Financing Agreement

(Third Development Policy Operation)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 15, 2012
FINANCING AGREEMENT

Agreement dated February 15, 2012, entered into between REPUBLIC OF ARMENIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient's maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to thirty two million six hundred thousand Special Drawing Rights (SDR 32,600,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are January 15 and July 15 in each year.

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

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

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

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

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

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

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

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

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

(b) the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Financing Agreement have been fulfilled.

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

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister of Finance.
6.02. The Recipient’s Address is:

Ministry of Finance of the Republic of Armenia
1 Melik-Adanyan Street
Yerevan 0010
Republic of Armenia

Facsimile: +374-10-524282

6.03. The Association’s Address is:

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

Cable address: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By

[Signature]
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has maintained social safety nets, pensions, and priority social spending programs for the poor and vulnerable by maintaining their shares in the 2011 budget.

2. The Recipient's Government issued a Decree No. 978 - N on the “Status of the State Accreditation of Tertiary Level Institutions and Academic Programs in the Republic of Armenia” including tertiary education quality assurance policy, standards, criteria, procedures and guidelines after consultation with stakeholders, institutions, and employers.


4. The Recipient made the One Stop Shop for business registry fully operational in the city of Yerevan and established online linkages for enterprise registry in other municipalities.

5. The Recipient’s National Assembly has adopted amendments to the Law on “Organizing and Conducting Inspections in the Republic of Armenia” dated June 23, 2011, to introduce risk-based approaches, reduce discretionary powers and increase transparency.

6. The Recipient has implemented measures to ensure efficiency, transparency, and accountability in private sector participation, in accordance with the extractive industries transparency initiative principles and increased mining sector attractiveness to private investors by issuing: (a) a Decree of the Government No. 1901-N dated December 29, 2011 on the “Approval of Procedure for Calculation of Royalty on Earnings from Sales”; and (b) an Order of the Minister of Energy and Natural Resources No. 249-A dated December 30, 2011 on the “Requirements for the Mine Closure Plan and Nature and Environmental Impact Assessment as an Attachment to the Application Requesting the Mineral Extraction Right”.

7. The Recipient has achieved further progress in Business Process Reengineering (BPR) by: (a) approving a BPR, satisfactory to the Bank, and the associated time bound action plan by the Government’s Decree No. 1017-N dated June 30, 2011 for its implementation; (b) putting in place fully operational system of risk based audits based on Government’s Decree No. 1636 -N dated November 10, 2011; (c) implementing e-filing of tax returns pursuant to the Laws on Amendments to the Law on Taxes (No 194-N dated October 27, 2009, No. 197-N dated December 8, 2010 and No. 218-N dated June 23, 2011).
8. The Recipient implemented a fully functioning "green channel" to facilitate the operation of customs clearance by default (backed by post release verifications, controls, audits, and investigations) and to strengthen the customs preventive and enforcement capacity by amendments to the Customs Code dated January 15, 2011 (25-N).

Section II. Availability of Financing Proceeds

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

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

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>32,600,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>32,600,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions

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

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

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

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

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

F. Closing Date. The Closing Date is December 31, 2012.
## SCHEDULE 2

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15:</td>
<td></td>
</tr>
<tr>
<td>commencing July 15, 2017 to and including January 15, 2027</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing July 15, 2027 to and including January 15, 2037</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.*
APPENDIX

Section I. Definitions

1. "Excluded Expenditure" means any expenditure:

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

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

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

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;
(d) for environmentally hazardous goods, the manufacture, use or import of which is
prohibited under the laws of the Recipient or international agreements to which
the Recipient is a party, and any other goods designated as environmentally
hazardous by agreement between the Recipient and the Association;

(e) on account of any payment prohibited by a decision of the United Nations
Security Council taken under Chapter VII of the Charter of the United Nations;

and

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

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

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

4. “Program” means the program of actions, objectives and policies designed to promote
growth and achieve sustainable reductions in poverty and set forth or referred to in the
letter dated December 30, 2011 from the Recipient to the Association declaring the
Recipient’s commitment to the execution of the Program, and requesting assistance from
the Association in support of the Program during its execution.

5. “Single Withdrawal Tranche” means the amount of the Financing allocated to the
category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section
II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

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

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

3. “Section 3.02. Service Charge and Interest Charge

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

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

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

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

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

"Section 4.06. Plans; Documents; Records

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

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

"Section 4.07. Program Monitoring and Evaluation

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

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

"'Eligible Expenditure' means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."
(b) The term "Financial Statements" and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term "Financing Payment" is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

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

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

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

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

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

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