against the outstanding amount for each day of payment overdue.
- 3.5 If the Project Credit interests become overdue, the Borrower shall pay the Lender a penalty of __% calculated against the outstanding amount of interests for each day of payment overdue.
- 3.6 Any repayment made by the Borrower against the Project Credit shall be initially channeled to cover the penalties and fines, next to cover the interests and thereafter to the repayment of principal.
- 3.7 In cases set forth in Section 4.1.4 of this Agreement, the principal, interests and any other payments under the Agreement shall be made to the Lender's bank account by the Borrower not later than 2 (two) banking days upon receiving a written notice from the Lender.
- 3.8 In case of violation of provisions under Section 1.2, the Lender, in addition to its other rights arising out of this Agreement, may impose a penalty on the Borrower for non-targeted use of the credit proceeds, equal to _____% calculated against the amount of such abuse.

4 RIGHTS AND OBLIGATIONS OF BORROWER

4.1 Borrower shall be entitled to:

- 4.1.1 Object the Credit Agreement, if proved that the Lender has failed to provide the amount, either in a whole or in part, specified in Section 1.1.3 of the Agreement. If the Lender has failed to provide the amount specified in Section 1.1.3 of the Agreement and the Borrower has raised an objection against the Lender subject to the provisions of this section, the Agreement will be deemed annulled. If the Lender has provided the amount specified in Section 1.1.3 of the Agreement partially and the Borrower has raised an objection against the Lender subject to the provisions of this section, the Agreement will be deemed effective in the actual amount provided.
- 4.1.2 Repay the principal, either in a whole or in part, before the due date by giving a prior written notice of at least _____ banking days to the Lender, or, otherwise make an extra payment of __% calculated against the amount of such premature repayment.

4.2 Borrower shall be obliged:

4.2.1 For reporting purposes:

- 4.2.1.1.1 Once the Project Credit comes into effect, to submit reports on utilization of proceeds for a period of __ () banking days, within _____ () banking days following such period, other than in cases when, guided by ensuring the targeted use of proceeds, the respective proportion of the credit is channeled to cover the Borrower's liability towards any entity (legal or physical) for services rendered and/or items procured and deemed necessary, by transferring the funds to the banking account of such entity/entities (legal or physical) as the Borrower has stated.
- 4.2.1.1.2 Once ready, but in no case later than 40 (forty) days following the end of each quarter of every fiscal year, the Borrower shall submit the Lender the following:
 - 4.2.1.1.3 Its quarterly financial statements with no audit opinion; and
 - 4.2.1.1.4 Certificate of compliance with the provisions of Section _____ of the Agreement, which shall be made in accordance with Annex _____ hereto and signed by the Borrower's Director.
- 4.2.1.1.5 Once ready, but in no case later than 160 (one hundred and sixty) days following the end of each fiscal year, to submit the following documents to the Lender:
 - 4.2.1.1.6 The respective audited financial statements; and
 - 4.2.1.1.7 Certificate of compliance with the provisions of Section ___ of the Agreement, which shall be made in accordance with Annex _____ hereto and signed by the Borrower's Director.

4.2.2 With respect of certain activities for obtaining the Lenders consent:

- 4.2.2.1 To obtain the Lender's written consent to the following:
 - 4.2.2.1.1 Entering into any financial liability (loan, guarantee, other lending facility);
 - 4.2.2.1.2 Providing a loan and/or guarantee to any entity (legal or physical) and/or pledging the Borrower's property;
 - 4.2.2.1.3 Replacing the Borrower's director;
 - 4.2.2.1.4 Attracting a new participant;
 - 4.2.2.1.5 Establishing branches, affiliates and/or representative offices;
 - 4.2.2.1.6 Changing its activity location, shifting from its activity sector and/or strengthening its scope through engaging in an additional type of activity;
 - 4.2.2.1.7 Amending and/or altering its Charter, Project or other documents relating to this Agreement;
 - 4.2.2.1.8 Undertaking financial and/or any other similar commitments which are directly falling out of the scopes of the Agreement.

4.2.3 With respect to information provision:

- 4.2.3.1 To promptly inform the Lender within 2 (two) banking days on any circumstances, including those that are caused voluntarily, which may directly or indirectly impact the ordinary implementation of this Agreement, including the following:
 - 4.2.3.1.1 Any prohibition or hold on its property;
 - 4.2.3.1.2 Changes in its postal or banking domiciles, addresses or any other data, or otherwise an objective, intention and activity for changing such data;
 - 4.2.3.1.3 Changes of the essence or scopes of the Project, or otherwise an objective, intention and activity for making such changes;
 - 4.2.3.1.4 Changes of the essence or scopes of the Borrower's activity, or otherwise an objective, intention and activity for making such changes;
 - 4.2.3.1.5 Availability of any information on possibility of launching an insurance indemnification and/or other similar demands against the Borrower and/or by the Borrower itself;

- 4.2.3.1.6 Any obvious or pending administrative action, court or other legal proceedings, actual or imminent or other related disputes with any state agencies or authorities launched against the Borrower and/or on its initiative, on which the Borrower shall submit its own justification, comments and suggestions towards the solution of such disputable issues;
- 4.2.3.1.7 Any circumstances potentially leading to failure or undue performance of commitments under this Agreement, the core of such reality and the activities to be undertaken by the Borrower for elimination of this situation;
- 4.2.3.1.8 Any obvious and/or imminent violations to the applicable legal acts, norms and other documents (projects, etc., including the documents set forth in Sections 3.2.7.5 and 3.2.10 of the Agreement);
- 4.2.3.1.9 Any potential threats to the environment or human health and/or security, other similar cases or accidents caused due to the implementation of the project; with distinct specification of the essence of such a case or accident as well as the activities undertaken or to be undertaken and followed-up by the Borrower for elimination of the results in a manner established by the applicable legislation (notification to the relevant state agencies, launching of legal proceedings by such agencies, etc.);
- 4.2.4 ***Other obligations:***
 - 4.2.4.1 Repay the credit principal and the interests to the Lender in accordance with the terms and conditions set forth in the Agreement.
 - 4.2.4.2 Utilize the credit proceeds only for the purposes of the Project covered by Section 1.2 herein.
 - 4.2.4.3 Facilitate the Lender to supervise that the credit proceeds are used in targeted manner as per Section 1.2 of the Agreement and the Project is implemented fully and the Borrower has duly performed its commitments under this Agreement.
 - 4.2.4.4 From time to time, ensure the access for the Lender and other third parties involved by the Lender within the scope of the Agreement to the Borrower's territory; make its accounting ledgers transparent and accessible to them through disclosure of relevant information and submission of necessary documents.
 - 4.2.4.5 Provide to the Lender the overall documents and information as it may request in reasonable terms (this needs a definition).
 - 4.2.4.6 Retain and ensure the effectiveness (with necessary updates, etc.) of all public, corporate and operational agreements, permits (licenses) and restrictions, registrations, records and other reference documents that are set and continue to be deemed as a basic condition for the provision of the Project Credit and a core objective for the implementation of the Project; and strictly observe the conditions of the Agreement as well as therein set forth, undertaking all necessary actions to ensure their duly performance.
 - 4.2.4.7 Observe the provisions of the RA Laws while entering into any deals, required for duly implementation of the Borrower's commitments under this Agreement, with the Lender and upon necessity with any third parties engaged by the Lender.
 - 4.2.4.8 Make repayment of the principal and interests as well as any other payments under the Agreement before the due date as may be demanded by the Lender pursuant to provisions of Section 4.1.4 hereof.
 - 4.2.4.9 Perform its activity with due diligence and efficiency guided by reliable financial and business practices and following the requirements of legal acts with major focus on environmental protection, public health and labor security.
 - 4.2.4.10 Make an insurance with the Lender as an additional and the sole beneficiary to receive the indemnification against any potential losses or damages incurred through the Borrower's fault, by providing the originals and copies of insurance policies to the Lender.
 - 4.2.4.11 Not repay its liabilities to the Lender's participants and allocate the profits between its shareholders unless the commitments towards the Lender have been fully performed.
 - 4.2.4.12 Not engage in any transactions which shall or may in any manner, either directly or indirectly, restrict its capacities to accomplish its commitments undertaken under this Agreement and for the implementation of the Project.
 - 4.2.4.13 Ensure adequate protection of its entire property. Within _____ (_____) banking days upon transferring the Project Credit proceeds to the Borrower's bank account by the Lender, the Borrower shall reimburse the overall banking charges covered by the Lender for transferring such funds.

- 4.2.4.14 In case of any Violations specified in Section 4.1.4. of this Agreement, pay a penalty, upon the Lender's discretion, equal to AMD _____(_____) against each case of violation. Further, the provisions of this section shall apply simultaneously with or independently from the Lender's rights envisaged by Section 4.1.4 herein.
- 4.2.4.15 Refrain from entering into an authorized, trusteeship or any other similar governance agreements based on which the management of the activities and works of the Borrower shall be carried out by other entities.
- 4.2.4.16 Not establish affiliates and/or related companies, obtain participation in such companies as well as acquire securities (shares) of other organizations.
- 4.2.4.17 Not reorganize itself into a new entity (incorporation, assimilation, splitting, separation, reorganization).
- 4.2.4.18 Not initiate a company dissolution, activity suspension, bankruptcy and other activities that will lead to this.

