MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA
ACTING THROUGH
THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF ARMENIA

Millennium Challenge Compact

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MILLENNIUM CHALLENGE COMPACT

This MILLENNIUM CHALLENGE COMPACT (the "***Compact***") is made between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("***MCC***"), and the Government of the Republic of Armenia (the "***Government***") (referred to herein individually as a "***Party***" and collectively, the "***Parties***"). A compendium of capitalized terms defined herein is included in Exhibit A attached hereto.

RECITALS

WHEREAS, MCC, acting through its Board of Directors, has selected the Republic of Armenia as eligible to present to MCC a proposal for the use of Millennium Challenge Account ("***MCA***") assistance to help facilitate poverty reduction through economic growth in Armenia;

WHEREAS, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC on March 28, 2005 (the "***Proposal***");

WHEREAS, the Proposal focused on increasing agricultural production in poor, rural areas of the country through investments in irrigation and rural roads;

WHEREAS, MCC has evaluated the Proposal and related documents to determine whether the Proposal is consistent with core MCA principles and includes proposed activities and projects that will advance the progress of Armenia towards achieving economic growth and poverty reduction;

WHEREAS, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding to advance Armenia's progress towards economic growth and poverty reduction (the "***Program***"); and

WHEREAS, the Government intends to establish a legal entity, in a form mutually agreeable to the Parties, which shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government ("***MCA-Armenia***").

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

ARTICLE I.
PURPOSE AND TERM

Section 1.1 Objectives. The overall objective of this Compact is to reduce rural poverty through a sustainable increase in the economic performance of the agricultural sector in Armenia (the "***Compact Goal***"). The Parties have identified the following project-level objectives (the

"***Objectives***") to advance the Compact Goal, each of which is described in more detail in the Annexes attached hereto:

(a) Expand the access of rural communities to agricultural markets, non-farm income opportunities and social infrastructure by improving the condition of rural roads (the "***Rural Road Rehabilitation Objective***"); and

(b) Increase the productivity of the agricultural sector by extending and improving the quality of the irrigation system, strengthening the entities that manage the system and enabling farmers to commercialize their products (the "***Irrigated Agriculture Objective***").

The Government expects to achieve, and shall use its best efforts to ensure the achievement of, these Objectives during the Compact Term.

Section 1.2 Projects. The Annexes attached hereto describe the specific projects and the policy reforms and other activities related thereto (each, a "***Project***") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives.

Section 1.3 Entry into Force; Compact Term. This Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that each Party has completed its domestic requirements for entry into force of this Compact and that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC (such date, the "***Entry into Force***"). This Compact shall remain in force for five (5) years from the Entry into Force of this Compact, unless earlier terminated in accordance with Section 5.4 (the "***Compact Term***").

ARTICLE II.

FUNDING AND RESOURCES

Section 2.1 MCC Funding.

(a) MCC's Contribution. MCC hereby grants to the Government, subject to the terms and conditions of this Compact, an amount not to exceed Two Hundred Thirty-Five Million Six Hundred Fifty Thousand United States Dollars (USD $235,650,000) ("***MCC Funding***") during the Compact Term to enable the Government to implement the Program and achieve the Objectives.

(i) Subject to Sections 2.1(a)(ii), 2.2(b) and 5.4, the allocation of MCC Funding within the Program and among and within the Projects shall be as generally described in Annex II or as otherwise agreed upon by the Parties from time to time.

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement has not been satisfied, MCC may, upon written notice to the Government, reduce the total amount of MCC Funding by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the Program, Project or Project Activity for which such condition precedent has not been met. Upon the expiration or termination of this Compact, (1) any amounts of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (2) any amounts of MCC

Funding disbursed by MCC to the Government as provided in Section 2.1(b)(i), but not re-disbursed as provided in Section 2.1(b)(ii) or otherwise incurred as permitted pursuant to Section 5.4(e) prior to the expiration or termination of this Compact, shall be returned to MCC in accordance with Section 2.5(a)(ii).

(iii) Notwithstanding any other provision of this Compact and pursuant to the authority of Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "***Act***"), upon the conclusion of this Compact (and without regard to the satisfaction of all of the conditions for Entry into Force required under Section 1.3), MCC shall make available Five Hundred Thousand United States Dollars (USD $500,000) ("***Compact Implementation Funding***") to facilitate certain aspects of Compact implementation as described in Schedule 2.1(a)(iii) attached hereto; *provided,* such Compact Implementation Funding shall be subject to (1) the limitations on the use or treatment of MCC Funding set forth in Section 2.3, as if such provision were in full force and effect, and (2) any other requirements for, and limitations on the use of, such Compact Implementation Funding as may be required by MCC in writing; *provided, further,* that any Compact Implementation Funding granted in accordance with this Section 2.1(a)(iii) shall be included in, and not additional to, the total amount of MCC Funding; and *provided, further,* any obligation to provide such Compact Implementation Funding shall expire upon the expiration or termination of this Compact or five (5) years from the conclusion of this Compact, whichever occurs sooner. Notwithstanding anything to the contrary in this Compact, this Section 2.1(a)(iii) shall provisionally apply prior to Entry into Force.

(b) Disbursements.

(i) Disbursements of MCC Funding. MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "***MCC Disbursement***") to a Permitted Account or through such other mechanism agreed by the Parties under and in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(ii) Re-Disbursements of MCC Funding. The release of MCC Funding from a Permitted Account (each such release, a "***Re-Disbursement***"), shall be made in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(c) Interest. Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue (collectively, "***Accrued Interest***") shall be held in a Permitted Account and accrue in accordance with the requirements for the accrual and treatment of Accrued Interest as specified in Annex I or any relevant Supplemental Agreement. On a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC.

(d) Conversion; Exchange Rate. The Government shall ensure that all MCC Funding that is held in the Permitted Account(s) shall be denominated in the currency of the United States of America ("***United States Dollars***") prior to Re-Disbursement; *provided,* that a certain portion of MCC Funding may be transferred to a Local Account and may be held in such Local Account in the currency of the Republic of Armenia prior to Re-Disbursement in accordance with the requirements of Annex I and any relevant Supplemental Agreement. To the extent that any

amount of MCC Funding held in United States Dollars must be converted into the currency of the Republic of Armenia for any purpose, including for any Re-Disbursement or any transfer of MCC Funding into a Local Account, the Government shall ensure that such amount is converted consistent with Annex I, including the rate and manner set forth in Annex I, and the requirements of the Disbursement Agreement or any other Supplemental Agreement between the Parties.

(e) Guidance. From time to time, MCC may provide guidance to the Government through Implementation Letters on the frequency, form and content of requests for MCC Disbursements and Re-Disbursements or any other matter relating to MCC Funding. The Government shall apply such guidance in implementing this Compact.

Section 2.2 Government Resources.

(a) The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental Agreement to which the Government is a party or as are otherwise necessary and appropriate to effectively carry out the Government Responsibilities or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities.

(b) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget or any other Armenian governmental authority at a departmental, municipal, regional or other jurisdictional level materially reallocates or reduces the allocation of its respective budget, of the normal and expected resources that the Government or such other governmental authority, as applicable, would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reallocation or reduction, such notification to contain information regarding the amount of the reallocation or reduction, the affected activities, and an explanation for the reduction. In the event that MCC independently determines upon review of the executed national annual budget that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, following such notification, the Government shall provide a written explanation for such reallocation or reduction and MCC may (i) reduce, in its sole discretion, the total amount of MCC Funding or any MCC Disbursement by an amount equal to the amount estimated in the applicable Detailed Financial Plan for the activity for which funds were reduced or reallocated or (ii) otherwise suspend or terminate MCC Funding in accordance with Section 5.4(b).

(c) The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of the Republic of Armenia on a multi-year basis.

Section 2.3 Limitations on the Use or Treatment of MCC Funding.

(a) Abortions and Involuntary Sterilizations. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(f)(1)-(3)), a United States statute, which prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act; or (ii) any provision of law comparable to

the eleventh and fourteenth provisos under the heading "Child Survival and Health Programs Fund" of division E of Public Law 108-7 (117 Stat. 162), a United States statute.

(b) United States Job Loss or Displacement of Production. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including:

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States;

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States; or

(vii) Providing general budget support for an organization that engages in any activity prohibited above.

(c) Military Assistance and Training. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

(d) Prohibition of Assistance Relating to Environmental, Health or Safety Hazards. The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard. Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the "***Environmental Guidelines***"), including any definition of "likely to cause a significant environmental, health, or safety hazard" as may be set forth in such Environmental Guidelines.

(e) Taxation.

