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LOAN NUMBER 3155-ARM(SF)

LOAN AGREEMENT  
(Special Operations)  
(Infrastructure Sustainability Support Program)

between

REPUBLIC OF ARMENIA

and

ASIAN DEVELOPMENT BANK

DATED 03 October 2014

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ARM 46220

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 03 October 2014 between  
REPUBLIC OF ARMENIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 10 March 2014, setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's road transport and water service sectors ("Program");

(B) the Borrower has applied to ADB for a loan for the purposes of the Program; and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term “Project Executing Agency” wherever it appears in the Loan Regulations shall be substituted by the term “Program Executing Agency”.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) “Counterpart Funds” means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 6 of Schedule 4 to this Loan Agreement;

(b) “Deposit Account” means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;

(c) “Eligible Imports” means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports of ineligible items specified in Attachment 1 to Schedule 3 to this Loan Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(d) “Eligible Items” means the Eligible Imports and services in connection with the delivery and installation of such imports;

(e) “First Tranche” means the portion of the proceeds of the Loan in an amount in various currencies equivalent to twelve million nine hundred sixty seven thousand Special Drawing Rights (SDR 12,967,000) to be initially withdrawn;

(f) “Implementing Agencies” means MOF, MOTC, MTA, PSRC and SCWE, or any successor to any of the foregoing acceptable to ADB, as described in paragraph 1 of Schedule 4 to this Loan Agreement;

(g) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(h) “MOF” means the Ministry of Finance of the Borrower or any successor thereto;

(i) “MOTC” means the Ministry of Transport and Communication of the Borrower or any successor thereto;

(j) “MTA” means the Ministry of Territorial Administration of the Borrower or any successor thereto;

(k) “Policy Letter” is the development policy letter from the Borrower referred to in Recital (A) above;

(l) “Policy Matrix” means the matrix of policy actions agreed between the Borrower and ADB and attached to the Policy Letter which sets forth actions accomplished or to be accomplished by the Borrower under the Program;

(m) “Program” has the meaning set forth in Recital (A) above;

(n) “Program Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

(o) “PSRC” means the Public Service Regulatory Commission of the Borrower or any successor thereto;

(p) “SCWE” means the State Committee on Water Economy of the Borrower or any successor thereto; and

(q) “Second Tranche” means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement.

## **ARTICLE II**

### **The Loan**

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty one million seven hundred seventy thousand Special Drawing Rights (SDR 31,770,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term “grace period” as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 November and 15 May in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 September 2015 or such other date as may from time to time be agreed between the Borrower and ADB.

### **ARTICLE IV**

#### **Particular Covenants**

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following is specified as additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Borrower shall have met to the satisfaction of ADB the policy actions for the release of the First Tranche as specified in the Policy Letter.

Section 5.02. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## **ARTICLE VI**

### **Miscellaneous**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

#### For the Borrower

Ministry of Finance  
1 Melik-Adamyanyan Street  
Yerevan 0011, Armenia

Facsimile Number:

(37460) 700-358

Phone Number:

(37460) 700-354/304.

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2424.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

REPUBLIC OF ARMENIA

By  \_\_\_\_\_  
GAGIK KHACHATRYAN  
Minister of Finance

ASIAN DEVELOPMENT BANK

By  \_\_\_\_\_  
DAVID DOLE  
Resident Representative  
Armenia Resident Mission

**SCHEDULE 1****Description of the Program**

1. The principal objective of the Program is to mainstream results-based public management systems in the road transport and water supply sectors of the Borrower and the scope includes (i) improvement of sector management systems, (ii) development of strategies and processes for greater allocative efficiency in investment decisions, (iii) improvement of regulatory frameworks and (iv) strengthening of monitoring systems. The Program is described in more detail in the Policy Letter.