5 RIGHTS AND OBLIGATIONS OF LENDER

5.1 Lender shall be entitled to:

- 5.1.1 Refuse from providing the Project Credit, either in a whole or in part, to the Borrower in case of any circumstances evidencing that the Borrower would be unable to repay the funds in accordance with the terms and conditions set forth in the Repayment Schedule of this Agreement.
- 5.1.2 Charge against the Borrower's overdue liability under this Agreement from the funds of the Borrower held with the Lender.
- 5.1.3 Demand for the repayment of the credit principal and interests as well as of all other payments stipulated by this Agreement before the due date in case the Borrower fails to comply with the requirement of Section 1.2 of this Agreement or ensure the access for the Lender to supervise the targeted use of the Project funds.
- 5.1.4 Terminate the Agreement before the due date and demand for immediate repayment of the Project Credit principal and interests and of all other payments stipulated by this Agreement if any of the cases (hereinafter "Violation") set forth hereunder occur:
 - 5.1.4.1 Non-targeted use of the Project Credit by the Borrower;
 - 5.1.4.2 The Borrower has been acknowledged bankrupt in conformity with the RA Laws;
 - 5.1.4.3 The Borrower has violated the Repayment Schedule other than in cases of premature payment stipulated by this Agreement;
 - 5.1.4.4 The Borrower has submitted false information and/or documents;
 - 5.1.4.5 If the Lender reasonably suspects that the financial standing of the Borrower has changed essentially and negatively, including due to any administrative and/or judiciary actions undertaken by state agencies against the Borrower;
 - 5.1.4.6 The Borrower has engaged itself in an activity and/or transaction which essentially runs counter to the applicable environmental, humanitarian and/or legal norms;
 - 5.1.4.7 The Borrower has violated the collateral agreement and/or other deeds arising out of and/or in connection to, either directly or indirectly, such agreement, or fails to perform it with due diligence;
 - 5.1.4.8 The Borrower has violated Section 3 of the Agreement;
 - 5.1.4.9 If the Lender reasonably thinks that the Borrower fails to adequately protect its property and/or the Borrower's property is directly or indirectly grabbed, distructed or abused. Moreover, if the Lender has such suspects, it shall be entitled, without any restrictions, to enter the Borrower's territory and carry out respective verifications demanding the Borrower to present any documents, information and property;
 - 5.1.4.10 The Borrower has failed to comply with other provisions of the Agreement.

5.2 Lender shall be obliged to:

- 5.2.1 Provide the amount specified in tSection 1.1.3 of this Agreement to the Borrower not later than on the date set forth in Section 1.1.5 of the Agreement;

- 5.2.2 Respond in writing, by either rejecting or giving the agreement sought, within 3 (three) banking days upon receiving the document addressed to the Lender by the Borrower with the purpose of obtaining the Lender's agreement to permits as specified in Section 3.2.13 of this Agreement.

6 PLEDGES

- 6.1 The following shall be eligible as a collateral to secure the Borrower's liability under this Agreement: (i) a guarantee issued by a third party or by the Borrower itself; and (ii) fixed assets or moveable property collateral pledged in favor of the Lender in conformity with a collateral agreement(s) entered into between the Parties and/or a third party (parties), hereinafter "Collateral Agreement", as well as in compliance with other transactions eligible subject to the requirements of the RA Laws. The pledging covered under this Section and its registration procedure carried out pursuant to the Armenian Laws shall be deemed as a precondition for provision of the Project Credit.
- 6.2 The following shall be accepted as a precondition for provision of the Project Credit:
- a) Collateral and its duly registration in conformity with the RA Laws; and
 - b) Insurance made by the Borrower, at its own expenses, in favor of the Lender against the full value of the collateral and for the entire effective period of the Collateral Agreement, with the involvement of an insurance company and on the conditions agreed upon with the Lender;
 - c) Insurance against any potential losses and damages made by the Borrower, at its own expenses, in favor of the Lender, as an additional beneficiary, in the full volume and for the entire effective period of the Agreement, with the involvement of an insurance company and on the conditions agreed upon with the Lender;
 - d) Insurance against any potential responsibilities, which shall be made by the Borrower, at its own expenses, in favor of the Lender, in a full volume and for the entire effective period of the Agreement, with the involvement of an insurance company and on the conditions agreed upon with the Lender.

7 REPRESENTATIONS AND WARRANTIES

- 7.1 The Borrower shall hereby represent and warrant that:
- 7.1.1 The Agreement is signed in a legitimate manner and is legally and mandatorily binding on the Borrower and in accordance with its terms shall be applicable against the Borrower in case of its bankruptcy or insolvency.
 - 7.1.2 The Borrower is a legal entity registered in conformity with the RA Laws and is fully entitled to possess property on terms of ownership, implement its current activities and operations and carry out the transactions under this Agreement and in accordance with its terms.
 - 7.1.3 The overall permits required for the Borrower's activity or the implementation of this Agreement are and shall remain valid unless the overall commitments under this Agreement have been fully and duly accomplished.
 - 7.1.4 The Borrower has and shall neither violate the Agreement or any provisions thereof nor violate any other commitments by entering into this Agreement.
 - 7.1.5 No administrative and/or judiciary proceedings have been or are expected to be launched against the Borrower.
 - 7.1.6 The Borrower is neither acknowledged bankrupt nor is in the process of dissolution.
 - 7.1.7 The priority of commitments under this Agreement are almost identical to the other liabilities of the Borrower and the property pledged under the Collateral Agreement is free from any other demands and the Borrower has no intention to successively or in any other way pledge the same collateral in favor of other parties.
 - 7.1.8 The full and sufficient implementation of the Project, based on which the Project Credit has been pooled, is permitted for the present and future and is not running counter to any legal acts, other transactions concluded by the Borrower and/or any other document mandatorily binding on the Borrower.
 - 7.1.9 The full and sufficient implementation of the Project, based on which the Project Credit has been pooled, neither in present nor in future shall be in breach of any legal acts, other transactions concluded by the Borrower and/or any other document mandatorily binding on the Borrower.
 - 7.1.10 The full and sufficient accomplishment of the commitments undertaken by the Borrower under the Agreement is not hindering the Borrower to duly perform its other commitments with respect to any transactions concluded hereof.
 - 7.1.11 Under this Agreement the Borrower shall authorize the Lender and acknowledge that the Lender shall act as a legally authorized entity acting on its behalf, specifically: making and signing specific documents, negotiating with other parties and initiating other reasonable activities in favor and on behalf of the Borrower to ensure the duly accomplishment of the commitments towards the Lender under this Agreement.

8 FORCE MAJEURE

No party shall be liable for any failure or delay to perform its obligations under this Agreement if such failure or delay was due to causes which occur after the effective date of this Agreement and are beyond the reasonable control of the Parties. These are the events which affect the Parties to perform their obligations herein. In case of

a force majeure event, the affected Party shall promptly notify the other Party in writing. If the force majeure event lasts over 1 (one) month, the Lender shall be entitled to cancel the Credit Agreement and demand the Borrower for immediate performance of the liabilities under this Agreement.

9 MISCELLANEOUS

- 9.1 The overall disputes arising out of this Agreement shall be settled through negotiations. If following to such negotiations the Parties fail to reach to agreement, such disputes shall be launched to the Arbitrary Court acting under the Association of the Banks of Armenia and settled in accordance with the Arbitrary Court Charter.
- 9.2 The terms of this Agreement may be amended only upon the mutual consent of the Parties for which reason a common and counter signed document shall be made between the Parties in accordance with the Agreement terms.
- 9.3 Exercising, delay or withdrawal of any of the rights under this Agreement, either in a whole or in part, shall in no way undermine the Lender's right arising out of this Agreement or any legal acts.
- 9.4 The overall notifications, agreements, refusals and any other correspondence under the Agreement shall be made in writing and delivered by hand (against a written receipt) or send via facsimile (against a written acknowledgement) to the corresponding facility number.
- 9.5 The Parties shall herewith agree and undertake not to disclose and financial or other data respective to the Agreement, other than in cases stipulated by legal acts.
- 9.6 The Agreement shall come into effect upon signing subject to the accomplishment of the requirement under Section 5.1 of this Agreement and shall remain effective unless the Borrower has duly and completely performed its commitments under this Agreement.
- 9.7 The Borrower shall not be entitled to transfer its rights and obligations under this Agreement to any third parties without the prior written consent of the Lender. The Borrower may transfer its rights and obligations under this Agreement to any third parties by notifying the Lender in writing.
- 9.8 The performance of obligations under this Agreement shall be binding on the legal successors of the Parties.
- 9.9 The annulment of any of the provisions under the Agreement shall in no way be deemed as a basis for annulment of the whole Agreement or any other provisions thereof. Neither of the Parties hereto shall abuse the complete or partial annulment of the Agreement for avoiding from the liabilities assumed by them under the Agreement. Moreover, the Parties shall undertake all necessary measures to pursue the objectives and intentions under the Agreement in conformity with the applicable legislation.
- 9.10 The Agreement constitutes the comprehensive agreement obtained between the Parties and prevails over the entire previous arrangements between the Parties related thereto.
- 9.11 The Agreement is signed in two copies in Armenian, which have the equal legal force, with one copy for each of the Parties hereto.

10 DOMICILES, BANKING REQUISITES AND SIGNATURES

LENDER

“Cascade Credit” Universal Credit Organisation CJSC

Legal address: 5 Hr. Kotchar str., Yerevan, RA

Registration Certificate No 9, dated 21 December, 2004

Registration No 9

Signature _____

Garegin Gevorgyan

Executive Director

Bank Account: Cascade Credit CJSC
23500 77501953327

Phone: (010) 27-87-76

Fax: 27-82-21

BORROWER

Legal address: -----

Registration Certificate No -----

Registration Date:-----

Registration No -----

Bank Account:-----

Signature _____

Director

Passport -----

Issued ----- by ----- Address: -----

Phone: (-----) -----

Fax: -----

FINANCIAL MANAGEMENT MANUAL

PREAMBLE

Armenia Renewable Resources and Energy Efficiency Fund (R2E2 Fund) shall assume the responsibility for duly and complete implementation of the projects and monitoring of projects outcomes. The R2E2 Fund shall be responsible for the projects accounting, financial management reporting, Special Account administration, audit arrangements and coordination with IDA, including the preparation and submission of withdrawal application. R2E2 Fund shall also be responsible for the submission of action plans, quarterly FMRs, progress reports and auditors' findings, inter alia, based on information provided by the organizations implementing different components of the projects.

The Fund shall provide financial, procurement and administrative support to each of the Projects components as well as carry out the respective monitoring and evaluation thereof.

For all the projects which are being implemented by the R2E2 Fund the same Financial Management Procedures, Policies and Treatments should be applied until otherwise stated in the specific Letter Agreements and thus taken into account for specific matters.

ADMINISTRATIVE PROCEDURES

Management Policies

The management of the Fund shall be carried out in accordance with the procedures established under the OM. The organizational structure of the Fund shall be approved by the BOT. The management of the Fund's daily performance shall be carried out by the managerial staff, including the Fund Director (FD), Financial Manager (FM) with the latter being in charge of accounting, financial management, internal control and disbursements, as well as the project Coordinators to be in charge of EE and RE projects implementation. Relationships with the personnel are regulated by the RA Labor Code.

