
LOAN NUMBER 2529-ARM(SF)

LOAN NUMBER 2530-ARM(SF)

LOAN AGREEMENT
(Special Operations)

(Crisis Recovery Support Program)

between

REPUBLIC OF ARMENIA

and

ASIAN DEVELOPMENT BANK

DATED 15 JULY 2009

LPS:ARM 43087

LOAN AGREEMENT

(Special Operations)

LOAN AGREEMENT dated 15 July 2009 between REPUBLIC OF ARMENIA (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 8 June 2009 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to help the Borrower mitigate the impact of the recent global financial crisis (hereinafter call the "Program");

(B) the Borrower has applied to ADB for loans from its Special Funds resources for the purposes of the Program; and

(C) ADB has, on the basis inter alia of the foregoing, agreed to make loans to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth.

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 (the "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".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the meanings respectively defined below:

(a) "AMD" means Armenian dram, the lawful currency of the Borrower;

(b) "Counterpart Funds" means the AMD proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraphs 8 of Schedule 5 to this Loan Agreement;

(c) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(d) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(e) "MOF" means the Ministry of Finance of the Borrower, and any successor thereto; and

(f) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MOF, which is responsible for the carrying out of the Program.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources two loans, one in the amount in various currencies equivalent to twenty nine million seven hundred thirty five thousand Special Drawing Rights (SDR 29,735,000) (hereinafter called the "Loan A") and the other in the amount in various currencies equivalent to twenty one million six hundred forty three thousand Special Drawing Rights (SDR 21,643,000) (hereinafter call the "Loan B"; Loan A and Loan B hereinafter collectively called the "Loan"), of which the aggregate amount in various currencies is equivalent to fifty one million three hundred seventy eight thousand Special Drawing Rights (SDR 51,378,000).

Section 2.02. (a) In respect of the Loan A withdrawn from the Loan Account and outstanding from time to time, the Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period and one and one-half percent (1.5%) per annum thereafter.

(b) In respect of the Loan B withdrawn from the Loan Account and outstanding from time to time, the Borrower shall pay to ADB an interest charge at the rate of one and six-tenths percent (1.6%) per annum during the grace period and for each interest period thereafter.

(c) The term "grace period" 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 1 March and 1 September 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, and each such repayment shall be made on a pro rata basis in respect of Loan A and Loan B.

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 Dollar.

Section 2.06. For the purpose of paragraph (b) of Section 3.04 of the Loan Regulations, any prepayment shall be made on a pro rata basis in respect of Loan A and Loan B.

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 may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program 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. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to the 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 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty days (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2009 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 5 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 (i) the use of Loan proceeds, (ii) the Counterpart Funds and the use thereof, and (iii) the implementation of the Program including the accomplishment of the targets and carrying out of the actions set forth 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 an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: all conditions for the release of the Loan proceeds, as set out in Attachment 2 to Schedule 3 of this Loan Agreement shall have been satisfied, and there has been no action on the part of the Borrower which materially reverses the objectives of the Program.

Section 5.02. A date thirty (30) 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
Republic of Armenia
1, Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Facsimile Number:

+374 10 524282

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

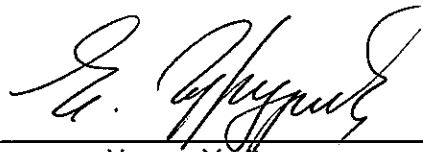
Facsimile Numbers:

+63 2 636-2444

+63 2 636-2484

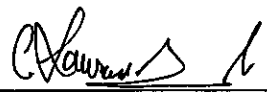
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

REPUBLIC OF ARMENIA

By 

Nerses Yeritsyan
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

C. Lawrence Greenwood, Jr.
Vice President

SCHEDULE 1**Description of Program**

1. The principal objective of the Program is to assist the Borrower in mitigating the impact of the recent global financial crisis. The Program will help the Borrower fund essential budgetary expenditures to enable the Borrower to maintain its delivery of core publicly-funded programs and activities and to maximize the benefits of the Borrower's crisis mitigation measures. The Program is described in more detail in the Policy Letter.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 8 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 31 December 2009.

SCHEDULE 2

Amortization Schedule (Crisis Recovery Support Program)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
1 September 2017	1,605,563
1 March 2018	1,605,563
1 September 2018	1,605,563
1 March 2019	1,605,563
1 September 2019	1,605,563
1 March 2020	1,605,563
1 September 2020	1,605,563
1 March 2021	1,605,563
1 September 2021	1,605,563
1 March 2022	1,605,563
1 September 2022	1,605,563
1 March 2023	1,605,563
1 September 2023	1,605,563
1 March 2024	1,605,563
1 September 2024	1,605,563
1 March 2025	1,605,563
1 September 2025	1,605,563
1 March 2026	1,605,563
1 September 2026	1,605,563
1 March 2027	1,605,563
1 September 2027	1,605,563
1 March 2028	1,605,563
1 September 2028	1,605,563
1 March 2029	1,605,563
1 September 2029	1,605,563
1 March 2030	1,605,563
1 September 2030	1,605,563
1 March 2031	1,605,563
1 September 2031	1,605,563
1 March 2032	1,605,563
1 September 2032	1,605,563
1 March 2033	1,605,547
Total	51,378,000

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity 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) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures that have been financed by grants or credits from official international or bilateral aid agencies or any other loans or grants made by ADB.