2. The Program is expected to be completed by 30 September 2015.



**SCHEDULE 2**  
**Amortization Schedule**  
**(Infrastructure Sustainability Support Program)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 November 2019	794,250.00
15 May 2020	794,250.00
15 November 2020	794,250.00
15 May 2021	794,250.00
15 November 2021	794,250.00
15 May 2022	794,250.00
15 November 2022	794,250.00
15 May 2023	794,250.00
15 November 2023	794,250.00
15 May 2024	794,250.00
15 November 2024	794,250.00
15 May 2025	794,250.00
15 November 2025	794,250.00
15 May 2026	794,250.00
15 November 2026	794,250.00
15 May 2027	794,250.00
15 November 2027	794,250.00
15 May 2028	794,250.00
15 November 2028	794,250.00
15 May 2029	794,250.00
15 November 2029	794,250.00
15 May 2030	794,250.00
15 November 2030	794,250.00
15 May 2031	794,250.00
15 November 2031	794,250.00
15 May 2032	794,250.00
15 November 2032	794,250.00
15 May 2033	794,250.00
15 November 2033	794,250.00
15 May 2034	794,250.00
15 November 2034	794,250.00
15 May 2035	794,250.00
15 November 2035	794,250.00
15 May 2036	794,250.00
15 November 2036	794,250.00
15 May 2037	794,250.00

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 November 2037	794,250.00
15 May 2038	794,250.00
15 November 2038	794,250.00
15 May 2039	<u>794,250.00</u>
<b>TOTAL</b>	<b>31,770,000.00</b>

\* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.
2. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.  
  
(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be greater than the amount of the Loan expected to be disbursed during such year.  
  
(c) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at the Central Bank of Armenia into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.  
  
(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.  
  
(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.
4. The Borrower may withdraw the First Tranche upon effectiveness of this Loan Agreement.
5. Notwithstanding any other provisions of this Loan Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account for the Second Tranche unless ADB is satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; (b) the policy actions that were met for the release of the First Tranche continue to be complied with by the Borrower; and (c) the Borrower has met the policy actions for the release of the tranche specified in Attachment 2 to this Schedule.

**Negative List**

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

**Table: Ineligible Items**

<b>Chapter</b>	<b>Heading</b>	<b>Description of Items</b>
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

**Policy Actions for Release of the Second Tranche****I. Improved Sector Management Systems****Water Services**

1. The Borrower shall have approved:
  - (i) a sector strategy for the water supply sector with financing plan (as evidenced by a government protocol decision);
  - (ii) streamlining of water sector agencies' functions (as evidenced by a government protocol decision); and
  - (iii) alignment of the Water Code 2002 and related legal acts with the sector strategy and functional review recommendations (as evidenced by a published government decision).

**II. Strategies and Processes for Greater Allocative Efficiency in Investment Decisions****Road Transport**

2. The Borrower shall have adopted a financing strategy for road maintenance with 2015 budget targets (as evidenced by (i) a government protocol decision and (ii) inclusion of an annex to the 2015 road maintenance program submitted to the MOF/government).
3. An MOTC-led advisory body shall have validated road asset management (RAM)-based road maintenance expenditure (as evidenced by an advisory body letter endorsed by all members of such body).
4. The Borrower shall have adopted a key performance indicator (KPI)-based Medium-Term Expenditure Framework (MTEF) for 2015-2017 for road sector with quality indicators (as evidenced by a published government decision on MTEF for 2015-2017).

**Water Services**

5. The Borrower shall have explicitly presented in its budget message a policy statement on its shareholder role (including its financial object as shareholder) in the water sector and the objectives of the water sector subsidies (as evidenced by its inclusion in the government's draft 2015 Budget Message).
6. SCWE and MOF shall have developed actions and targets with tariffs based on its shareholder role and the water sector's financial position (as evidenced by their inclusion in the government's draft 2015 Budget Message).

7. The Borrower shall have adopted a KPI-based MTEF for 2015-2017 for water sector with quality indicators (as evidenced by a published government decision on MTEF 2015-2017).