Filing

The Fund Director stipulates filing procedure with the aim of ensuring proper tracking and safe keeping of the overall documentation, internal distribution of data and information, tracking of assignments and performance.

The filing procedure assigns responsible officers for keeping certain type of documents, particularly the documents covering R2E2 Fund establishment (such as Charter, registration license, etc.) shall be kept in safe lock places. The financial and disbursement documents as well as the original copies of contracts and payment documents shall be kept with the FM. The Procurement Specialist shall be responsible for keeping all procurement related documents. The Assistant/Translator shall be responsible for preserving the original copies of the overall correspondence and translated copies thereof. The Executive Assistant shall be responsible for keeping the staff agreements, internal acts as well as copies of all newspaper articles and press releases relating to the Project.

Staff

The appointment and dismissal of the staff are performed by the Fund Director in accordance with the RA Labor Code. The scope of responsibilities and functions of the employees are covered under Terms of Reference (TOR) to this OM. The Fund shall maintain a separate personal file for each of the employees to be held with the Executive Assistant.

The remuneration shall be made in accordance with the staff list approved by the BOT. It shall be subject to annual review by the BOT. The payment of salary shall be made either by transferring to the employee's bank account.

Endorsement and Disciplinary Actions

The Fund Director may endorse the employee for conscientious work. The following endorsement actions may be undertaken:

- Expressing gratitude,

- Lump sum remuneration,
- Additional paid vacation.

In case of any working discipline infractions by the employee, the Fund Director shall undertake the following disciplinary actions:

- warning
- stern reprimand,
- dismissal.

The endorsement and discipline actions shall be conducted in accordance with procedures specified by the Labor Code of the RA.

Work hours and non-working days

The working day shall start from 9 am till 6 pm with the lunch break from 13:00 to 14:00. Saturday and Sunday shall be considered as non-working days. The duration of a pre- holiday working day shall be reduced by 1 hour. Employees shall be entitled to an annual vacation in case of 6 months permanent work with the Fund. The annual vacation shall be granted in accordance with a specific schedule, which shall be established at the beginning of each calendar year with the Executive Assistant being responsible for drafting.

Fraud, waste, or misuse of project resources or property

Any case of fraud, waste or misuse of project resources or property identified by a Fund employee shall be reported in writing to its direct supervisor or to the Fund Director if the issue is neglected or unsettled by the supervisor. Should the Fund Director fail to undertake any action for suspending such fraud, waste or misuse, the issue shall be submitted to a BOT member/members in writing by the same employee with sending a copy of such notification to the person having committed an act of fraud, waste or misuse .

Accounting Policies

This manual defines and describes the Project accounting policies that should meet the RA and WB requirements and comply with the DCA covenant.

The proceeds of Credit shall be used in an economy and efficient manner and solely for the DCA financing purpose, therefore, it is required:

- Maintain and keep records of the transactions and accounts statements;
- Furnish the WB with certified copies of the financial statements and conclusions on such statements or records;
- Ensure that financial management and accounting systems are adequate to generate timely and reliable financial information;
- Keep basic principles designed to ensure that the accounting records *are complete, relevant, and reliable*. Financial statements shall be prepared based on the persistency of the institutional functioning other than in cases of well-founded reasons to consider the possible dissolution of the institution or other possible interruption of its activity.
- accounting transactions are recorded and reported in accordance with legal acts on accounting;
- the information is accurate and free from any material error; it is neutral,
- users must be able to compare the financial statements of the Fund through time in order to identify trends in its financial position and performance.

Accountability

To ensure the accountability for project funds, the R2E2 Fund shall:

- (a) In an orderly manner, maintain all receipts and records of disbursements as well as records on the value, location and condition of all items purchased but not yet utilized;
- (b) Introduce and apply internal control mechanisms to ensure there is appropriate approach for acquisition or delivery of goods and services, and adequate basis for confirmation that such receipts and payments are accurately recorded on a timely basis, and that the assets and liabilities are adequately controlled;
- (c) Report on the use of funds and facilitate the efforts of independent auditors in verification of such reports.
- (d) Provide information, as required, to the IDA.

Accounting Standards

The accounting and internal management systems of R2E2 Fund will be governed by the accounting standards established under the Armenian legislation and acceptable to the World Bank. For accounting purposes IFRS shall be used. The accounting systems will: (i) reliably record and report according to the IFRS all financial transactions, assets and liabilities of the project; and (ii) provide adequate financial information on project management and monitoring activities.

The R2E2 Financial Manager shall be responsible for maintaining an adequate control over the all accounting elements.

Accounting Principles

The accrual principle shall be applied for project accounting purposes. Under the accrual principle, the transactions or expenditures are recognized upon their execution (not upon receiving or paying, as in cases of funds or their equivalent), recorded in the ledgers and disclosed in financial statements within their execution period.

Internal Control Facilities

An essential characteristic of an effective system of internal control lies in the organizational independence of the operating and accounting functions. That is, different and independent parties may carry out the initiation and authorization of a transaction, its recording and custody of the resulting asset or liability. In the R2E2 Fund,

- authorization for payment shall be issued by the R2E2 Fund Director, acting on the basis of letters of no objection issued by the World Bank (where necessary);
- the authorized signatories for payments are: R2E2 Fund Director/Project Coordinator (Category A), Financial Manager and/or Chief Accountant (Category B)
- recording is made by the Disbursement Specialist.

Internal controls are regularly carried out to test the effective functioning of the controls and to improve them. The internal control function aims to:

- protect in all respects the intellectual and material integrity of the Project;
- guarantee that all records are comprehensively, correctly and safely protected;
- prepare the Project for distinct opinion of external audits;
- undertake reasonable and appropriate precautions against foreseeable emergency situations;
- verify that adequate segregation of duties exist between the initiation, authorization, disbursement and recording of functions;
- verify that procedures and responsibilities are clearly defined and adequately documented in Terms of Reference/Procedure Manuals;
- verify that expenditures are made after all applicable procedures and undergo prior authorization upon necessity;
- verify that all documentation is maintained for an adequate period of time for the audit purposes as well as WB review.

The Financial Manager shall be responsible for establishing the proper system of filing all supporting documentation required in ordinary accountability practices for payments made against contracts or administrative expenses. Such documentation shall be kept in an accessible but secure location.

By the end of a year, the Director shall appoint a commission with at least three members to make the inventory of the capital assets and liabilities of the Fund.

Asset record & safeguard

Tangible assets shall refer to any property owned by the Fund, including buildings, constructions, vehicles and equipment, production and economic (office) property.

R2E2 Fund office supplies

These supplies shall be procured by the Office Manager on the basis of operational budget of the R2E2 Fund. The office supplies shall be physically kept in a secure place, preferably in a warehouse facility. Office Manager shall be prepare warehouse input order, sign it and submit with an enclosed invoice to the Financial Manager. Thereafter, the Financial Manager shall sign the input order and hand it over to the Chief Accountant for recording. For outputs, the Office Manager shall prepare an output order, which should be signed by the receiver and him/her. Upon the Director's approval, the output order shall be submitted to the Financial Manager that will sign the output order and transfer it to

the Chief Accountant for recording. The annual inventory commission shall verify the consistency of Warehouse records to the accounting balance. Furthermore, the Director may demand unexpected inspection of the warehouse.

Project equipment

The R2E2 Fund Director shall control the annual inventory of the assets, thus ensuring such assets are physically safeguarded, specifically:

- only authorized users to have access to these assets;
- their acquisition, maintenance and disposal to be appropriately documented;
- appointed personnel to be responsible and accountable for them.

Payroll

At the end of each month, the payroll shall be prepared by the Chief Accountant and approved by the Financial Manager and Director. The payslip shall be provided to each of the employees by the Disbursement Specialist based on the payment order.

Payments

Currency Accounting and contractual treatment of transactions both in AMD and USD, revaluation of accounts, recognition of foreign exchange gains and losses

R2E2 Fund accounting ledgers shall be maintained in AMD and USD, since:

- R2E2 Fund, as a legal entity registered in Armenia, shall perform accounting and submit reports to the state authorized agencies in AMD. All other currencies, including USD, are indicated as foreign currencies.
- The R2E2 Fund reporting currency for the World Bank and RA MOFE is USD. For project reports all other currencies, including AMD, are indicated as foreign currencies.

Co-financing inputs and outputs in AMD shall be recorded in the accounting ledgers at the exchange rate established by the RA Central Bank as of the date of transaction.

Outputs from the Special account in AMD or other currencies shall be presented in USD, applying HSBC Bank Armenia exchange rate as of the date of the deal.

Cash, accounts receivable and payable in AMD and other currencies shall be revaluated applying the exchange rate of the Central Bank as of the balance sheet date.

Accounting Standards of the Republic of Armenia - ASRA 21- "The Effects of FX Exchange and FX Rates Floatation" shall be applied by the R2F2 Fund for accounting of foreign currency transactions.

Foreign exchange gains and losses are not eligible expenditures for IDA financing.

Revaluation of XDR un-disbursed balances

For revaluation of XDR un-disbursed balances, the R2E2 Fund shall apply the closing rate. The revaluation will be done monthly or before major commitments and if needed shall be performed prior to the preparation of Annual Budget and Procurement Plan and in certain cases prior to the invitation to quote and signing of contract (if the planned contract amount is essentially related to the un-disbursed balance of that category).

Accounts receivable

Accounts receivable shall be the advances made to suppliers and contractors at the beginning of the contract. These advances are gradually decreased at each stage of the contract implementation.

Disbursements

All disbursements shall be made against standard documentation as described in the World Bank's Disbursement Handbook. Disbursements shall be administered by the R2F2 Fund under the funding of the RA Ministry of Finance and Economy (MOFE), the World Bank and other donor/lending agencies

Statement of Expenditures (SOE)

The R2F2 Fund financial management system shall adequately process and submit SOE documentation to the World Bank's satisfaction. The SOE shall be prepared by the Disbursement and Loan Monitoring Specialist and verified by the Financial Manager, and transferred to Fund Director for final signing. The Credit Agreement documents, the SOE limits shall be agreed between the World Bank and the Government of Armenia (GOA), and specify requirements for (a) using SOE; (b) maintaining records, accounts, and documents; (c) providing access to these records and documents; and (d) auditing. The disbursement letter shall define the types of expenditures for which SOE shall be required, include sample SOE forms and provide any special instructions for preparing SOE.