(i) Taxes. The Government shall ensure that the Program, all Program Assets, MCC Funding and Accrued Interest shall be free from any taxes imposed under laws currently or hereafter in effect in the Republic of Armenia during the Compact Term. This exemption shall apply to any use of any Program Asset, MCC Funding and Accrued Interest, including any Exempt Uses, and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) funded by MCC Funding, and shall apply to all taxes, tariffs, duties, and other levies (each a "***Tax***" and collectively, "***Taxes***"), including:

(1) To the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities, other than nationals of the Republic of Armenia, receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in the Republic of Armenia, or any other tax, duty, charge or fee of whatever nature, except fees for specific services rendered; for purposes of this Section 2.3(e), the term "national" refers to organizations established under the laws of the Republic of Armenia, other than MCA-Armenia or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws of the Republic of Armenia;

(2) Customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services, or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of the Republic of Armenia and who are present in the Republic of Armenia for purposes of carrying out the Program or their family members, including all charges based on the value of such imported goods;

(3) Taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of the Republic of Armenia, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding; and

(4) Taxes or duties levied on the purchase of goods or services funded by MCC Funding, including sales taxes, tourism taxes, value-added taxes ("***VAT***"), or other similar charges.

(ii) This Section 2.3(e) shall apply, but is not limited to (1) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (2) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of Armenia by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (3) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (4) any employee of such organizations (the uses set forth in clauses (1) through (4) are collectively referred to herein as "***Exempt Uses***").

(iii) If a Tax has been levied and paid contrary to the requirements of this Section 2.3(e), whether inadvertently, due to the impracticality of implementation of this provision with respect to certain types or amounts of taxes, or otherwise, the Government shall refund promptly to MCC to an account designated by MCC the amount of such Tax in the currency of the Republic of Armenia, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing according to procedures agreed by the Parties, whether by MCC or otherwise, of such levy and tax payment; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(e)(iii) and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding ("***Program Assets***") may be applied by the Government in satisfaction of its obligations under this paragraph.

(iv) The Parties shall memorialize in a mutually acceptable Supplemental Agreement or Implementation Letter or other suitable document the mechanisms for implementing this Section 2.3(e), including (1) a formula for determining refunds for Taxes paid, the amount of which is not susceptible to precise determination, (2) a mechanism for ensuring the tax-free importation, use, and re-exportation of goods, services, or the personal belongings of individuals (including all Providers) described in paragraph (i)(2) of this Section 2.3(e), and (3) any other appropriate Government action to facilitate the administration of this Section 2.3(e).

(v) The Parties agree that this Section 2.3(e) shall supplement, without limiting in any manner, the provisions relating to tariffs, dues, customs duties, import taxes and other similar taxes or charges contained in the bilateral agreement entered into on December 12, 1992 between the Government of the United States of America and the Government of the Republic of Armenia Regarding Cooperation to Facilitate the Provision of Humanitarian and Technical Economic Assistance (the "***Bilateral Agreement***"), which agreement continues in full force and effect. In case of any inconsistency between the provisions of this Section 2.3(e) and the provisions relating to tariffs, dues, customs duties, import taxes and other similar taxes or charges contained in the Bilateral Agreement, the provisions of this Section 2.3(e) shall prevail.

(f) Alteration. The Government shall ensure that no MCC Funding, Accrued Interest or Program Assets shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in the Republic of Armenia that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding, Accrued Interest or Program Asset.

(g) Liens or Encumbrances. The Government shall ensure that no MCC Funding, Accrued Interest or Program Assets shall be subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a "***Lien***"), except with the prior approval of MCC in accordance with Section 3(c) of Annex I, and in the event of the imposition of any Lien not so approved, the Government shall promptly seek the release of such Lien; *provided, however*, the Government shall satisfy its obligations under this Section 2.3(g) at its own expense and no MCC Funding, Accrued Interest or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.3(g).

(h) Other Limitations. The Government shall ensure that the use or treatment of MCC Funding, Accrued Interest and Program Assets shall be subject to such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect

during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing.

(i) Utilization of Goods, Services and Works. The Government shall ensure that any Program Assets, services, facilities or works funded in whole or in part (directly or indirectly) by MCC Funding, unless otherwise agreed by the Parties in writing, shall be used solely in furtherance of this Compact.

(j) Notification of Applicable Laws and Policies. MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2.3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy.

Section 2.4 Incorporation; Notice; Clarification.

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2.3 in all Supplemental Agreements to which MCC is not a party and shall use its best efforts to ensure that no such Supplemental Agreement is implemented in violation of the prohibitions set forth in Section 2.3.

(b) The Government shall ensure notification of all of the requirements set forth in Section 2.3 to any Provider and all relevant officers, directors, employees, agents, representatives, Affiliates, contractors, sub-contractors, grantees and sub-grantees of any Provider. The term "***Provider***" shall mean (i) MCA-Armenia and any Government Affiliate or Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD $50,000 in the aggregate of MCC Funding (other than employees of MCA-Armenia) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2.3, the Government shall notify, or ensure that such Provider notifies, MCC in writing and provide in such notification a detailed description of the activity in question. In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible.

Section 2.5 Refunds; Violation.

(a) Notwithstanding the availability to MCC, or exercise by MCC of, any other remedies, including under international law, this Compact, or any Supplemental Agreement:

(i) If any amount of MCC Funding or Accrued Interest, or any Program Asset, is used for any purpose prohibited under this Article II or otherwise in violation of any of the terms and conditions of this Compact, any guidance in any Implementation Letter, or any Supplemental Agreement between the Parties, MCC may require the Government to repay

promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified, whether by MCC or otherwise, of such prohibited use; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.5(a)(i) and no MCC Funding, Accrued Interest or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.5(a)(i); and

(ii) If all or any portion of this Compact is terminated or suspended and upon the expiration of this Compact, the Government shall, subject to the requirements of Sections 5.4(e) and 5.4(f), refund, or ensure the refund, to MCC to such account(s) designated by MCC the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than thirty (30) days after the Government receives MCC's request for such refund; *provided,* that if this Compact is terminated or suspended in part, MCC may request a refund for only the amount of MCC Funding, plus any Accrued Interest, then allocated to the terminated or suspended portion; *provided, further,* that any refund of MCC Funding or Accrued Interest shall be to such account(s) as designated by MCC.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2.5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity.

ARTICLE III.
IMPLEMENTATION

Section 3.1 Implementation Framework. This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and in relevant Supplemental Agreements.

Section 3.2 Government Responsibilities.

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in the Republic of Armenia, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "***Government Responsibilities***"). Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective directors, officers, employees, contractors, sub-contractors, grantees, sub-grantees, agents or representatives.

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration or oversight of a contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity, the person, members of the person's immediate family or household or his or her business partners, or organizations controlled by or substantially involving such person or entity, has or have a financial or other interest or (ii) the person or entity is negotiating or has any arrangement concerning prospective employment, unless such person or entity has first disclosed in writing to the Government the conflict of interest and, following such disclosure, the Parties agree in writing to proceed notwithstanding such conflict. The Government shall ensure that no person or entity involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding shall solicit or accept from or offer to a third party or seek or be promised (directly or indirectly) for itself or for another person or entity any gift, gratuity, favor or benefit, other than items of de minimis value and otherwise consistent with such guidance as MCC may provide from time to time.

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement between the Parties (including any Government Responsibilities or any other responsibilities or obligations of the Government under this Compact or any Supplemental Agreement between the Parties) or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, except as expressly provided herein or with the prior written consent of MCC; *provided, however,* the Government may designate MCA-Armenia or, with the prior written consent of MCC, such other mutually acceptable persons or entities, to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties (referred to herein collectively as "***Designated Rights and Responsibilities***"), in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement (each, a "***Permitted Designee***"). Notwithstanding any provision herein or any other agreement to the contrary, no such designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility. In the event that the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government, or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties, in accordance with this Section 3.2(c), then the Government shall (i) cause such person or entity to perform such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities, (ii) ensure that such person or entity does not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any other person or entity and (iii) cause such person or entity to certify to MCC in writing that it will so perform such Designated Rights and Responsibilities and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC.

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate or any Permitted Designee, including MCA-Armenia,

in connection with or arising out of any activities funded in whole or in part (directly or indirectly) by MCC Funding.

(e) The Government shall ensure that (i) no decision of MCA-Armenia is modified, supplemented, unduly influenced or rescinded by any governmental authority, except by a non-appealable judicial decision or any judicial decision which MCA-Armenia, with the agreement of MCC, decides not to appeal, and (ii) the authority of MCA-Armenia shall not be expanded, restricted, or otherwise modified, except in accordance with this Compact, the Governance Agreement or any other Supplemental Agreement between the Parties.

(f) The Government shall ensure that all persons and individuals that enter into agreements to provide goods, services or works under the Program or in furtherance of this Compact shall do so in accordance with the Procurement Guidelines and shall obtain all necessary immigration, business and other permits, licenses, consents and approvals to enable them and their personnel to fully perform under such agreements.

Section 3.3 Government Deliveries. The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all Government deliveries required to be delivered by the Government under this Compact or any Supplemental Agreement between the Parties, in form and substance as set forth in this Compact or in any such Supplemental Agreement.