### **III. Regulatory Frameworks**

8. No policy actions for this output applicable to the release of the Second Tranche.

### **IV. Implementation Monitoring Systems**

#### Road Transport

9. MOTC shall have prepared a video inventory of the Borrower's entire road network (as evidenced by (i) a map/list of road stretches for which video processing has already been completed and (ii) a CD providing at least 1 minute of video footage of each road section, with each such road section identified).

10. The Borrower shall have adopted a road asset management system, including a road video inventory, as a tool for investment decisions (as evidenced by a published government decision).

11. MOTC shall have implemented an International Roughness Index (IRI) monitoring process for roads from 2015 onwards (as evidenced by availability of GPS-enabled management database videos on the MOTC website).

12. The Borrower shall have endorsed budget-linked regular road sector KPI monitoring (as evidenced by a published government decision).

13. MOTC shall have publicly disclosed all required information in accordance with its approved public information plan (PIP) (as evidenced by MOTC website screenshots).

#### Water Services

14. SCWE shall have completed an asset register of assets managed by state regulated operators (as evidenced by (i) an SCWE legal act on asset register and requirement for periodic updated thereto and (ii) screenshot of the asset register).

15. The Borrower shall have endorsed budget-linked water sector KPI monitoring (as evidenced by a published government decision on MTEF 2015-2017).

16. SCWE and PSRC shall have publicly disclosed all required information in accordance with their respective approved PIPs (as evidenced by SCEW and PSRC website screenshots).

Road Transport and Water Services

17. The Borrower shall have piloted the inclusion of a practice-based component in the certification for the internal auditors of MOTC (as evidenced by a government protocol decision).

18. MOTC and SCWE shall have appointed non-executive members to their respective audit committees (as evidenced by (i) a revised MOF ministerial order mandating appointment of non-executive members and specifying eligibility/qualification requirements and (ii) minutes of meetings of the audit committees of MOTC and SCWE showing consideration of auditing findings and recommendations, and participation of, non-executive members in their composition).

19. MOTC and SCWE shall have approved risk-based audit plans for both the road and water sectors (as evidenced by annual risk-based audit plans approved by the respective heads of the audit units of MOTC and SCWE).

## SCHEDULE 4

### Program Implementation and Other Matters

#### Implementation Arrangements

1. The MOF shall be the Program Executing Agency and shall be responsible for the overall implementation of the Program, including compliance with all policy actions, disbursements and maintaining records. The MOF, MOTC, SCWE, MTA and PSRC shall be the Implementing Agencies for their respective components under the Program.
2. The Borrower shall form a Program Steering Committee to be chaired by the Executive Director of the Foreign Financing Project Management Center in the MOF and which shall comprise working level implementing representatives from each of the Implementing Agencies. The Program Steering Committee will oversee day-to-day implementation of Program activities.
3. The Borrower shall ensure that MTA, SCWE and the other Implementing Agencies shall be adequately staffed and provided with the necessary financial, technical and other resources to perform their functions under the Program.

#### Policy Actions and Dialogue

4. The Borrower shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program.
5. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.

#### Use of Counterpart Funds

6. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

#### Governance and Anticorruption

7. The Borrower, the Program Executing Agency and the Implementing Agencies shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.



Monitoring and Review

8. The Borrower shall undertake periodic reviews every 3 months during the Program implementation period to evaluate the scope, implementation arrangements, progress and achievement of the objectives of the Program. In addition to the periodic reviews, a mid-term review shall take place during the first quarter of 2015. The Borrower shall ensure that ADB shall have the opportunity to participate in such periodic and mid-term reviews and, as a part of each such review, the Borrower shall provide a written status report to ADB on the progress and implementation of reforms included in the Program. The policy actions shall be monitored through the Program Steering Committee, which is responsible for ensuring the implementation of policy actions and following-up on progress.