Disbursements for large amount contracts and expenditures will be made on the basis of Statements of Expenditure (SOE). The documentation to support these expenditures would be retained by the R2F2 Fund for at least three years after receipt by the World Bank of the audit report for the year in which the last disbursement was made. R2F2 Fund will ensure that all supporting documentation is adequately maintained and available for review by the request of the Bank.

Full documentation package would be required for withdrawals on contracts above the SOE threshold levels. In this case one copy of each of the following support documents is normally given to the Bank with the withdrawal application. Full documentation package shall involve:

- Supplier's or consultant's invoice or summary statement of works performed and signed by the supervising expert or other authorized official;
- Evidence of shipment (for equipment and materials purchased).
This may be one of the following:
 - ✓ copy of the bill of lading;
 - ✓ forwarder's certificate;
- Evidence of payment (for reimbursement).
This can be one of the following:
 - ✓ receipted invoice or formal receipt;
 - ✓ commercial bank's report of payment;

SPECIAL ACCOUNTS AND FUNDS MANAGEMENT

Special Account Procedures

The R2F2 Fund financial management system shall provide for proper accounting of receipts, payments and an audit trail for each transaction with reference information to the documentation for the replenishment of the Special Accounts (SA). The Development Credit Agreement sets out the terms and conditions for establishing and using the SA. The disbursement letter provides further explanations of the SA terms and conditions. In making payments from a SA, the Fund shall follow all procedures specified in the Development Credit Agreement for the prior and post review of procurement documents.

The Fund shall request replenishment of the SA by submitting a Withdrawal Application together with (a) summary sheets, (b) full supporting documentation (if SOE is not in use); and (c) Special Account statement (from the servicing bank).

The R2E2 Fund shall hold Special Account in a bank acceptable to the World Bank. In addition, the R2E2 Fund shall also operate a local currency and other accounts, where the Government's contribution and other funds are deposited.

The Withdrawal Applications shall be signed by the R2E2 Fund Director and the Chief Treasurer of the RA. The signatories to R2E2 Fund bank accounts will be the Director and the Financial Manager or the Chief Accountant. Any changes to the signatories must be approved in writing and duly noted.

Applications for replenishment of the Special Account shall be submitted monthly. Documentation for replenishments will meet the standard Bank transaction requirements as described in the Disbursement Handbook. The Withdrawal Applications for the Special Account replenishment will be accompanied by all replenishment requests.

Cash Flow

Commitments

The contract shall constitute the basic document for accounting of commitments and disbursements. When a contract is signed, the Chief Accountant shall establish a Contract Record with an initial commitment equal to the contract price. As each payment is made, its date and amount shall be noted on the contract payment record; at any given moment the un-

disbursed portion of the amount committed shall be the difference between the initial commitment and the sum of the payments already made.

Invoicing

The contractor or supplier as specified in the contract shall submit invoices. Each invoice shall clearly specify the corresponding work performed, or be supported by a statement of works, as appropriate. The invoice shall disclose the type of goods or services rendered, quantity unit, unit price, total amount, including taxes, bank requisites of contractor/supplier to which the payment should be made, tax payer's registration number, contact details of the contractor/supplier and pertinent documentation to verify the works performed. Invoices shall be signed by the contractor's/supplier's authorized official. R2E2 Fund authorized Coordinator and/or Office Manager shall confirm that the works are performed or items submitted according to the Contract and thereafter sign the invoices.

Tracing of invoices

The R2E2 Fund Director shall approve the invoice and attached statement of work, certify the services performed by verification of the FM, and then transmit the file to the Financial Manager for payment. Upon necessity, the R2E2 Fund Director may commission a confirmation (certification) of the statement of works by an external/internal consultant. The Financial Manager shall authorize the payment and transfer the invoice to the Chief Accountant. The Chief Accountant shall check the invoice and authorize the payment provided that the invoice is issued in conformity with the RA Laws and accurately reflects the details (precise amount) of the deal. The total time that elapses between receipt of the invoice by the R2E2 Fund and the issuance of the payment order to the bank shall not exceed 30 working days. The received and paid invoices shall be allocated to specific categories according to the substance of the expenditure specified in the invoice and reference to the specific contract in framework of which the invoice was issued. In particular cases a note of the FM should clarify the expenditure category that should be allocated to.

Authorization of Payments

The authorization of payments shall involve the following:

- (1) Preparation of a payment order for the net amount on the contractor's/supplier's bank account as specified in the respective invoice;
- (2) Recording of the payment in the contract payment record.

Payment orders

Payment orders shall be prepared by the Disbursement Specialist and signed by the Financial Manager or Chief Accountant and countersigned by the R2E2 Fund Director. Either one may delegate its authorities in writing. Disbursement Specialist shall allocate payment orders and invoices to specific category of project expenditures based on the established Contract Record identifications.

Closure of contract

Upon acceptance of final works, all retention amounts or the balance thereof shall be closed after the execution of the works. The contract shall be deemed closed upon completion of the contract term, afterwards any un-disbursed commitment shall be voided unless otherwise specified in the contract.

Bank Accounts

All disbursements (payments) for local expenditures to suppliers, contractors, consultants, etc., will be made in the national currency. All foreign expenditures will be made in the currency of contract. Payments to the financial institution will be made in AMD and/or USD.

The World Bank form of Application for Withdrawal - Form 1903 together with its Summary Sheet shall be used for the following:

- ◆ Advance to the Special Account;
- ◆ Replenishment of the Special Account;
- ◆ Direct payment from the credit account at IDA to a third party for amounts due;
- ◆ Reimbursement of payment(s) already made by the R2E2 Fund from its own resources.

Form 1903 shall be used in case of applications being submitted without documentation under the Statement of Expenditure (SOE) procedure.

Letters of Credit and Special Commitment

To finance the procurement of imported goods, the Fund may open a Letter of Credit. If the commercial bank in question is unwilling to open or confirm the letter of credit without any guarantee or security, the Bank by the request of the Fund may provide the commercial bank with the guarantee it requires in the form of a Special Commitment.

Letter of Credit

Letter of credit should be opened no earlier than 10 days before the shipment date. A letter of credit shall contain (a) the description of goods, (b) shipment forms and destinations, and (c) terms of payment, for example, 80% payable based on specified documents and 20% based on acceptance certificate.

Special Commitment

A special commitment is an irrevocable letter of credit confirmed by the World Bank/IDA. An Application for Special Commitment is submitted by the R2E2 Fund to the Task Manager in two signed copies. It may be submitted at the same time, or separately, when the negotiating bank sends a reimbursement claim to the World Bank/IDA. Payments are normally made within 21 days from shipment.

Principles of the Special Account

To permit the R2E2 Fund to settle all payments in a timely manner, it shall hold a Special Account with a bank, for which the signature(s) specified in the Disbursement Handbook shall be required. The Special Account shall be set up with funds advanced by the IDA upon the Government's request.

On monthly base, once the cumulative payments reach or exceed one third of the initial advance, the R2E2 Fund shall submit a replenishment request to IDA in the amount equal to the payments made, supported by a detailed statement of expenditure. The supporting documentation shall be retained by the R2E2 Fund and shall at all times be available to the auditors as well as to the representatives of IDA and the Ministry of Finance and Economy of the RA.

Funds advanced by the Government to the R2E2 Fund

Project funds will flow from the Armenian Government, via the Treasury. The R2E2 Fund may access the local financial contribution of the Borrower (Ministry of Finance and Economy) as follows:

- The initial funds advanced by the Government will be placed in the Fund Bank Accounts at the commercial bank
- The Government shall replenish the advances according to a predefined schedule of the State Budget.

Filing of Supporting Documentation

The supporting documentation for each payment (invoice and attached statements of work, copy of the signed payment order, and copy of instruments delegating signature authority, if appropriate) shall be filed by a chronological numbering system. A file of supporting documentation shall be kept and regularly updated. It will ensure the document selection according to the following criteria (cross-referenced or not):

- (1) category of works;
- (2) name of the contracted company;
- (3) date;
- (4) number of replenishment requests supported by the pertinent documentation.

Replenishment Procedures

Replenishment of funds (bank accounts) to which the R2E2 Fund has access shall be performed as follows:

- (1) *Local Contribution Funds*. The Government of Armenia will replenish the Local Contribution Project Account according to the schedule agreed with IDA.

- (2) *IDA Funds/ Special Account.* The Financial Manager shall furnish replenishment requests to IDA with authorized signatures. The date of transmittal shall be recorded by the R2E2 Fund with the identification number and date of the request. In case of no replenishment made within 15 working days, the Financial Manager shall send a follow-up telex to the World Bank, primarily in order to obtain the reference codes on the payment given. Upon receipt of this information, the R2E2 Fund shall notify the depository bank so that it may proceed with necessary inquiries.
- (3) *Co-financiers.* The R2E2 Fund shall inform the IDA of all co-financed accounts specifying clearly the relevant procedures for maintaining these accounts and ensure compliance with those procedures.

For further details on disbursement procedures, see the World Bank Disbursement Handbook or the Disbursement Letter.

Reconciliation

Reconciliation of bank accounts shall be carried out monthly by the Financial Manager. This procedure involves:

- (I) Match-up of bank statements of Account to balances on R2E2 Fund ledgers;
- (II) Calculation of occurred differences and identification of the mismatch date;
- (III) Identification of odd or pending record(s);
- (IV) In case of bank's negligence, to submit an accurate transfer requirement to the bank or deposit the funds to the account.
- (V) In case of Fund's negligence, to find out the reason and make proper adjustments.
- (VI) In case of fraud, misuse or repeating negligence, the Financial Manager shall submit a Disciplinary Action proposal to the Director;
- (VII) The R2E2 Fund Director shall determine the form of a disciplinary action and repayment of wasted amount.

Once in every month the Financial Manager shall perform the reconciliation of the R2E2 Fund accounts with the WB Withdrawal and Monthly Disbursement Summary Sheets.