Section 3.4 Government Assurances. The Government hereby provides the following assurances to MCC that as of the date this Compact is signed:

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or otherwise communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, correct and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (1) alter in any material respect the information delivered, (2) likely have a material adverse effect on the Government's ability to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact, or (3) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement between the Parties;

(b) Unless otherwise disclosed in writing to MCC, the MCC Funding made available hereunder is in addition to the normal and expected resources that the Government usually receives or budgets for the activities contemplated herein from external or domestic sources;

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound; and

(d) No payments have been (i) received by any official of the Government or any other government body in connection with the procurement of goods, services or works to be undertaken or funded in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in the Republic of Armenia or (ii) made to any third party, in connection with or in furtherance of this Compact, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. 78a *et seq.*).

Section 3.5 Implementation Letters; Supplemental Agreements.

(a) MCC may, from time to time, issue one or more letters to furnish additional information or guidance to assist the Government in the implementation of this Compact (each, an "***Implementation Letter***"). The Government shall apply such guidance in implementing this Compact.

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designee or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force (each, a "***Supplemental Agreement***"). The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its execution a copy of any Supplemental Agreement to which MCC is not a party.

Section 3.6 Procurement; Awards of Assistance.

(a) The Government shall ensure that the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact shall be consistent with the procurement guidelines (the "***Procurement Guidelines***") reflected in a Supplemental Agreement between the Government (and/or a mutually acceptable Government Affiliate such as MCA-Armenia) and MCC (the "***Procurement Agreement***"), which Procurement Guidelines shall include the following requirements:

(i) Internationally accepted procurement rules with open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works;

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired;

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis; and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, services, and works.

(b) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods, services and works acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact.

(c) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement, grant and other agreement actions funded (or to be funded) in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in

the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing.

(d) The Government shall ensure that no goods, services or works funded in whole or in part (directly or indirectly) by MCC Funding are procured pursuant to orders or contracts firmly placed or entered into prior to the Entry into Force, except as the Parties may otherwise agree in writing.

(e) The Government shall ensure that MCA-Armenia and any other Permitted Designee follows, and uses its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring (including soliciting) goods, services and works and in awarding and administering contracts, grants and other agreements in furtherance of this Compact, and shall furnish MCC evidence of the adoption of the Procurement Guidelines by MCA-Armenia no later than the time specified in the Disbursement Agreement.

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3.6 into all Supplemental Agreements between the Government or any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, on the one hand, and a Provider, on the other hand.

(g) The Government shall ensure that approvals of the procurement of goods, works and services in furtherance of this Compact by the Governing Council pursuant to the terms of the Procurement Agreement shall not be subject to any additional approval by the Government.

Section 3.7 Policy Performance; Policy Reforms. In addition to the specific policy and legal reform commitments identified in Annex I and the Schedules thereto, the Government shall seek to maintain and improve its level of performance under the policy criteria identified in Section 607 of the Act, and the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time ("***MCA Eligibility Criteria***").

Section 3.8 Records and Information; Access; Audits; Reviews.

(a) Reports and Information. The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government (and the Government shall provide to MCC), any records and other information required to be maintained under this Section 3.8 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3.12.

(b) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, to the satisfaction of MCC, without limitation, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt, acceptance and use of goods, services and works acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program, and any documents

required by this Compact or any Supplemental Agreement between the Parties or reasonably requested by MCC upon reasonable notice ("***Compact Records***"). The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (i) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in the Republic of Armenia. Compact Records shall be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Access. Upon the request of MCC, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, at all reasonable times the opportunity to audit, review, evaluate or inspect activities funded in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or funded in whole or in part (directly or indirectly) by MCC Funding, and Compact Records, including of the Government or any Provider, relating to activities funded or undertaken in furtherance of, or otherwise relating to, this Compact, and shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider.

(d) Audits.

(i) Government Audits. The Government shall, on at least an annual basis and as the Parties may otherwise agree in writing, conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements during the year since the Entry into Force or since the prior anniversary of the Entry into Force in accordance with the following terms, except as the Parties may otherwise agree in writing. As requested by MCC in writing, the Government shall use, or cause to be used, or select, or cause to be selected, an auditor named on the approved list of auditors in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients* (the "***Audit Guidelines***") issued by the Inspector General (the "***Inspector General***") of the United States Agency for International Development ("***USAID***") and as approved by MCC, to conduct such annual audits. Such audits shall be performed in accordance with such Audit Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Audit Guidelines. An audit shall be completed no later than 90 days after the first anniversary of the Entry into Force of this Compact and no later than 90 days after each anniversary of the Entry into Force thereafter, or such other period as the Parties may otherwise agree in writing.

(ii) Audits of U.S. Entities. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other

provision of this Compact to the contrary. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(iii) Audit Plan. The Government shall submit, or cause to be submitted, to MCC, no later than twenty (20) days prior to the date of its adoption, in form and substance satisfactory to MCC, a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCA-Armenia, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first anniversary of the Entry into Force of this Compact or prior to the end of the first period to be audited.

(iv) Covered Provider. A "***Covered Provider***" is (1) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $300,000 or more of MCC Funding in any MCA-Armenia fiscal year or any other non-United States person or entity that receives (directly or indirectly) USD $300,000 or more of MCC Funding from any Provider in such fiscal year or (2) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $500,000 or more of MCC Funding in any MCA-Armenia fiscal year or any other United States person or entity that receives (directly or indirectly) USD $500,000 or more of MCC Funding from any Provider in such fiscal year.

(v) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(vi) Audit Reports. The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3.8, other than audits arranged for by MCC, no later than 90 days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time.

(vii) Other Providers. For Providers who receive MCC Funding under this Compact pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(viii) Audit by MCC. MCC retains the right to perform, or cause to be performed, the audits required under this Section 3.8 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3.8.

(e) Application to Providers. The Government shall include, or ensure the inclusion of, at a minimum, the requirements of:

(i) Paragraphs (a), (b), (c), (d)(ii), (d)(iii), (d)(v), (d)(vi), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents (each, a "***Government Party***"), on the one hand, and a Covered Provider that is not a non-profit organization domiciled in the United States, on the other hand;

(ii) Paragraphs (a), (b), (c), (d)(ii), and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Provider that does not meet the definition of a Covered Provider; and

(iii) Paragraphs (a), (b), (c), (d)(ii), (d)(v) and (d)(viii) of this Section 3.8 into all Supplemental Agreements between a Government Party and a Covered Provider that is a non-profit organization domiciled in the United States.

(f) Reviews or Evaluations. The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, environmental and social audits, or program evaluations during the Compact Term or otherwise and in accordance with the M&E Plan or as otherwise agreed in writing by the Parties.

(g) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any Audits, reviews or evaluations required under this Compact, including as reflected on Exhibit A to Annex II, and in no event shall the Government be responsible for the costs of any such Audits, reviews or evaluations from financial sources other than MCC Funding.

Section 3.9 Insurance. The Government shall, to MCC's satisfaction, insure or cause to be insured all Program Assets and shall obtain or cause to be obtained such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and post adequate performance bonds or other guarantees. MCA-Armenia or the Implementing Entity, as applicable, shall be named as the payee on any such insurance and the beneficiary of any such guarantee, including performance bonds. MCC and, to the extent it is not named as the payee, MCA-Armenia shall be named as additional insureds on any such insurance or other guarantee, to the extent permissible under applicable laws. The Government shall ensure that any proceeds from claims paid under such insurance or any other form of guarantee shall be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services or works; *provided, however,* at MCC's election, such proceeds shall be deposited in a Permitted Account as designated by MCA-Armenia and acceptable to MCC or otherwise as directed by MCC. To the extent MCA-Armenia is held liable under any indemnification or other similar provision of any agreement between MCA-Armenia, on the one hand, and any other Provider or other third party, on the other hand, the Government shall pay in full on behalf of MCA-Armenia any such obligation; *provided, further,* the Government shall apply national funds to satisfy its obligations under this Section 3.9 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 3.9.

Section 3.10 Domestic Requirements. The Government shall proceed in a timely manner to seek any required ratification of this Compact or similar domestic requirement, which process the Government shall initiate promptly after the conclusion of this Compact. Notwithstanding

anything to the contrary in this Compact, this Section 3.10 shall provisionally apply prior to the Entry into Force.

Section 3.11 No Conflict. The Government shall undertake not to enter into any agreement in conflict with this Compact or any Supplemental Agreement during the Compact Term.

Section 3.12 Reports. The Government shall provide, or cause to be provided, to MCC at least on each anniversary of the Entry into Force and otherwise within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information:

(a) The name of each entity to which MCC Funding has been provided;

(b) The amount of MCC Funding provided to such entity;

(c) A description of the Program and each Project funded in furtherance of this Compact, including:

(i) A statement of whether the Program or any Project was solicited or unsolicited; and

(ii) A detailed description of the objectives and measures for results of the Program or Project;

(d) The progress made by the Republic of Armenia toward achieving the Compact Goal and Objectives;

(e) A description of the extent to which MCC Funding has been effective in helping the Republic of Armenia to achieve the Compact Goal and Objectives;

(f) A description of the coordination of MCC Funding with other United States foreign assistance and other related trade policies;

(g) A description of the coordination of MCC Funding with assistance provided by other donor countries;

(h) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact;

(i) Any report or document required to be delivered to MCC under the Environmental Guidelines, any Audit Plan, or any component of the Implementation Plan; and

(j) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement between the Parties.

