

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

August 28, 2008

H.E. Tigran Davtyan
Minister of Finance
1 Melik-Adamyanyan Street
Republic Square
Yerevan 375010
Republic of Armenia

Re: Republic of Armenia: IDF Grant for Piloting Fiduciary Control for Non-Commercial
Organizations Project - IDF Grant No. 092616

Dear Mr. Minister:

In response to the request for financial assistance made on behalf of the Republic of Armenia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient a grant in an amount not to exceed four hundred twenty-five thousand United States Dollars (U.S.\$425,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date on which the World Bank receives notice of completion of internal approval procedures under the laws of the Recipient; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

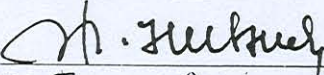


Saumya Mitra

Acting Country Director for Armenia
South Caucasus Country Department
Europe and Central Asia Region

AGREED:

REPUBLIC OF ARMENIA

By 

Name Tigran Davtyan

Title Minister of Finance

Date: 01.12.08

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006

(2) Disbursement Letter dated August 28, 2008, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 20, 2006 (“Standard Conditions”), with the modifications set forth in Section 1.02 of this Agreement, constitute an integral part of this Agreement:

1.02. **Modifications to the Standard Conditions.** (a) A new paragraph (j) is added to Section 4.02 of the Standard Conditions to read as follows:

“(j) *Fraud and Corruption.* At any time, the World Bank determines that any representative of the Recipient (or of the Member Country, if the Recipient is not the Member Country, or of any other recipient of any of the proceeds of the Grant) has engaged in corrupt, fraudulent, coercive or collusive practices in connection with the use of the proceeds of the Grant, without the Recipient (or the Member Country or such other recipient) having taken timely and appropriate action satisfactory to the World Bank to address such practices when they occur.

(b) Paragraph (c) of Section 4.03 of the Standard Conditions shall be modified to read as follows:

“(c) *Fraud and Corruption; Misprocurement.* At any time, the World Bank determines: (i) with respect to any amount of the proceeds of the Grant, that corrupt, fraudulent, coercive or collusive practices were engaged in by representatives of the Recipient (or the Member Country, if the Recipient is not the Member Country, or of any other recipient of the proceeds of the Grant), without the Recipient (or the Member Country or such other recipient) having taken timely and appropriate action satisfactory to the World Bank to address such practices when they occur; or (ii) (A) that the procurement of any contract to be financed out of the proceeds of the Grant is inconsistent with the procedures set forth or referred to the Grant Agreement; and (B) establishes the amount of expenditures under such contract which would otherwise have been eligible for financing out of the proceeds of the Grant..

(c) Section 4.05 of the Standard Conditions is modified to read as follows:

“Section 4.05. *Grant Refund*

(a) If the World Bank determines that an amount of the Grant has been used in a manner inconsistent with the provisions of the Grant Agreement or these Standard Conditions, the Recipient shall, upon notice by the World Bank to the Recipient, promptly refund such amount to the World Bank. Such inconsistent use shall include, without limitation: (i) use of such amount to make a payment for an expenditure that is not an Eligible Expenditure; or (ii) (A) engaging in corrupt, fraudulent, collusive or coercive practices in connection with the use of such amount, or (B) use of such amount to finance a contract during the procurement or execution of which such practices were engaged in by representatives of the Recipient (or of the Member Country, if the

Recipient is not the Member Country, or of any other recipient of any of the proceeds of the Grant), in either case without the Recipient (or the Member Country or such other recipient) having taken timely and appropriate action satisfactory to the World Bank to address such practices when they occur.

(b) Except as the World Bank may otherwise determine, the World Bank shall cancel all amounts refunded pursuant to this Section.”

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

Article II Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to operationalize the fiduciary control framework for Non-Commercial Organizations (NCOs) in the territory of the Recipient. The Project consists of the following parts:

Component 1: Risk Assessment and Gap Analysis

Provision of consultants’ services for conducting risk assessment and gap analysis of the designed fiduciary control framework over the NCOs.

Component 2: Piloting the Methodology

(a) Development and piloting of sample forms of action plans and purchase agreements for NCOs in the areas of education, health, culture and social affairs, in cooperation with the Authorized Bodies of the Recipient.

(b) Development of final sample forms of action plans and purchase agreements, including tailoring the sample forms of action plans and purchase agreements through consultations with the NCOs and the Authorized Bodies of the Recipient.

(c) Development of guidelines for NCOs’ reports consolidation and monitoring by the Authorized Bodies and the Ministry of Finance of the Recipient.

(d) Training of staff in the Ministry of Finance in the monitoring framework.

(e) Review of the current legislation for enforcing the application of the fiduciary framework, and drafting of the legislative framework update.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through the Procurement Process Regulation and Budget Execution Methodology Department (PPRBEMD) of its Ministry of Finance, shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.

2.03. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank's request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover such period as shall be indicated in the World Bank's request and shall be furnished to the World Bank not later than one month after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

- The fiduciary control methodology was made operational and applied for the pilot NCOs.
- The staff in the Ministry of Finance of the Recipient have been trained and applied the methodology to monitor the pilot NCOs, and provided training to other staff in the Authorized Bodies and NCOs.
- The legislation has been drafted in order to roll out the fiduciary control methodology.

(c) The Recipient shall, upon the World Bank's request, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date.

2.04. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.05. **Procurement**

(a) General. All services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in: Sections I (excluding paragraph 1.24) and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the World Bank in May 2004 and revised in October 2006 ("Consultant Guidelines").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Consultant Guidelines.

(c) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection; (F) Selection of Individual Consultants; and (G) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:]

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (exclusive of Taxes)
(1) Consultants' Services including audit	425,000	100%
TOTAL AMOUNT	425,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) for any payment for Taxes levied by or in the territory of the Member Country.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date on which the World Bank receives the notice of completion of internal approval procedures under the laws of the Recipient for this Agreement.

Article IV
Recipient's Representative; Addresses

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

4.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

1 Melik-Adamyan Street
Republic Square
Yerevan 375010
Republic of Armenia

Telex:

243331 LADA SU

4.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391