This procedure involves:

- I. Match-up of the World Bank Monthly Disbursement summaries to the balances recorded in R2E2 Fund ledgers;
- II. Calculation of occurred differences and identification of discrepancies between the application and a category number;
- III. Identification of odd or pending record(s);
- IV. In case of bank's negligence, to submit an accurate transfer requirement to the bank, and eliminate the errors.
- V. In case of Fund's negligence, to find out the reasons and eliminate the errors.
- VI. In case of repeated negligence, the Financial Manager shall submit a Disciplinary Action proposal to the Director.
- VII. The R2E2 Fund Director shall determine the form of a disciplinary action.

Pay and Payroll Matters

Salaries shall be calculated according to the rate depending on the status of the employee and attendance time sheet. The time sheet shall be prepared by Executive Assistant and approved by R2E2 Fund Director and handed out to the Chief Accountant on the last working day of each month. Thereafter, the Chief Accountant shall prepare the Payroll Sheet and submit it to the Financial Manager for approval. Financial Manager shall verify the accuracy of calculations and their compliance with the labor rate and actual attendance time sheet, as well as of all taxes and mandatory payments deducted in accordance with the RA Legislation. The Disbursement Specialist shall prepare payment orders based on Payroll Sheet signed by the Financial Manager and Chief Accountant. The payment of salaries shall be made in AMD.

Consultant fees

Consultant fees shall be calculated according to the Contract and acceptance documents. The acceptance document shall be signed by the Consultant, Coordinator, Fund Director to be furnished to the Chief Accountant. Further, the Chief Accountant shall prepare Consultant Fee Pay-Sheet and submit it to the Financial Manager for approval. The Financial Manager shall verify whether the acceptance document is properly signed, the report is duly submitted and the calculations are accurate. The Disbursement Specialist shall prepare the payment orders based on the Fee Pay-Sheet signed by the Financial Manager and Chief Accountant. Local consultant fees shall be paid in AMD.

Business trip expenses

Business trip expenses shall be reimbursed against the business trip order. The calculations shall be performed by the Chief Accountant and verified by the FM

Per diem payments shall be made in accordance with the RA Legislation.

COMPUTERIZED ACCOUNTING SYSTEM

The Accounting System shall ensure the following:

- Multi-currency accounting functionality;
- Reliability and fast processing of information;
- Clear and reliable methods of information input and output;
- Protection against unauthorized access and identification of users;
- Certain safeguards against the input of false data;
- Generation of reports in accordance with the Armenian legislation and IDA requirements; and
- Sufficient flexibility in processing complex queries.

Accounting Records

Accounting records consist of a set of special journals, general journals, general ledgers, cash books and other record-keeping facilities, in conformity with double-entry bookkeeping requirements. All Project expenditures shall be diversified into categories as well as broken down into Project components and sub-components.

Project Accounts

To classify and summarize project activities a number of accounts shall be used. All transactions shall be recorded under appropriate accounts. The National Chart of Accounts shall be used for transaction recoding.

The annual budget figure for each of the project accounts shall be recorded before the beginning of each fiscal year and, inter alia, be based on the Procurement Plan of the Project. The budget figures enable to evaluate the performance and undertake respective actions in the event that budgeted amounts fail to match the actual ones.

The Armenian user manual provided by the consultant shall contain detailed information on utilization of computers and configuration of reports.

Participating Financial Institutions (PFIs) Reporting Procedure

PFI reports should enable R2E2 Fund:

- to trace the end usage of funds,
- to examine respective portfolios and perform comprehensive evaluation of financial and institutional status.

The reports required for the achievement of the abovementioned objectives shall in essence correspond to the forms covered under loan agreements with PFIs.

REPORTING AND AUDITING

Reporting

The R2E2 Fund shall submit to the Bank, within 6 months after the end of each fiscal year (including the fiscal year of the final Bank disbursement), annual audited financial statements of the project that are acceptable to the Bank. In addition, the R2E2 Fund shall submit a quarterly Financial Monitoring Reports to the Bank. Annual audit report would contain auditors separate opinion as to whether the Financial Monitoring Reports submitted during the year, together with the procedures and internal controls involved in their preparation, may be relied upon to support the related withdrawals.

The R2E2 Fund shall submit, by October 31 of each year, its draft annual business plan and operational budget to the Bank for its review and adopt the agreed budget before December 31.

The Financial Manager shall be in charge of FMR completion and filing.

The Chief Accountant shall be in charge of timely completion and filing of reports to state authorized bodies envisaged by the RA legislation.

During project implementation, the R2E2 Fund shall submit a quarterly Project Financial Monitoring Reports in the agreed format to IDA. The Report would include: (i) Summary of Sources and Uses of Funds Report by project

categories of expenditures, showing the IDA loan and funds from other donors separately in currency as determined by project design; (ii) Summary of Expenditures by project components, for the current fiscal year and accumulated to date; (iii) Special Account Statement providing reconciliation of amounts in the Special Account; (vi) Balance Sheet showing Accumulated Fund of the Project, bank balances, other assets of the project, and project liabilities.

The reports shall contain summarized information on the R2E2 Fund activity portfolio, desegregated by the type of activities, sources of financing, disbursement category; with indication of budgetary allocations, etc. The reports shall also contain the description of any problems occurring within the course of activities, with direct indication of their possible solution or future actions targeted to the resolution of such problems.

SUPERVISION

The Bank and the Government of Armenia will undertake performance monitoring.

Government Supervision

Given the urgency of the project and its economic and environmental significance, within the course of its implementation it should be important to maintain close liaison between the R2E2 Fund and the RA Government in order to obtain the GoA support and input to sensitive political decisions. Furthermore, the Government shall have a possibility to oversee the implementation process and access information related to the performance of the R2E2 Fund.

The RA Government and the World Bank will have annual reviews to exchange views on the status of project implementation, particularly regarding: (a) performance of the R2E2 Fund, and project implementation procedures agreed with the Bank; and (b) adjustments in the project that may be required to improve implementation of its objectives, including allocation of financing between project components. A thorough project evaluation will be undertaken at that stage to determine if project design, implementation arrangements, or terms and conditions should be revised in order to better meet the needs. Final project evaluation will be undertaken after project completion.

IDA General Supervision

Performance would be monitored and evaluated by the IDA Task Manager on an ongoing basis based on project reporting and contacts with the R2E2 Fund. More formal monitoring and evaluation by IDA will be on a quarterly basis. During project implementation, the Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's quarterly FMRs and six-monthly management reports as well as the project's and entity's annual audited financial statements and auditor's management letters; and (ii) during the Bank's supervision missions, review the project's and entity's financial management and disbursement arrangements (including a review of a sample of SOEs and movements on the Special Account) to ensure compliance with the Bank's minimum requirements. As required by the Bank and ECA guidelines, Country Financial Management Specialist for Armenia and Georgia will carry out regular annual FM supervisions of the project.

AUDITING

Internal Audit

The R2E2 Fund will not have an internal audit function and none is considered necessary given its size. All PFIs will be required to have an internal audit function.

External Audit

The annual audited project and entity financial statements of the R2E2 Fund will be provided to the Bank within six months of the end of each fiscal year and also at the closing of the project. The project financial statements will be based on the quarterly Financial Monitoring Reports (FMRs) and will include: (i) Balance Sheet, (ii) Summary of sources and uses of funds; (iii) Summary of uses of funds by project components; (iv) SOE summary schedule, (v) Statement of the Special Account, and (vi) notes to the financial statements. Single audit opinion is required on all the above listed financial statements. The entity financial statements will include Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, and Notes comprising a summary of significant accounting policies and other explanatory notes.

The contract for the audit awarded during the first year of project implementation may be extended from year-to-year with the same auditor, subject to satisfactory performance. The cost of the audit will be financed from the proceeds of the credit.

The fiscal year of the R2E2 Fund is from January 1 to December 31. The accounts are to be closed on the last day of the fiscal year and the audit is to be conducted within two months of the closing of the accounts.

Independent international auditors acceptable for the WB to examine the activities of the R2E2 Fund will perform a Financial and Procurement audit annually. Their selection is to be carried out by the R2E2 Fund subject to approval of the Board and in accordance with procedures and TOR acceptable for the WB.

The final accounts and audit reports will be presented to the Board and the WB within six months of the end of the preceding financial year.

The Bank requires the R2E2 Fund to have the required financial statements for each year audited in accordance with standards on auditing that are acceptable to the Bank.

R2E2 Fund will be responsible, on behalf of the GoA, for providing to the Bank, within 6 months after the end of each fiscal year (including the fiscal year of the final Bank disbursement) the financial, managerial, and technical audits of the Project that are acceptable to the Bank.

R2E2 Fund would have the required Financial Statements for each year audited by an independent auditor acceptable to the IDA in accordance with standards that are acceptable to the IDA. The International Standards on Auditing, published annually by the International Federation of Accountants and widely adopted by the accounting professionals, is an example of standards on auditing that are acceptable to the IDA. The auditor would be appointed in sufficient time to carry out its responsibilities, including: (a) a review of the financial management systems at the beginning of project implementation; and (b) periodical reviews of the project financial management systems thereafter. An audit of financial statements would include: (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safeguarding project-financed assets; (b) a determination whether R2E2 Fund has maintained adequate documentation of all relevant transactions; and verification that expenditures submitted to the IDA are eligible for financing under the project, and identification of any ineligible expenditures. The use of a special account (SA), Project Management Reports and statements of expenditures (SOEs) would be addressed separately in the auditors' opinion.

Management and Technical Audit

The R2E2 Fund would be subject to annual procurement and technical audits. During the first year of implementation, such audits would be conducted on a semi-annual basis. Following principles similar to those used for financial audits, the experts would verify and certify the proper application at all levels of guidelines set forth by the Bank as well as compliance with all of the R2E2 Fund's contractual obligations.

The following initial accounting documents shall be used by the R2E2 Fund:

Payment Order No.