ARTICLE IV.

CONDITIONS PRECEDENT; DELIVERIES

Section 4.1 Conditions Prior to the Entry into Force and Deliveries. As conditions precedent to the Entry into Force, the Parties shall satisfy the conditions set forth in this Section 4.1.

(a) The Government (acting through a mutually acceptable Government Affiliate and/or MCA-Armenia) and MCC shall execute a Disbursement Agreement, which agreement shall be in full force and effect and, if required, ratified in Armenia as of the Entry into Force.

(b) (i) The Government (acting through a mutually acceptable Government Affiliate and/or MCA-Armenia) shall deliver one or more of the Supplemental Agreements identified in Exhibit B attached hereto, which agreements shall be duly executed by the parties thereto and in full force and effect and, if required, ratified in Armenia as of the Entry into Force, or (ii) the Government (acting through a mutually acceptable Government Affiliate and/or MCA-Armenia) and MCC execute one or more term sheets that set forth the material and principal terms and conditions that will be included in any such Supplemental Agreement that has not been entered into as of the Entry into Force (the "***Supplemental Agreement Term Sheets***").

(c) The Government (acting through a mutually acceptable Government Affiliate and/or MCA-Armenia) and MCC shall execute a Procurement Agreement, which agreement shall be in full force and effect and, if required, ratified in Armenia as of the Entry into Force.

(d) The Government shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact, such written statement to be signed by the Prime Minister or a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

(e) The Government shall deliver a letter signed and dated by the Minister of Justice of the Government certifying:

(i) That the Government has completed all of its domestic requirements for this Compact to be fully enforceable under Armenian law; and

(ii) That attached thereto are true, correct and complete copies of any decree, legislation, regulation or other governmental document relating to its domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available.

(f) MCC shall deliver a letter signed and dated by the Principal Representative of MCC certifying that MCC has completed its domestic requirements for this Compact to enter into force.

(g) MCC shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative executing any document under this Compact, such written statement to be signed by a duly authorized officer of MCC other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

ARTICLE V.

FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation
Attention: Vice President of Operations
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Phone: (202) 521-3600
Email: VPOperations@mcc.gov (Vice President of Operations);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Ministry of Finance and Economy
Attention: Minister of Finance and Economy
1, Melik-Adamyan Str.
Yerevan 375010
Republic of Armenia
Facsimile: +374 (10) 59-53-28
Phone: +374 (10) 59-52-22 or 23
Email: minister@mfe.am

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Minister of Finance and Economy, and MCC shall be represented by the individual holding the position of, or acting as, Vice President of Operations (each, a "***Principal Representative***"), each of whom, by written notice, may designate one or more additional representatives (each, an "***Additional Representative***") for all purposes other

than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties and subject to the respective domestic approval requirements to which this Compact was subject.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or United States Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render Armenia ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of Armenia on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or any Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (1) materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein; (2) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact; or (3) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied (directly or indirectly) to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that: (1) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (2) makes it improbable that the Objectives will be achieved during the Compact Term; (3) materially and adversely affects the Program Assets or any Permitted Account; or (4) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee thereof;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party;

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent or any other requirements or conditions in connection with MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties; or

(xiii) Any MCC Funding, Accrued Interest or Program Asset becomes subject to a Lien without the prior approval of MCC, and the Government fails to obtain the release of such Lien (at its own expense and not with MCC Funding, Accrued Interest or Program Assets) within 30 days after the imposition of such Lien.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Disbursements and Re-Disbursements shall cease upon expiration, suspension, or termination of this Compact; *provided, however,* (i) reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before expiration, suspension or termination of this Compact and (ii) reasonable expenditures for goods and services (including certain administrative expenses) properly incurred within one hundred and twenty (120) days after the expiration, suspension or termination of the Compact in connection with the winding up of the Program may be paid from MCC Funding, provided that in the case of clauses (i) and (ii) the request for such payment is (1) properly submitted within ninety (90) days after the expiration, suspension or termination of the Compact and (2) subject to the prior written consent of MCC.

(f) Other than payments permitted pursuant to Section 5.4(e), in the event of the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, each Party, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided,* for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a United States Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Armenia, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement nor otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities. MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of Armenia will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in the Republic of Armenia, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign

Service, or the family of a member of the United States Foreign Service, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in the Republic of Armenia.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

(i) Articles I through V; and

(ii) Any Attachments.

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are (directly or indirectly) suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, MCA-Armenia or any Permitted Designee, (directly or indirectly) connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate, MCA-Armenia, any Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "***United States Government***" shall, for the purposes of this Compact, mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "***Affiliate***" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "***Government Affiliate***" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(h) Any references to "***Supplemental Agreement between the Parties***" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for 120 days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of the Republic of Armenia or any other jurisdiction.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

Section 5.17 Publicity; Information and Marking. The Government shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCA-Armenia Website, identifying Program activity sites, and marking Program Assets; *provided,* any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Armenia Website.

SIGNATURE PAGE BEGINS ON THE NEXT PAGE.

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 27th day of March, 2006 and this Compact shall enter into force in accordance with Section 1.3.

Done at Washington, D.C. in the English language.

FOR MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA

Name: John J. Danilovich
Title: Chief Executive Officer

FOR THE GOVERNMENT OF THE REPUBLIC OF ARMENIA

Name: Vardan Khachatryan
Title: Minister of Finance and Economy

EXHIBIT A

DEFINITIONS

The following compendium of capitalized terms that are used in this Compact is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A. Defined terms importing the singular also include the plural and vice versa.

Accrued Interest *is any interest or other earnings on MCC Funding that accrues as specified in Section 2.1(c).*

Act *means the Millennium Challenge Act of 2003, as amended.*

Ad Hoc Evaluation *shall have the meaning set forth in Section 3(b) of Annex III.*

Additional Representative *is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.*

Affiliate *means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

AMD *means Armenian Drams, the currency of the Republic of Armenia.*

Annex *means any annex to this Compact.*

ARD *means the Armenian Road Directorate that manages the main and republican roads.*

Attachments *means any annex, schedule, exhibit, table, appendix or other attachment to this Compact.*

Audit Guidelines *means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.*

Auditor *means an auditor as defined in, and engaged pursuant to, Section 3(h) of Annex I and as required by Section 3.8(d) of the Compact.*

Auditor/Reviewer Agreement *is an agreement between MCA-Armenia and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer.*

Bank(s) *means any bank holding a Permitted Account referenced in Section 4(d) of Annex I.*

Bank Agreement *means an agreement between MCA-Armenia and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to a Permitted Account.*

Beneficiaries *means the intended beneficiaries identified in accordance with Annex I.*

Bilateral Agreement *means the bilateral agreement entered into on December 12, 1992 between the Government of the United States of America and the Government of the Republic of Armenia Regarding Cooperation to Facilitate the Provision of Humanitarian and Technical Economic Assistance.*

Chair *means the Chair of the Governing Council.*

Chief Executive Officer *means the Chief Executive Officer of MCA-Armenia.*

Civil Society Members *are the five members of civil society appointed by the Stakeholders' Committee as described in Section 3(d)(ii)(2)(A)(vii) of Annex I, to serve as voting members on the Governing Council.*

Compact *means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Armenia.*

Compact Goal *means reducing rural poverty through a sustainable increase in the economic performance of the agricultural sector in Armenia.*

Compact Goal Indicator(s) *means the Indicators in the M&E Plan that will measure the results for the overall Program. A table of Compact Goal Indicators with their definitions is set forth at Section 2(a)(i) of Annex III.*

Compact Implementation Funding *shall have the meaning set forth in Section 2.1(a)(iii).*

Compact Records *shall have the meaning set forth in Section 3.8(b).*

Compact Reports *means any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.*

Compact Term *means the term for which this Compact shall remain in force, which shall be the five (5) year period from the Entry into Force, unless earlier terminated in accordance with Section 5.4.*

Covered Provider *shall have the meaning set forth in Section 3.8(d)(iv).*

Designated Rights and Responsibilities *shall have the meaning set forth in Section 3.2(c).*

Detailed Financial Plan *means the financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and each Project, projected both on a commitment and cash requirement basis.*

Disbursement Agreement *is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Armenia shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Armenia.*

EMPs *means environmental management plans.*

Entry into Force *means the entry into force of this Compact, which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.*

Environmental Guidelines *means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.*

Environmental Observer *is a representative of an environmentally focused NGO appointed by the Stakeholders' Committee to serve as an Observer on the Governing Council.*