3. (a) Any application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form and substance satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that with respect to the year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(c) For the purposes of this paragraph 3, the term "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 for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans and/or grants made by ADB.

(d) 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.

4. (a) Prior to submitting the application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account as 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 consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any

event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(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 Items.

(d) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial affairs as such relate to the Program from time to time with the auditors appointed by the Borrower pursuant to subparagraph 4(b) above, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

5. If ADB determines at any time that (a) any portion of the Loan proceeds remains unutilized by 31 December 2009, or (b) any payment out of the Loan proceeds was not made for Eligible Items or was not supported by evidence satisfactory to ADB, the Borrower shall, promptly upon notice from ADB, provide such additional evidence as ADB may request, or refund to ADB the unutilized amount of the Loan proceeds and the amounts of such ineligible payments.

Negative List

No withdrawals of the Loan proceeds shall 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 A12: Ineligible Items

Chapter	Heading	Description of Items
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 AMD or of 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.

Conditions for Release of the Loan proceeds

In order to release the Loan proceeds, the following actions shall have been complied with:

1. The Borrower has restored a flexible exchange rate regime.
2. The Borrower has approved a plan to increase the resources of Deposit Guarantee Fund.
3. The Borrower has suspended all low priority expenditures originally budgeted.
4. The Borrower has published, and started implementing, relevant crisis recovery measures.
5. The Borrower has adopted measures to enhance basic pensions and unemployment insurance amounts.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Implementation and Other Matters

Program Implementation

1. The Borrower shall: (a) ensure that the policies adopted and actions taken as described in the Policy Letter, prior to the date of this Loan Agreement continues in effect for the duration of, and beyond, the Program period; and (b) adopt other policies and take other actions as specified in the Policy Letter in accordance with the planned schedule, and ensure that such policies and actions will continue in effect during and after the Program period.
2. The Borrower shall furnish to ADB a certified copy of the state budget execution reports for 2009 as submitted to the Parliament of the Borrower by 30 June 2010, with a certified English translation of the relevant parts as agreed by the Borrower and ADB. The Borrower shall also furnish to ADB a certified copy of the opinion of the Chamber of Control of the Borrower on such reports by 30 November 2010, and such opinion shall be attached with a certified English translation of the relevant parts as agreed by the Borrower and ADB.
3. The Borrower shall provide ADB with a certified copy, in the English language, of the externally audited annual report of the Central Bank of Armenia in accordance with International Financial Reporting Standards for the fiscal year 2009 by 30 June 2010.
4. As the Program Executing Agency, MOF shall have the overall responsibility for implementing the Program, including, but not limited to, the maintenance of all Program records, reporting to ADB, and administering and disbursing the Loan proceeds.

Policy Dialogue

5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, (a) the implementation of the various anti-crisis measures adopted under the Program, and (b) additional reforms arising during the Program Period that may be considered necessary or desirable.
6. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program, and appropriate measures to overcome or mitigate such problems and constraints.
7. The Borrower shall ensure that necessary support is provided to ADB to review and monitor the status of key indicators under the Program. The Borrower shall share with ADB the reports of relevant review missions for the Stand-by Arrangement provided to the Borrower by the International Monetary Fund in 2009 to provide balance of payments support and for the Development Policy Loan provided to the Borrower by the World Bank to support social vulnerability and competitiveness. The Borrower shall keep ADB informed of its policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's view into consideration before finalizing and implementing any such proposals.

Use of Counterpart Funds

8. The Borrower shall ensure that the Counterpart Funds are used for financing essential budgetary expenditures in order to maintain its delivery of core publicly-funded programs and activities under the Program in compliance with its public finance management procedures and reporting arrangements. The Borrower shall ensure that the Loan proceeds are not used to finance any expenditure other than those within the scope of the Eligible Items, and shall provide a certificate to ADB to this effect.

Good Governance and Transparency

9. The Borrower shall comply with ADB's *Anticorruption Policy* (1998, as amended to date). The Borrower, consistent with its commitment to good governance, accountability and transparency, agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Program, and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as such relate to Program and may be necessary for the satisfactory completion of any such investigation.

Safeguards Compliance

10. The Borrower shall ensure that ADB's *Environment Policy* (2002) and *Involuntary Resettlement Policy* (1995) are complied with in the implementation of any activities financed by the proceeds of the Loan.

Program Performance Monitoring

11. The Borrower shall cooperate fully with ADB to create a monitoring and performance evaluation system, which will provide support in meeting the requirements of the design and monitoring framework of the Program. The Borrower shall also work with ADB to use specific and measurable targets and indicators to assess the outputs, outcomes, and impact of the Program.