<u>Payer</u>	Debit Account No.	Sum
Tax code 40 02580459 R2E2 Fund		
<u>Bank of Payer</u>	Code	
HSBC Armenia Bank CJSC		
<u>Recipient</u>	Credit Account No.	
Tax code and Name of the Receiving company		

Bank of Receipt

Code

Amount in words

Purpose of payment

Submitte

Seal

Signature of the client

Signature of the bank



Armenia Renewable Resources and Energy Efficiency Fund

Address Yerevan, Melik-Adamyán 1
 Tax Code 02580459
 Bank HSBC Armenia Bank CJSC
 Bank Account 001-007855-001

Invoice N

Date

Service recipient Ministry of Finance and Economy
Address Yerevan, Melik-Adamyán 1
Tax Code 02528265

Reference

Currency

Agency fee (20.. quarter)	
	Including VAT
Amount in words	

Payment by bank transfer

Armenia Renewable Resources and Energy Efficiency Fund Ministry of Finance and Economy of the RA

Director

Deputy Minister

Chief Accountant

Armenia Renewable Resources and Energy Efficiency Fund

Purchase requisition form

Name and Surname of Applicant

Date _____

No.	Name of Items	Requested quantity
1		
2		
3		
4		
5		
6		
7		

Signature of Applicant

Disbursement

Disbursement Arrangements. The Credit funds would be disbursed over a period of five years. Disbursements would be based on the new Country Financing Parameters for the Republic of Armenia, and disbursed under the Bank's traditional disbursements methods (reimbursements with full documentation, Statements of Expenditure (SOEs), direct payments to third parties and special commitments). The allocation of Credit proceeds are detailed in the table below.

Allocation of IDA Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
Works and Goods		
for installation and rehabilitation of school heating systems under the Component C	5,000,000	80%
for installation of heating equipment for poor residents under the Component B2	2,000,000	100%
Sub-loans under the Component B1	4,100,000	100%
Grants	1,000,000	100%
Consultants' services and audit	850,000	100%
Training	50,000	100%
Refunding of Project Preparation	800,000	100%
Operating Cost and Equipment for the R2E2 Fund	1,000,000	100%
Unallocated	200,000	
Total	15,000,000	

Initial disbursements to PFIs (Component B1) would be made against an application of advance in the amount of up to US \$ 300,000 presented by the PFIs. Following disbursements would be made based on the PFI portfolio reports, indicating that the PFI's cumulative outstanding (portfolio) balance exceeds 80 percent of the total allocated funds. See Annex 10 for detailed reporting arrangements with PFIs.

Conditions for Withdrawal of Funds. Payments made for expenditures prior to the date of the Agreements in an aggregate amount not exceeding the equivalent of US\$ 500,000 in respect of categories A, C, and D made before that date but after May 1, 2005 were eligible and covered through a clause for retroactive financing as per the Bank procedures.

Special Account. To facilitate timely project implementation, the R2E2 Fund would maintain a Special Account and if necessary one sub-account to the Special Accounts (Transit Account) in a commercial Bank acceptable to the Bank to

finance project expenditures from the IDA Credit. In addition, the Borrower would open a Project Account for Government counterpart funds.

The "Authorized Allocation" of the Special Accounts should generally not exceed 10% of the total Credit amount. The Special Account will have an initial allocation of US\$ 750,000. Once cumulative disbursements under the loan have reached US\$3,000,000, the allocation will increase to US\$1,500,000. Payments in excess of 20 percent of Special Account will be made through direct disbursement from the Credit Account.

Statements of Expenditures (SOEs). SOE procedure would be used for contracts for (i) goods and works costing less than US\$ 100,000 equivalent per contract; (ii) services of consulting firms costing less than US\$ 100,000 equivalent, and individual consultants costing less than US\$ 20,000 equivalent per contract; (iii) incremental operating costs; (iv) training; (v) sub-loans of amounts below US \$ 200,000; and (vi) grants. The required supporting documentation would be retained by the R2E2 Fund, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made. The documentation would be made available for review by the auditors and by visiting IDA staff upon request. For sub-loans the SOE procedure will be based on reports from the PFIs regarding disbursed, committed, and outstanding amounts and eligible expenses. These reports will be subject to annual audit by the PFI's external auditors.

Chart of Account

Account	Description	Analytical
222	Relationship with Project Component Implementation Agencies /cash/	Funding sources; Counteragents; Categories.
224	Advance paid to the contractors/suppliers	Funding sources; Counteragents; Contract or Purchase orders; Categories; Components.
228	Relationship with Employees- sum paid out on account	Funding sources; Employees; Currency
243	Accrual Project Expenditures	Funding sources; Categories; Components.
251	Petty Cash	Funding sources; Components
252	AMD Bank Account	Funding sources; Currency; Bank Account
253	Special Account	Funding sources; Currency; Bank Account
254	Interests	Funding sources; Currency; Bank Account
331	Revaluation of bank account balances in AMD	Funding sources;
426	Correction of obligations due to penalties and ERD	Funding sources; Counteragents; Contract or Purchase orders; Categories.
427	Revaluation of payables and receivables	Funding sources; Counteragents; Contract or Purchase orders; Categories.
521	Accounts Payable	Funding sources; Counteragents; Contract or Purchase orders.
522	Accounts payable after defect liability period	Funding sources; Counteragents; Contract or Purchase orders.
526	Financing	Funding Sources
527	Accrued Salary	Funding sources; Employees; Components.
711	Actual payments	

ALTERATION OF MANUAL

Financial Management Manual may undergo alterations with the purpose of:

- its adjustment to the new legislation,
- improvement of internal control mechanisms and provision of sufficient financial information,
- ensuring appropriate utilization of funds and elimination of any events of project resources or property misuse,
- adjustment to the new organizational chart of R2E2 Fund.

Any employee of R2E2 Fund may come up with a proposal on Financial and Administrative Management Manual improvement, given the expediency and feasibility of such improvement. The employees shall submit proposed amendments to the Fund Director, with distinct specification of the rationale behind. If the changes are deemed acceptable, a new Draft FMM shall be developed and submitted to the World Bank and thereafter to the BOT for approval.

The R2E2 Fund may not amend its Financial Management Manual without prior consent and approval of the Bank. All PFIs will be audited by highly reputable audit firms. TORs for audit of PFIs will probably include specific clauses related to review of project related lending.

PFIs should be reporting to the R2E2 Fund on a quarterly basis with the description of the loan portfolio status and disbursed funding during the past quarter. The reporting format will be divided between two currencies and separate reports will be submitted for small loans with summary information on cumulative committed, disbursed and outstanding balance vs. on-lent funds and other relevant information. For larger loans more detailed information will be required including a brief project description, committed, disbursed and outstanding balances, lending rates and maturities, and sub-loans performance.

Procedures for adopting, alteration of existing accounting policies and procedures and guidelines on how to implement such alterations

All the accounting policies and guidelines are set in the Operational Manual (OM) of the Fund. The OM is approved by the Board of Trustees (BOT) of the Fund. Any alteration to the OM should first be agreed with the World Bank and then approved by the BOT.

Changes in accounting policy will be applied from the date of amendment and will have no retroactive application and the financial results will not be amended for the past accounting periods. Any material errors that have result on the cumulated profit or loss will be disclosed and the brought forward balance of the cumulated profit or loss will be amended.

All the terms used in this document should be interpreted in the framework and terminology used in the International Financial Reporting Standards (IFRS).

This document is a part of OM and should be used together with all the financial and accounting procedures set in the OM.

This document will be included in the set of annual financial statements prepared by the R2E2 Fund, particularly, in the notes to the financial statements.

Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Fund has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Fund retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Fund as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the Fund's functional currency (AMD) are recorded at the exchange rate of CB. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the CB rates at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the CB rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies);
- and exchange differences on monetary items receivable from or payable to a foreign operation.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Fund will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Fund should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Fund with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for

all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Fund reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Fund estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Fund of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Fund has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Fund's obligation.

Financial assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS)

financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

EBRD	European Bank of Reconstruction and Development
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
KfW	Kreditanstalt fuer Wiederaufbau
CC	Cascade Credit, universal credit institutions
GEF	Global Environmental Facility
SHPP	Small Hydro Power Plant
IDA	International Development Agency
ICR	Implementation Completion Report
MOFE	Ministry of Finance and Economy
MONP	Ministry of Natural Protection
MOUC	Ministry of Urban Construction
NGO	Non governmental organization
PFI	Participating Financial Institution
R2E2 Fund	Renewable Resources and Energy Efficiency Fund
GNCO	Governmental Non-commercial Organization

LOAN AGREEMENT

This **AGREEMENT** is made on -----, 2010 in Yerevan between *Armenia Renewable Resources and Energy Efficiency Fund* /hereinafter **the Fund** or the Lender/ on the one hand and *Participating Financial Institution* (hereinafter **the PFI** or **the Borrower**) on the other hand, jointly referred to as the Parties.

Whereas by *Development Credit Agreement* (the DCA) 4159-AM as of April 7 between the *International Development Association (IDA)* and *the Republic of Armenia*, IDA has provided a credit to the Republic of Armenia to assist in the carrying out of the *Renewable Resources Project* (hereinafter the RE Project); and

Whereas by **AGENCY AGREEMENT** between *the Ministry of Finance of the Republic of Armenia* and *Armenia Renewable Resources and Energy Efficiency Fund*, the Fund has undertaken to extend the provided amount in the form of a loan (hereinafter *the Loan*) to the participating financial institution, namely to the PFI, within the scope of the RE Project and on behalf of the Republic of Armenia for on-lending (hereinafter *Sub-loan*) to potential Beneficiaries of the RE Project (hereinafter *Sub-Borrower or Loan*); and

Now therefore, the Parties sign this Agreement (hereinafter the *Agreement*) on the following terms:

a. SUBJECT AND OBJECTIVE OF THE AGREEMENT

- 2.10 The subject of the Agreement is to provide Loan from the Lender to the Borrower within the RE Project framework on behalf of the Republic of Armenia through a credit line, which the Borrower shall return under the terms and conditions set forth in the Agreement together with payment of accrued interests.
- 2.11 The objective of the Agreement is to provide Loan to the Borrower for on-lending (crediting) to RE Project Sub-Borrowers for the RE Project purposes.
- 2.12 The objective of the RE Project is to increase the role of privately-owned and operated power generation utilizing renewable energy.
- 2.13 The RE Project Sub-Borrower (Credit Borrower) may be legal entity beyond the state ownership who is engaged or intends to engage in any economic activity that involves construction of new wind power or small hydro power plants and rehabilitation of the existing plants, and holds construction and/or rehabilitation license issued by the Public Services Regulatory Commission.
- 2.14 The total amount of the Loan (Credit line) shall not exceed US\$5,000,000 (five million).
- 2.15 The credit line shall be available for the Borrower for 5 (five) years upon the effective date of the Agreement.
- 2.16 The amount of the Sub-Loan (Credit) for each single Sub-Borrower may not exceed US\$2,000,000 (two million), including the amount of co-financing provided by the Borrower.
- 2.17 Under the Agreement and pursuant to its objective the Borrower shall finance the Sub-Loans based on the following sources and ratios: 50% from the Borrowers own assets and 50 % from the RE Project proceeds.
- 2.18 Under the Agreement, at least 20% co-financing by the Sub-Borrower shall be a precondition for financing of investment projects.