ESI Officer *means the Environmental and Social Impact Officer within the Management Unit of MCA-Armenia who will ensure that environmental and social mitigation measures are followed for all Project Activities in accordance with the provisions set forth in this Compact and in relevant Supplemental Agreements.*

ESIAs *means environmental and social impact assessments.*

Evaluation Component *means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project Activities to determine their efficiency, effectiveness, impact and sustainability.*

Exempt Uses *shall have the meaning set forth in Section 2.3(e)(ii).*

Final Evaluation *shall have the meaning set forth in Section 3(a) of Annex III.*

Financial Plan *means collectively, the Multi-Year Financial Plan, each Detailed Financial Plan and each amendment, supplement or other change thereto.*

Financial Plan Annex *means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.*

Fiscal Accountability Plan *shall have the meaning set forth in Section 4(c) of Annex I.*

Fiscal Agent *shall have the meaning set forth in Section 3(g) of Annex I.*

Fiscal Agent Agreement *is an agreement between MCA-Armenia and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent.*

GDP *means gross domestic product.*

Governance Agreement *is an agency agreement to be entered into by the Government, MCC and MCA-Armenia, that, in addition to the Governing Documents, sets forth the terms and conditions that govern MCA-Armenia and as is further described in Section 3(d)(i) of Annex I.*

Governing Council *means an independent governing council of MCA-Armenia to oversee MCA-Armenia's responsibilities and obligations under this Compact.*

Governing Documents *shall have the meaning set forth in Section 3(c)(i)(10) of Annex I.*

Government *means the Government of the Republic of Armenia.*

Government Affiliate *is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.*

Government Members *are the government members identified in Section 3(d)(ii)(2)(A)(i-vi) of Annex I serving as voting members on the Governing Council, and any replacements thereof in accordance with Section 3(d)(ii)(2)(A) of Annex I.*

Government Party *means the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.*

Government Responsibilities *shall have the meaning set forth in Section 3.2(a).*

HVA *means high value added.*

IDP *means the Irrigation Development Project of the World Bank.*

IFAD *means the International Fund for Agricultural Development.*

Implementation Letter *is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.*

Implementation Plan *is a detailed plan for the implementation of the Program and each Project, which will be memorialized in one or more documents and shall consist of: (i) a Financial Plan; (ii) a Fiscal Accountability Plan; (iii) Procurement Plans; (iv) Program and Project Work Plans; and (v) an M&E Plan.*

Implementing Entity *means a Government Affiliate, nongovernmental organization or other public- or private-sector entity or persons to which MCA-Armenia may provide MCC Funding to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact.*

Implementing Entity Agreement *is an agreement between MCA-Armenia and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such*

Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.

Indicators *means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.*

Infrastructure Activity *is the Project Activity described in Section 2(a) of Schedule 2 of Annex I under the Irrigated Agriculture Project.*

Inspector General *means the Inspector General of the United States Agency for International Development.*

Irrigated Agriculture Objective *is an Objective of this Compact to increase the productivity of the agricultural sector by extending and improving the quality of the irrigation system, strengthening the entities that manage the system and enabling farmers to commercialize their products.*

Irrigated Agriculture Project *means the Project described and summarized in Schedule 2 of Annex I that the Parties intend to implement in furtherance of the Irrigated Agriculture Objective.*

Irrigation PIU *means the Water Sector Development and Institutional Project Implementation Unit under the authority of the State Water Committee that will implement the Infrastructure Activity of the Irrigated Agriculture Project.*

Lien *means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.*

LLN *means a lifeline network of roads from among the republican and local roads in Armenia, the objective of which is to ensure that all communities, towns and villages are linked to the main road network, either directly or through other communities.*

Local Account *is an interest-bearing local currency of Armenia account at either the Central Bank of Armenia or at a commercial bank that is procured through a competitive process to which the Fiscal Agent may authorize transfers from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency.*

M&E Annex *means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.*

M&E Plan *means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact.*

Management Unit *means the management unit of MCA-Armenia that will have overall management responsibility for the implementation of this Compact.*

Material Agreement *shall have the meaning set forth in Section 3(c)(i)(3) of Annex I.*

Material Re-Disbursement *means any Re-Disbursement that requires MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.*

Material Terms of Reference *means any terms of reference for the procurement of goods, services or works that require MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, or any Supplemental Agreement.*

MCA *means the Millennium Challenge Account.*

MCA-Armenia *shall have the meaning set forth in the Recitals.*

MCA-Armenia Website *means the website operated by MCA-Armenia.*

MCA Eligibility Criteria *means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.*

MCC *means the Millennium Challenge Corporation.*

MCC Disbursement *means the disbursement of MCC Funding by MCC from time to time to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i) of this Compact.*

MCC Disbursement Request *means the applicable request that the Government and MCA-Armenia will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.*

MCC Funding *shall have the meaning set forth in Section 2.1(a).*

MCC Indemnified Party *means MCC and any officer, director, employee, Affiliate, contractor, agent or representative of MCC.*

MCC Representative *is a representative appointed by MCC to serve as an Observer on the Governing Council.*

Monitoring Component *means the component of the M&E Plan that specifies how progress toward the Objectives and intermediate results of each Project and Project Activity set forth in the M&E Annex will be monitored.*

MoTC *means the Ministry of Transport and Communications.*

Multi-Year Financial Plan *means the multi-year financial plan for the Program and for each Project, which is summarized in Annex II.*

Multi-Year Financial Plan Summary *means a multi-year Financial plan summary attached to this Compact as Exhibit A of Annex II.*

NGOs *means non-governmental organizations.*

Objective(s) *are the following project-level objectives of this Compact that have been identified by the Parties, each of which is (i) key to advancing the Compact Goal and (ii) described in more detail in the Annexes attached hereto: (a) the Rural Road Rehabilitation Objective and (b) the Irrigated Agriculture Objective.*

Objective Indicator *means the Indicator for each Objective in the M&E Plan that will measure the final results of the Projects to monitor their success in meeting each of the Objectives. A table of Objective Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Observers *means the non-voting observers of the Governing Council described in Section 3(d)(ii)(2) of Annex I.*

Outcome Indicator *means the Indicator in the M&E Plan that will measure the intermediate results achieved under each of the Project Activities to provide an early measure of the likely impact of the Project Activities. A table of Outcome Indicator definitions is set forth at Section 2(a)(ii) of Annex III.*

Outcomes *is the progress made toward the Objectives and the intermediate results of each Project and Project Activity.*

Output Indicator *means the Indicator in the M&E Plan to measure the direct outputs of the Project Activities.*

Outside Project Manager *means the qualified persons or entities engaged by MCA-Armenia, to serve as outside project managers in accordance with Section 3(f) of Annex I.*

Parties *means the United States, acting through MCC, and the Government.*

Party *means (i) the United States, acting through MCC or (ii) the Government.*

Permitted Account(s) *shall have the meaning set forth in Section 4(d) of Annex I.*

Permitted Designee *shall have the meaning set forth in Section 3.2(c).*

Pledge *means any pledge of any MCC Funding or any Program Assets, or any guarantee (directly or indirectly) of any indebtedness.*

Principal Representative *means (i) for the Government, the individual holding the position of, or acting as, the Minister of Finance and Economy, and (ii) for MCC, the individual holding the position of, or acting as, the Vice President of Operations.*

Procurement Agent(s) *are the procurement agents that MCA-Armenia will engage to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Armenia, any Outside Project Manager or Implementing Entity.*

Procurement Agent Agreement *is an agreement between MCA-Armenia and each Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent.*

Procurement Agreement *is a Supplemental Agreement between the Government (and/or a mutually acceptable Government Affiliate such as MCA-Armenia) and MCC, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.*

Procurement Guidelines *shall have the meaning set forth in Section 3.6(a).*

Procurement Plan *means a procurement plan adopted by MCA-Armenia, which forecasts the upcoming six month procurement activities and be updated every six months.*

Program *means the program to be implemented under this Compact using MCC Funding to advance Armenia's progress towards economic growth and poverty reduction.*

Program Annex *means Annex I to this Compact, which generally describes the Program that MCC Funding will support in Armenia during the Compact Term and the results to be achieved from the investment of MCC Funding.*

Program Assets *means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.*

Project(s) *are the specific projects and the policy reforms and other activities related thereto that the Government will carry out, or cause to be carried out in furtherance of this Compact to achieve the Objectives and the Compact Goal, specifically the Rural Road Rehabilitation Project and the Irrigated Agriculture Project.*

Project Activity *means the activities that will be undertaken in furtherance of each Project.*

Proposal *is the proposal for use of MCA assistance submitted to MCC by the Government on March 28, 2005.*

Provider *shall have the meaning set forth in Section 2.4(b).*

Re-Disbursement *is the release of MCC Funding from a Permitted Account.*

Reviewer *shall have the meaning set forth in Section 3(h) of Annex I.*

Rural Road Rehabilitation Objective *is an Objective of this Compact to expand the access of rural communities to agricultural markets, non-farm income opportunities and social infrastructure by improving the condition of rural roads.*

Rural Road Rehabilitation Project *means the Project described and summarized in Schedule 1 of Annex I that the Parties intend to implement in furtherance of the Rural Road Rehabilitation Objective.*

Stakeholders' Committee *is a committee that shall be representative of the various beneficiaries of the Program and as is further described in Section 3(d)(iv)(1) of Annex I.*

Supplemental Agreement *shall have the meaning set forth in Section 3.5(b).*

Supplemental Agreement between the Parties *means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.*

Supplemental Agreement Term Sheets *shall have the meaning set forth in Section 4.1(b).*

Target *means each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved.*

Tax(es) *shall have the meaning set forth in Section 2.3(e)(i).*

USAID *means the United States Agency for International Development.*

USDA *means the United States Department of Agriculture.*

United States Dollars or U.S. Dollars *(USD) means the currency of the United States of America.*

United States Government *means any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.*

VAT *means value-added taxes.*

Voting Members *are the voting members on the Governing Council as described in Section 3(d)(ii)(2) of Annex I.*

Water-to-Market Activity *is the Project Activity described in Section 2(b) of Schedule 2 of Annex I under the Irrigated Agriculture Project.*

Work Plans *means work plans for the overall administration of the Program and for each Project.*

WSA *means the national Water Supply Agency.*

WUAs *means Water User Associations.*

EXHIBIT B

LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Fiscal Agent Agreement
3. Implementing Entity Agreements
4. Bank Agreement

SCHEDULE 2.1(a)(iii)

DESCRIPTION OF COMPACT IMPLEMENTATION FUNDING

Compact Implementation Funding

The Compact Implementation Funding provided pursuant to Section 2.1(a)(iii) shall support the following activities and expenditures in an amount not to exceed the amounts specified below:

(a) Payments for reasonable and normal staff salaries and administrative expenses of MCA-Armenia (or mutually acceptable Government Affiliate) such as rent, computers, and other information technology equipment, in an amount not to exceed USD $500,000;* and

(b) Conduct fiscal and procurement administration activities, in an amount not to exceed USD $500,000.*

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* Notwithstanding the amount specified for this activity or payment, the total amount of funds disbursed in accordance with Section 2.1(a)(iii) shall not exceed the amount set forth in Section 2.1(a)(iii).

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "***Program Annex***") generally describes the Program that MCC Funding will support in Armenia during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Armenia shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Armenia (the "***Disbursement Agreement***").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Except as defined in this Program Annex, each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

(a) Background. Economic development in Armenia suffered a severe setback in the early 1990s following the collapse of the Soviet Union. In 1994, Armenia adopted a comprehensive stabilization and reform program that transformed it into a liberal market economy and launched a period of uninterrupted growth with an average increase of eight percent of gross domestic product ("***GDP***") per year. In recent years, the Government has continued to focus on improving the business investment climate by pursuing macroeconomic stability, low inflation, strong fiscal discipline, and the privatization of state-owned enterprises.

Armenia's economic growth, however, has mainly benefited inhabitants of the capital Yerevan and a few other cities, and poverty remains widespread among the rural population. In 2004, per capita GDP was estimated at USD $1,100, with 35 percent of the population classified as poor. Data from household surveys show that the impact of agricultural sector growth on reducing rural poverty in Armenia has been much stronger than that of GDP growth. Consequently, specific policies and investments aimed at promoting sustainable growth in the agricultural sector are central to bringing about a reduction in rural poverty.

There are two important preconditions for growth in the Armenian agricultural sector: (i) investment in the rural road network, which is essential for improving access to markets and communities and (ii) investment in irrigated agriculture to increasing productivity. Only 10 percent of Armenia's rural road network is in good condition and there has been minimal investment in, or maintenance of, the network over the past decade. Currently, less than ten percent of total agricultural land is irrigated, while nearly 85 percent of total crop production is produced with irrigation.

(b) Consultative Process. In connection with the Program, Armenia engaged in a comprehensive consultative process based on the Poverty Reduction Strategy Paper initiated in 2003. In the initial priority-setting stage, the Government engaged a broad cross-section of the

public, specifically civil society and rural communities, in a consultative process focused on MCA compact development. Issues were addressed through a continuous process that incorporated a feedback mechanism reaching out to stakeholders, particularly those involved in irrigation, rural road, policy development and advocacy, and groups that specialize in monitoring and evaluation.

The Government engaged in rounds of regional, municipal, and local village level meetings to seek input and feedback on potential Proposal components. Meetings were held outside of city centers with announcements published beforehand. In addition to face-to-face meetings, the Government utilized various forms of mass media to reach more remote areas of Armenia, including radio and television announcements and programs, electronic mailing lists that are managed by non-governmental organizations ("***NGOs***") throughout Armenia, and the printing of information brochures.

The selection of the irrigation and rural roads components of the Program also introduced new challenges that focused on issues ranging from communal land rights and responsibilities, sustainability of the investments and involvement of civil society in compact development and implementation. To address concerns of the NGO community, the Government offered to have the NGOs elect their own representatives to participate in the meetings of the MCA-Armenia Board of Trustees – an inter-governmental body, chaired by the Prime Minister that was established to oversee the MCC Proposal and Compact development process. Using existing NGO electronic mailing lists and a self-regulated selection process, NGOs voted to select three representatives to participate in the meetings.

The Government has created and maintains an interactive website (www.mca.am) (the "***MCA-Armenia Website***") that provides access to up-to-date information and a forum page on which to post and debate issues related to the Proposal process. The MCA-Armenia Website also makes publicly available the Board of Trustees meeting minutes and the minutes of all meetings convened to discuss the Proposal.

2. Overview.

(a) Program. The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Irrigated Agriculture Objective and the Rural Road Rehabilitation Objective and advance the progress of Armenia toward the Compact Goal.

(b) Projects. To achieve the Objectives, the Parties have identified Projects that the Government will implement, or cause to be implemented, using MCC Funding, each of which is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "***Project Activity***"). Notwithstanding anything to the contrary in this Compact, the Parties may agree to amend, terminate or suspend these Projects or Project Activities or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however,* any such amendment of a Project or Project Activity or creation of a new project is (i) consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term.

(c) Beneficiaries. The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex and Annex III to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of the implementation of the Program. The Parties shall agree upon the description of the intended beneficiaries of the Program, including publishing such description on the MCA-Armenia Website.

(d) Civil Society. Civil society will participate in overseeing the implementation of the Program through its representation on the Stakeholders' Committee as further described in Section 3(d)(iv) of this Program Annex. In addition, the Work Plans for each Project shall note the extent to which civil society will have a role in the implementation of a particular Project Activity. Finally, members of civil society may be recipients of training or other public awareness programs that are related to the Project Activities.

(e) Monitoring and Evaluation. Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact (the "***M&E Plan***"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued payment of MCC Funding under this Compact will be contingent on successful achievement of targets set forth in the M&E Plan.

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) General. The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "***Implementation Plan***"), which will be memorialized in one or more documents and shall consist of a Financial Plan, a Fiscal Accountability Plan, Procurement Plans, Program and Project Work Plans, and an M&E Plan. MCA-Armenia shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Armenia may amend the Implementation Plan or any component thereof without amending this Compact, *provided,* any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Armenia shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "***Work Plans***"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) Government.

(i) The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities under and in furtherance of this Compact, including

undertaking or pursuing such legal, legislative or regulatory actions, procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, and to establish MCA-Armenia. The Government shall promptly deliver to MCC certified copies of any documents, orders, decrees, laws or regulations evidencing such legal, legislative, regulatory, procedural, contractual or other actions.

(ii) During the Compact Term, the Government shall ensure that MCA-Armenia is duly authorized and organized and sufficiently staffed and empowered to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Armenia shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement and any Governing Documents, which shall be in a form and substance satisfactory to MCC; *provided, however,* the Government may, subject to MCC approval, carry out any of the roles and responsibilities designated to be carried out by MCA-Armenia and described in Section 3(d) of this Program Annex or elsewhere in this Program Annex, applicable law, the Governing Documents, or any Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Armenia, but in no event longer than the earlier of (i) the formation of the Management Unit and the engagement of each of the officers and (ii) six months from the Entry into Force, unless otherwise agreed by the Parties in writing.

(c) MCC.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

(1) MCC Disbursements;

(2) The Financial Plan and any amendments and supplements thereto;

(3) Agreements (i) between the Government and MCA-Armenia, (ii) between the Government, MCA-Armenia or other Government Affiliate, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Governing Documents, the Procurement Agreement or any other Supplemental Agreement, or (iii) in which the Government, MCA-Armenia or other Government Affiliate appoints, hires or engages any of the following in furtherance of this Compact:

(A) Auditor or Reviewer;

(B) Fiscal Agent;

(C) Bank;

(D) Procurement Agent;

(E) Outside Project Manager;

(F) Implementing Entity; and

(G) Director, Observer, officer and/or other key employee or contractor of MCA-Armenia, including any compensation for such person.