14. CURRENCIES, TERMS, INTERSTS AND PENALTIES

- 2.1 Under the credit line, the Loan shall be provided in AMD (at the exchange rate established by the Central Bank of RA as of the transaction date) or USD, as the Borrower may request.

2.2 The interest rates are set as follows:

- 2.2.1 For USD denominated Loan - 6 months LIBOR plus 2%, but interest rate not less than 5%. In terms of this Agreement LIBOR means London inter-bank offered rates of major banks for deposits in US Dollars. The reference page for LIBOR is the page LIBOR01 on Reuters Service (or such other page that may replace page LIBOR01 on Reuters Service for the purpose of displaying London inter-bank offered rates for deposits in US Dollars);
- 2.2.2 For AMD denominated Loan - the weighted average interest rate for 91-180 days deposits placed by individuals, calculated for the Armenian banks by the Central Bank of the RA, pursuant to the published rates for the last 6 (six) months but not lower than 6 months LIBOR.
- 2.2.3 The interest rate is established on January 15 and June 15 of each year, and the interest rate applicable to the PFI for each single Sub-Loan shall remain fixed for the entire effective period.
- 2.3 The interests shall be accrued only against the calendar days during which the Loan proceeds have been actually used - admitting 365 days as a calendar year. The interests shall be paid monthly in equal monthly installments, until 5th day of month following the accountable month, or otherwise on the first banking day following these dates if such are non-banking days.
- 2.4 The maturity of the Loan shall match the maturity of the Sub-Loan extended by PFI to the Sub-Borrower but shall not exceed 96 (ninety six) months. The principal amount of the Loan shall be repaid in equal installments monthly until 5th day of month following the accountable month, or on the first banking day following the specified dates if those are non-banking days. Further, a grace period shall be allowed for the repayment of the principal amount within which no repayment of principal is made and only the interest set forth in the Agreement is paid. The grace period shall be maximum 24 (twenty four) months. The grace period covered in this paragraph shall be stipulated in the Sub-Loan Agreement signed between the PFI and the Sub-Borrower.
- 2.5 The Borrower shall pay to the Lender penalty of 0.1% calculated against the outstanding amount for each day of overdue interest or principal repayment of the Loan.

3 Loan PROVISION

- 3.1 To obtain loans under the credit line the Borrower shall duly submit an application to the Fund (the application form is attached as Annex-1 hereto) with specification of the amount sought, amount of the first installment, amount subject to its co-financing, maturity, name of the Sub-Borrower, address, type and scope of the Sub-Borrower co-financing, project implementation site, Loan purpose, security (in case of a real estate to be estimated by an independent, certified evaluator or otherwise in accordance with evaluation procedures established by the PFI). A separate application shall be submitted for on-lending to each single Sub-Borrower.
- 3.2 Within the framework of the credit line, each Loan shall be extended based on the Lending Memorandum (Annex 2), which indicates the names of the Lender and the Borrower, the Loan amount, interest rate, maturity, name of the Sub-Borrower. The Lending Memorandum is deemed an integral part of the Agreement.
- 3.3 Within 3 (three) working days upon receiving the application from the PFI, the Fund shall notify on the consistency or inconsistency of the application with the requirements of the Agreement.
- 3.4 In case of a positive response, Lending Memorandum and Payment Request (in the attached format) shall be signed between the Lender and the Borrower. Based on such Payment Request within 3 (three) banking days the Loan amount, either in a whole or in respective installment (as may be requested), shall be transferred to the designated accounts (revenue accounts) of the Borrower, provided the following activities are fulfilled:
 - a) The Borrower has duly signed a Sub-Loan (Credit) Agreement with the Sub-Borrower; and
 - b) The Borrower has duly concluded a transaction to secure the Sub-Borrower's liability (collateral, warranty, bank guarantee, etc.);
 - c) The Collateral Agreement on pledging the Borrower's right of claim towards the Sub-Borrower and towards the security facility has been duly concluded between the Borrower and the Lender on behalf of the RA (through notary verification and state registration of rights in cases stipulated by law);
 - d) The Borrower has undertaken to provide the respective portion (no less than amount specified by this Contract) of its co-financing to the Sub-Loan for the Sub-Borrower.

For any further installments from a Loan, the Borrower shall submit a Payment Request (Annex 3) to the Lender, which shall contain the successive number of the Payment Request and the amount of installment.

Within 3 (three) banking days upon receiving of the Payment Request from the Borrower, the Lender shall transfer the respective amount to the Revenue Accounts of the Borrower.

4 Loan repayment

- 4.1 The Borrower shall pay the principle and the interests on the Loan as well as make other payments envisaged by the Agreement:
- e) in the currency of allocation, except for the interest and penalty payments, which are made in AMD;
 - f) any payment shall be made to the banking account of the Fund.
- 4.2 The Borrower shall ensure that the transfer of funds to the accounts of the Lender is made without any retention and cover any applicable service fees as may be necessary.
- 4.3 The Lender shall allocate the amounts repaid by the Borrower in the following order: penalty against the overdue payments, interests and principal.
- 4.4 The Lender shall notify the Borrower on any changes in its banking requisites.
- 4.5 The Borrower may make early repayment of the principal amount of the Loan with a prior notification of at least 3 (three) banking days to the Lender.

5 Responsibilities of the Borrower

- 5.1 The Loan shall be extended in conformity with the RE Project objective for on-lending to Sub-Borrowers, in this regard the Borrower herewith acknowledges its commitment and undertakes to:
- 5.1.1 conduct its activity and carry out operations in accordance with appropriate financial and administrative standards, practices, laws, other normative legal acts, prudential standards established by the Central Bank of the RA and business practices;
 - 5.1.2 in case of each Loan, exercise its rights in a manner so as to protect its own property interests as well as the property interests of the Lender and the Republic of Armenia;
 - 5.1.3 select Sub-Borrowers, evaluate the project proposals submitted by them, supervise implementation of projects and targeted use of the funds by the Beneficiaries as well as compile, in the format acceptable to the parties, and submit to the Lender quarterly progress reports, which shall disclose information on the Sub-Loan amounts, including the Borrower's own or attracted funds, and progress of projects implemented. The deadline for submission of such reports shall be the 25th day of the month following each quarter. In case of a delay, incomplete or incorrect submission of reports, the Borrower shall pay the Fund a penalty equal to AMD 10.000 (ten thousand) per day until the duly submission of the respective report;
 - 5.1.4 enable the Lender to study projects financed by the Borrower, analyze the outcomes and make site visits by stipulating for a respective provision in a Sub-Loan Agreement signed with the Sub-Borrowers. Furthermore, the Lender shall undertake to give a 3 (three) days prior written notice to the Borrower on any such event;
 - 5.1.5 appoint RE project coordinator to be responsible for regulating the Project-related issues with the Lender, the RA Ministry of Finance and Economy and IDA as well as for submitting the reports covered under paragraph 6.1.3 of the Agreement;
 - 5.1.6 the Lender shall be promptly informed on any conditions which the Borrower considers as impeding or threatening to impede the implementation of the activities under the RE Project, including the circumstances or judicial processes that may impact the eligibility of the Borrower to participate in the RE Project;
 - 5.1.7 in accordance with sound accounting practices, maintain detailed records and accounts adequate to reflect its financial standing, including the financial statements (balance sheets, statements of income and expenses and other statements required by the RA Legislation) for each fiscal year, that should undergo auditing by independent certified auditors in accordance with accounting standards of the RA. Not later than 6 (six) months following the end of each fiscal year, provide the Lender with certified copies of financial statements specified

herein and the accounts for the given year as well as the auditors' report in the format and content established by the RA legislation;

- 5.1.8 control that the projects to be implemented by the Sub-Borrowers are assessed in accordance with the requirements of applicable Environmental Laws and other legal acts of the RA as well as the Environmental Management Plan (Annex 4);
- 5.1.9 control that all equipment and materials procured from Sub-Loan proceeds comply with minimum safety requirements as specified by the RA Laws or otherwise with the requirements proposed by the Borrower in cases not covered by the legislation, which shall be acceptable to the Lender;
- 5.1.10 encourage the Sub-Borrowers to create equal opportunities for all suppliers of goods and works to be procured from Sub-Loan proceeds;
- 5.1.11 while assessing the projects proposed by Sub-Borrowers, ensure that the costs of goods and works submitted by the Sub-Borrower to be procured at the expense of the Sub-Loan proceeds shall not considerably exceed the market prices.
- 5.1.12 ensure that the total amount of the Sub-Loan extended to a single Sub-Borrower or any person related to him under the banking legislation and for any interrelated projects implemented thereof does not exceed US \$2 000 000 (two million);
- 5.1.13 assure that the Sub-Borrowers do not use proceeds provided by PFI from Loan to finance procurement of used equipment;
- 5.1.14 ensure that the information submitted to the Lender or the Ministry of Finance and Economy of the RA is not in violation of the requirements under the RA Law On Banking Secrecy. Specifically, obtain prior written consent of the Sub-Borrowers for disclosing any of their details to the Lender for the reporting purposes;
- 5.1.15 in order not to violate the RA Law on Banking Secrecy, submit to the Lender a copy of document addressed to the Central Bank of the RA according to which the Lender shall be entitled to obtain from the Central Bank of the RA relevant information on the Borrower's eligibility criteria established by the Operational Manual of the Lender. The copy of the document addressed to the Central Bank shall be deemed as an integral part of the Agreement;
- 5.1.16 make the RE Project related accounting records and other data accessible to the Borrower's auditors and supervisors;
- 5.1.17 maintain separate accounting for the Loan provided by the Fund;
- 5.1.18 accumulate all funds attracted from the Fund in the Revenue Accounts wherefrom the extension of Sub-Loan (credit) shall be made. The amounts repaid by the Sub-Borrowers shall be accumulated in the Revenue Account as well;
- 5.1.19 while bound under the Agreement, fulfill the requirements of the RA Laws governing the Borrower's activities;
- 5.1.20 for financing of the projects proposed by the Sub-Borrowers, contribute its own or attracted funds (project co-financing resources) so that based on the outcomes of each year the funds provided by the Lender do not exceed 1/3 of the total financial sources of Projects;
- 5.1.21 channel the amounts repaid by the Sub-Borrowers to cover its own co-financing and the financing made by the Lender, in adequate proportions.