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(3) and any amendments and supplements thereto, each, a "***Material Agreement***");

(4) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(5) Any agreement that is (i) not at arm's length or (ii) with a party related to the Government, including MCA-Armenia, or any of their respective Affiliates;

(6) Any Re-Disbursement (each, a "***Material Re-Disbursement***") that requires such MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement;

(7) Terms of reference for the procurement of goods, services or works that require such MCC approval under applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement (each, a "***Material Terms of Reference***");

(8) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(9) Any pledge of any MCC Funding or any Program Assets or any guarantee (directly or indirectly) of any indebtedness (each, a "***Pledge***");

(10) Any decree, legislation, contractual arrangement or other document establishing or governing MCA-Armenia, including the Governance Agreement and the charter of MCA-Armenia (the "***Governing Documents***"), and any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Armenia, including any revocation or modification of, or supplement to, any Governing Document, or (B) any subsidiary or Affiliate of MCA-Armenia;

(11) Any change in character or location of any Permitted Account;

(12) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Armenia;

(13) Any (A) change of a Director, Observer, officer or other key employee or contractor of MCA-Armenia, or in the composition of the Governing Council, including approval of the nominee for Chair, or (B) filling of any vacant seat of the Chair, a Director or an Observer or vacant position of an officer or other key employee or contractor of MCA-Armenia;

(14) The management information system to be developed and maintained by the Management Unit of MCA-Armenia, and any material modifications to such system;

(15) Any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing; and

(16) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governing Documents, the Procurement Agreement, Procurement Guidelines, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chair of the Governing Council (the "***Chair***") and/or the Chief Executive Officer of MCA-Armenia (the "***Chief Executive Officer***") or other designated officer, as provided in applicable law and the Governing Documents, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "***Compact Reports***").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Governing Council. MCC retains the right to revoke its approval of a matter if MCC concludes that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government or MCA-Armenia.

(d) MCA-Armenia.

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Armenia shall be responsible for the oversight and management of the implementation of this Compact. MCA-Armenia shall be governed by the Governing Documents, including the terms and conditions set forth in an agency agreement to be entered into by the Government, MCC and MCA-Armenia (the "***Governance Agreement***") on or before the Entry into Force, and based on the following principles:

(1) The Government shall ensure that MCA-Armenia shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Armenia shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC; and

(2) Unless otherwise agreed by the Parties in writing, MCA-Armenia shall consist of (a) an independent governing council (the "***Governing Council***") to oversee MCA-Armenia's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and (b) a management unit (the "***Management Unit***") to have overall management responsibility for the implementation of this Compact.

(ii) Governing Council.

(1) Formation. The Government shall ensure that the Governing Council shall be formed, constituted, governed, maintained and operated in accordance with

applicable law and the terms and conditions set forth in this Section 3(d), the Governing Documents and relevant Supplemental Agreements.

(2) Composition. Unless otherwise agreed by the Parties in writing, the Governing Council shall consist of eleven (11) voting members (the "***Voting Members***") and two non-voting observers (the "***Observers***"), each of whom must be acceptable to MCC, taking into consideration appropriate gender and ethnic representation.

(A) The Voting Members shall be as follows, *provided,* that the members identified in subsections (i) – (vi) below (the "***Government Members***") may be replaced by another government official of comparable rank from a ministry or other government body relevant to the Program activities, subject to approval by the Government and MCC (such replacement to be referred to thereafter as a Government Member):

(i) Prime Minister;

(ii) Chief Economic Advisor to the President;

(iii) Minister of Finance and Economy;

(iv) Minister of Transport and Communication;

(v) Minister of Agriculture;

(vi) Minister of Territorial Administration; and

(vii) Five (5) members of civil society appointed by the Stakeholders' Committee (the "***Civil Society Members***").

The following provisions apply to the Voting Members:

a. Each Government Member may be replaced by another government official, subject to approval by the Government and MCC;

b. Subject to the Governing Documents, the Parties contemplate that the Prime Minister shall initially fill the seat of Chair;

c. Each Government Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. In the event that a Government Member is unable to participate

in a meeting of the Governing Council such member's principal deputy or equivalent may participate in the member's stead; and

d. Each Civil Society Member may appoint an alternate, approved by majority vote of the other Civil Society Members, to serve when he or she is unable to participate in a meeting of the Governing Council.

(B) The Observers shall be:

(i) A representative appointed by MCC (the "***MCC Representative***"); and

(ii) A representative of an environmentally focused NGO appointed by the Stakeholders' Committee (the "***Environmental Observer***"); *provided,* that if one of the Civil Society Members on the Governing Council already represents an environmentally focused NGO, then such Civil Society Member shall also act as the Environmental Observer. The initial Environmental Observer shall serve for a period of one year from the date of the first Governing Council meeting after the Entry into Force, and on each anniversary thereof, the Stakeholders' Committee shall appoint another representative to serve as the Environmental Observer for the subsequent year. The Stakeholders' Committee may nominate an alternate to attend one or more meetings of the Governing Council in the event that the Environmental Observer is unable to attend.

The Observers shall have the right to attend all meetings of the Governing Council, participate in discussions of the Governing Council, and receive all information and documents provided to the Governing Council, together with any other rights of access to records, employees or facilities as would be granted to a member of the Governing Council under the Governance Agreement and any Governing Document.

(3) Voting. Unless otherwise agreed by the Parties, the Governing Documents of MCA-Armenia shall include voting and quorum provisions so as to require participation by the Civil Society Members in all decisions of the Governing Council.

(4) Roles and Responsibilities.

(A) The Governing Council shall oversee the overall implementation of the Program and the performance of the Designated Rights and Responsibilities.

(B) Certain actions may be taken, and certain agreements and other documents may be executed and delivered, by MCA-Armenia only upon the approval and authorization of the Governing Council as provided under applicable law and in the Governing Documents, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chair shall certify the approval by the Governing Council of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Armenia (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Governing Council shall have the exclusive authority for all actions defined for the Governing Council under applicable law and in the Governing Documents and which are expressly designated therein as responsibilities that cannot be delegated further.

(5) Meetings. The Governing Council shall hold at least quarterly meetings as well as such other periodic meetings or subcommittee meetings as may be necessary from time to time.

(6) Indemnification of Civil Society Members; MCC Representative. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and protections are provided, acceptable to MCC, to ensure that Civil Society Members shall not be held personally liable for the actions or omissions of the Governing Council. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Armenia shall hold harmless the MCC Representative and the Environmental Observer for any liability or action arising out of their roles as non-voting Observers on the Governing Council. The Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or other body of Armenia.

(iii) Management Unit. Unless otherwise agreed in writing by the Parties, the Management Unit shall report, through the Chief Executive Officer or other officer as designated in the Governing Documents, directly to the Governing Council, and shall have the composition,

roles and responsibilities described below and set forth more particularly in the Governing Documents.

(1) Composition. The Government shall ensure that the Management Unit shall be composed of qualified experts from the public or private sectors, including such officers and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement, any Governing Document, and from time to time in any Supplemental Agreement between the Parties, including without limitation the following: (i) a Chief Executive Officer, (ii) a chief financial officer, (iii) a monitoring and evaluation officer, (iv) an environment and social impact officer, (v) a rural roads project officer, (vi) an irrigation project officer, (vii) a water-to-market project officer and (viii) a procurement officer. The Management Unit will be supported by an office manager and appropriate administrative and support personnel.

(2) Appointment of Management Unit. Unless otherwise specified in the Governance Agreement or any Governing Documents, the Governing Council shall appoint the Chief Executive Officer after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of MCC. The remaining officers of the Management Unit shall be appointed by the Chief Executive Officer after an open and competitive recruitment and selection process, which appointments shall be subject to the approval of the Governing Council and MCC.

(3) Roles and Responsibilities.

(A) The Management Unit shall assist the Governing Council in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Governing Council and subject to MCC's rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) The Management Unit shall report to and meet with, on a quarterly basis, the Stakeholders' Committee, and shall include a report on the feedback provided by the Stakeholders' Committee and the ways in which that feedback has informed the activities of MCA-Armenia in the next following quarterly report to the Governing Council.

(C) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities that the Government may designate to MCA-Armenia, the Management Unit shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governing Documents or

delegated to the Management Unit by the Governing Council from time to time.

(D) Subject to the provisions of this Compact, the Procurement Agreement and the Governing Documents, appropriate officers of the Management Unit shall have the authority to contract on behalf of MCA-Armenia.

(E) The Management Unit shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, certain human resources decisions, and certain procurement actions, as provided in the Governing Documents. The Management Unit shall also prepare MCC Disbursement Requests and Compact Reports for approval by the Governing Council.

(iv) Stakeholders' Committee.