6 Borrower Eligibility criteria

- 6.1 The Borrower shall continuously comply with the following eligibility criteria throughout the Agreement effectiveness;
 - 6.1.1 in a satisfactory manner comply with the requirements of all the normative legal acts of the Republic of Armenia governing the activity of credit organizations;

- 6.1.2 undergo an annual audit in conformity with the international standards;
- 6.1.3 ensure co-financing to the Projects in the proportion established by the Agreement.

7 Suspension

- 7.1 The Lender, including its legal successor, shall retain the right to suspend the provision of proceeds to the Borrower within the scope of the credit line based on the following reasonable circumstances:
 - 7.1.1 while receiving the next allocation of the Loan, the Borrower has an overdue payment of the principal amount or the interests of the Loan obtained under the Agreement;
 - 7.1.2 the Borrower fails to comply with the eligibility criteria set forth in Section 6 of the Agreement;
 - 7.1.3 an extraordinary event has emerged upon which there are reasonable doubts that the Borrower would be able to perform the obligations under the Agreement;
 - 7.1.4 within the period of 18 (eighteen) months the Lender fails to receive any application for the Loan from the Borrower;
 - 7.1.5 the right of the Republic of Armenia to withdraw the proceeds of the IDA Credit is suspended, cancelled or terminated, either in whole or in part, or pursuant to the terms of the DCA the IDA credit becomes due and payable prior to the agreed maturity thereof;
 - 7.1.6 the right of the Borrower to use the funds attracted for the co-financing of the Project is suspended.
- 7.2 The suspension shall never serve as a basis for the Borrower to claim against the Lender for damages incurred. Notwithstanding any cancellation or suspension, all the provisions of the Agreement shall remain effective as long as they regulate the relations between the Lender and the Borrower.

8 Repayment prior to maturity on the initiative of the Lender

- 8.1 The Lender may demand the Borrower to make early payment of liabilities defined by the Agreement if one of the following events occurs separately or simultaneously (qualified as *considerable violation* or *considerable change of conditions*):
 - 8.1.1 within the previous one year the Borrower more than twice has had an overdue payment to the Lender for ten or more banking days;
 - 8.1.2 in case of a verdict against the Borrower due to the execution of which the Borrower will lose 15% of its total capital as of the last day of the month preceding the calendar month when such verdict became legally effective;
 - 8.1.3 the Central Bank of the RA has initiated a judicial proceeding against the Borrower for petition of bankruptcy or suspension of the license;
 - 8.1.4 non-targeted use of the RE Project proceeds, violation of the terms of co-financing or inaccuracy of information disclosed in the reports specified in Subsection 5.1.3 of the Agreement with the aim of misinforming the Lender, stipulating the requirements of Para. 5.1.2.1 of the Agreement;
 - 8.1.5 the Borrower has in any manner deprived the Lender or the RA Ministry of Finance and Economy from the authority stipulated for under Subsection 5.1.15 of the Agreement.
 - 8.1.6 early termination of the Borrower's right to use the funds, partially or in a whole, attracted by the Borrower for the Project co-financing purpose.
- 8.2 The Lender shall submit the demand for early payment in writing by sending one copy of such notification to the Central Bank of the RA. The Borrower shall fulfill its liabilities towards the Lender within 2 (two) weeks upon receiving of such demand by paying the overall outstanding balances, accrued interests and penalties. Given the

financial standing of the Borrower, the Lender may arrange a repayment schedule for collecting the overdue balances from the Borrower.

9 Security measures and indisputable debt collection right

- 9.1** To secure the fulfillment of liabilities under the Agreement the Fund and the Borrower hereby agree that the Borrower shall fully pledge in favor of the Fund, in proportion of their lending to the RE Project, the credit right of claim towards the Sub-Borrower (Project Beneficiary), including the rights to secure the fulfillment of liabilities and collection of outstanding interests. After receiving the whole amount of Sub-loan for every Sub-Borrower, the Borrower shall make recommendation to the Fund for signing or refusing the contract of security right to claim.
- 9.2 All expenses arising in respect to the pledge to be made in favor of the Lender shall be covered by the Borrower.
- 9.3 The Borrower shall fully and severely bear the risk for total or partial non-repayment of the Sub-Loan by any Sub-Borrower financed thereof and the occurrence of any such event shall not free the Borrower from fulfilling its liabilities towards the Fund under the Agreement.

10 Notification of violation

- 10.1 The Borrower shall promptly notify the Lender on any existing or imminent violations as well as on any events occurred through the fault of the Lender or on any other grounds that may impede the fulfillment of the liabilities assumed for the Borrower under the Agreement.
- 10.2 The Lender shall notify the Borrower in writing on any event of violation by the Borrower or any essential changes in the conditions and consequences thereof within at least 5 (five) banking days prior to the suspension or termination procedures stipulated for under the Agreement. Further, in cases of suspension pursuant to Paragraphs 8.1.4 and 8.1.5 of the Agreement, the Lender shall give a prior written notice to the Borrower within at least 5 (five) banking days.

11 Concluding Clauses

11.1 *Applicable laws and dispute resolution*

The Agreement shall be regulated by the laws of the Republic of Armenia. Any disputes arising out of the Agreement shall be settled in judiciary manner in the court of relevant jurisdiction of the Republic of Armenia.

11.2 *Notifications*

Within the framework of the Agreement the overall notifications and other correspondence shall be made in writing and delivered by hand (against acknowledgement) or by fax (against written approval) to the contact details below or through an ordered letter addressed to the respective party as specified below.

11.3 *Amendments*

Any amendments or supplements to the Agreement shall be made only in case of mutual written consent of the Parties in the form of a countersigned document, thus any letter addressed by one of the Parties and the reply or non-reply thereof shall be in no way deemed as an amendment or supplement to the Agreement.

11.4 *Transfer and Pledge*

- 11.4.1** The Borrower shall not be entitled to transfer any of its rights and liabilities under the Agreement to a third party without the written consent of the Lender and its principle.
- 11.4.2 The Lender shall be entitled to assign its right to claim towards the Borrower, which arises under the Agreement, to any bank or credit organization acting on the territory of the RA, at any time throughout the effectiveness of the Agreement and without the prior or further consent of the Borrower. In this case the Borrower shall be legally bound to fulfill its liabilities under the Agreement towards the new assignee starting from the date the notification on the assignment of such right shall be received.

11.4.3 The Lender hereby identifies and the Borrower admits that the right of the Lender to claim towards the Borrower belongs to the Ministry of Finance and Economy of the RA which is the Principal of the Lender and is entitled to fully and directly exercise the Lender's rights under the Agreement in case the Lender for any reason whatsoever ceases to act as an agent of the Ministry of Finance and Economy of the RA.

11.5 Splitting of provisions

The annulment of any of the provisions under the Agreement shall in no way be deemed as a basis for annulment of the whole Agreement or any other provisions thereof. Neither of the Parties hereto shall abuse the complete or partial annulment of the Agreement for avoiding from the liabilities assumed by them under the Agreement. Moreover, the Parties shall undertake all necessary measures to pursue the objectives and intentions under the Agreement in conformity with the applicable legislation.

11.6 Confidentiality

The Parties hereby agree not to disclose any information related to the Agreement other than in the cases stipulated for under the Agreement and the law. Under this Agreement the information disclosed to IDA shall not be deemed as a violation of confidentiality.

11.7 Agreement comprehensiveness

The Agreement constitutes the comprehensive agreement obtained between the Parties and prevails over the entire previous arrangements between the Parties related thereto.

11.8 Effectiveness

The Agreement is signed in four original copies in Armenian and English languages, with two copies for the Borrower and two copies for the Lender, one of which shall be submitted to the Ministry of Finance and Economy of the RA. In case of interpretation discrepancies between the Armenian and English texts, the Armenian version shall be prevailing. The Agreement shall become effective upon the date of signing by the authorized representatives of both parties and shall not cease until the termination of the liabilities of the parties hereto in accordance with the law.

LENDER
(Name, Address)
Signature _____
Name _____
Title _____

BORROWER
(Name, Address)
Signature _____
Name _____
Title _____

ANNEX 1

Loan application

ANNEX 2

Loan Memorandum

ANNEX 3

Payment Request

ANNEX 4

Environmental Management Plan

ANNEX 5

Authorization for Disclosure of Banking Secret (original)

Renewable Energy Project

To Armenia Renewable Resources and Energy Efficiency Fund

for provision of a loan for
the purpose of

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APPLICATION

We hereby request to provide a loan to "PFI"

Co-financing

--

USD/ AMD

--

Loan Amount

--

USD/ AMD

First
installment

--

USD/
AMD

Total Period

--

Grace
period
included

--

Name of Beneficiary

--

Location /address/

--

Tax Code

--	--	--	--	--	--	--	--

Beneficiary co-financing

--

Amount

--

Summary of Project

--

Security details

--

Estimated value

--

Executive Director of
PFI
Seal

LOAN MEMORANDUM No

This Memorandum is signed by and between

--	--

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--	--	--	--

Armenia Renewable Resources and Energy Efficiency Fund and PFI

AMOUNT

--

USD/ AMD

PERIOD

--

month

GRACE PERIOD

--

month

INTEREST RATE

--

%

per annum

SUB-BORROWER

--

Fund Director
Seal

Executive Director
PFI
Seal

**Loan Installment Payment Request
To Armenia Renewable Resources and Energy Efficiency Fund**

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PAYMENT REQUEST N

Under Loan Memorandum No _____ as of _____

We hereby request to provide to the PFI the following installment of the Loan:

--

Amount

--

USD/AMD

Executive Director of PFI

Seal