(1) Formation. The Government shall ensure the establishment of a stakeholders' committee (the "***Stakeholders' Committee***") that shall be representative of the various beneficiaries of the Program. Unless otherwise agreed by the Parties, the Government shall invite members of the NGO community, representatives of the WUAs and farmer groups to participate in national and regional forums to elect the Stakeholders' Committee. The Government will provide adequate notice of such forums to ensure widespread participation. Initially, the Stakeholders' Committee will consist of eleven (11) members, taking into consideration appropriate gender and ethnic representation. The number of members of the Stakeholders' Committee may be increased, but in no event to more than fifteen (15) members, upon the majority vote of the then existing members and the vacancies created by such increase shall be filled by the majority vote of the then existing members, subject to the approval of MCA-Armenia and MCC. Each Stakeholders' Committee member may appoint an alternate, approved by majority vote of the other members, to serve when he or she is unable to participate in a meeting of the Stakeholders' Committee.

(2) Roles and Responsibilities.

(A) The Stakeholders' Committee shall be a mechanism to provide representatives of the private sector, civil society and local and regional communities the opportunity to provide advice and input to MCA-Armenia regarding the implementation of the Compact.

(B) During quarterly meetings of the Stakeholders' Committee, the Management Unit shall present an update on the implementation of this Compact and progress towards achievement of the Objectives. The Management Unit shall provide copies of the M&E Plan, the Implementation Plan, and reports on the Projects and Project Activities. The Stakeholders' Committee will have an opportunity to regularly provide to the Chief Executive Officer and to the Governing Council its views and recommendations. The

Governing Council may, in response to the Stakeholders' Committee, require the Management Unit to provide such other information and documents as the Governing Council deems advisable.

(C) The Management Unit shall include in its quarterly reports to the Governing Council, a report on the Stakeholders' Committee meetings that occurred during the period covered by such report.

(D) The Stakeholders' Committee shall appoint one of their members to be the secretary to, among other things, take official minutes of the meetings of the Stakeholders' Committee.

(3) Meetings. The Stakeholders' Committee shall hold quarterly meetings of the full Stakeholders' Committee as well as such other periodic meetings of the Stakeholders' Committee or subcommittees thereof designated along sectoral, regional, or other lines, as may be necessary or appropriate from time to time.

(4) Accessibility; Transparency. Stakeholders' Committee members will be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Stakeholders' Committee and any subcommittees shall be made public on the MCA-Armenia Website in a timely manner.

(e) Implementing Entities. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Armenia may provide MCC Funding, to one or more Government Affiliates or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "***Implementing Entity***"). The Government shall ensure that MCA-Armenia enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the "***Implementing Entity Agreement***"). An Implementing Entity shall report directly to MCA-Armenia as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(f) Outside Project Manager. MCA-Armenia shall have the authority to engage qualified persons or entities to serve as outside project managers (each, an "***Outside Project Manager***") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however,* that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Governing Council and MCC prior to such appointment or engagement. Upon Governing Council approval, MCA-Armenia may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects; and *provided, further,* that the Management Unit shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract and the Outside Project Manager shall be subject to the

oversight of the Fiscal Agent and Procurement Agent. The Governing Council may determine that it is advisable to engage one or more Outside Project Managers and instruct MCA-Armenia and, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(g) Fiscal Agent. The Government shall ensure that MCA-Armenia engages one or more fiscal agents (each, a "***Fiscal Agent***"), who shall be responsible for, among other things, (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements, (ii) instructing a Bank to make Re-Disbursements from a Permitted Account, following applicable certification by the Fiscal Agent, (iii) providing applicable certifications for MCC Disbursement Requests, (iv) maintaining proper accounting of all MCC Funding financial transactions, and (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements. Upon the written request of MCC, the Government shall ensure that MCA-Armenia terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Armenia engages a new Fiscal Agent, subject to the approval by the Governing Council and MCC. The Government shall ensure that MCA-Armenia enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent ("***Fiscal Agent Agreement***").

(h) Auditors and Reviewers. The Government shall ensure that MCA-Armenia carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f), including engaging one or more auditors (each, an "***Auditor***") required by Section 3.8(d). As requested by MCC in writing from time to time, the Government shall ensure that MCA-Armenia shall also engage an independent (i) reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f), which reviewer shall have the capacity to (1) conduct general reviews of performance or compliance, (2) conduct environmental and social audits, and (3) conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) evaluator to assess performance as required under the M&E Plan (each, a "***Reviewer***"). MCA-Armenia shall select the Auditor(s) or Reviewers in accordance with the Governing Documents or relevant Supplemental Agreement. The Government shall ensure that MCA-Armenia enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "***Auditor / Reviewer Agreement***"). In the case of a financial audit required by Section 3.8(f), such Auditor / Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however,* if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor / Reviewer Agreement shall be effective no later than a date agreed by the Parties in writing.

(i) Procurement Agent. If requested by MCC, the Government shall ensure that MCA-Armenia engages one or more procurement agents (each, a "***Procurement Agent***") to

carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Armenia, any Outside Project Manager or Implementing Entity. The roles and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Armenia enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "***Procurement Agent Agreement***"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Agreement and Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "***Procurement Plan***") adopted by MCA-Armenia, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

4. Finances and Fiscal Accountability.

(a) Financial Plan.

(i) Financial Plan. The multi-year financial plan for the Program and for each Project (the "***Multi-Year Financial Plan***") is summarized in Annex II to this Compact.

(ii) Detailed Financial Plan. During the Compact Term, the Government shall ensure that MCA-Armenia delivers to MCC for approval timely financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and each Project, projected both on a commitment and cash requirement basis (each a "***Detailed Financial Plan***"). Each Detailed Financial Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan, each Detailed Financial Plan and each amendment, supplement or other change thereto are collectively, the "***Financial Plan***."

(iii) Expenditures. No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the Detailed Financial Plan and unless uncommitted funds exist in the balance of the Detailed Financial Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) Modifications to Financial Plan. Notwithstanding anything to the contrary in this Compact, MCA-Armenia may amend or supplement the Financial Plan or any component thereof without amending this Compact, *provided,* any material amendment or supplement has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) Disbursement and Re-Disbursement. The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment or waiver of any such terms and conditions. The Government and MCA-Armenia shall jointly submit the applicable request for an MCC Disbursement (the "***MCC Disbursement Request***") as may be specified in the Disbursement Agreement. MCC will make MCC

Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Armenia and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governing Documents and Disbursement Agreement; *provided, however,* unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governing Documents and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) Fiscal Accountability Plan. By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Armenia shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "***Fiscal Accountability Plan***"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) Permitted Accounts. The Government shall establish, or cause to be established, such accounts (each, a "***Permitted Account***," and collectively "***Permitted Accounts***") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account at either the Central Bank of Armenia or at a commercial bank to receive MCC Disbursements;

(ii) If necessary, an interest-bearing local currency of Armenia account (the "***Local Account***") at either the Central Bank of Armenia or at a commercial bank that is procured through a competitive process to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such banks as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Armenia enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory

authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account, respectively (each a "***Bank Agreement***"). For purposes of this Compact, any bank holding a Permitted Account referenced in Section 4(d) of this Program Annex are each a "***Bank***" and, are collectively referred to as the "***Banks***."

(e) Currency Exchange. The Bank shall convert MCC Funding to the currency of the Republic of Armenia at a rate to which the Parties mutually agree with the Bank in the Bank Agreement.

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Armenia:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Armenia;

(b) Considers as a factor in its decision-making the recommendations of the Stakeholders' Committee;

(c) Develops and maintains the MCA-Armenia Website in a timely, accurate and appropriately comprehensive manner, such MCA-Armenia Website to include postings of information and documents in English and Armenian and other languages where relevant; and

(d) Posts on the MCA-Armenia Website and otherwise makes publicly available from time to time the following documents or information:

(i) The Compact and all Compact Reports;

(ii) All minutes of the meetings of the Governing Council and Stakeholders' Committee;

(iii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iv) All Project environmental and social impact assessments ("***ESIAs***") and supporting documents;

(v) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vi) Disbursement Agreement, as amended from time to time;

(vii) All procurement policies and procedures (including standard documents and procurement plans) and any other documents required to be made publicly available pursuant to the Procurement Agreement; and

(viii) A copy of any legislation and other documents related to the formation, organization and governance of MCA-Armenia, including the Governing Documents, and any amendments thereto.

SCHEDULE 1 to ANNEX I

RURAL ROAD REHABILITATION PROJECT

This Schedule 1 describes and summarizes the key elements of the rural road rehabilitation project ("***Rural Road Rehabilitation Project***") that the Parties intend to implement in furtherance of the Rural Road Rehabilitation Objective. Additional details regarding the implementation of the Rural Road Rehabilitation Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Armenia's public road network consists of 7,703 km of roads, including 1,561 km of main roads, 1,800 km of secondary roads (referred to in Armenia as "republican" roads) and 4,342 km of local roads. Main and republican roads are managed by the Armenian Road Directorate ("***ARD***") and local roads are managed at the regional (*Marz*) level.

In 2002, the World Bank financed a rural infrastructure study which identified a lifeline network (the "***LLN***") from among the republican and local roads. The objective was to ensure all communities, towns and villages are linked to the main road network, either directly or through other communities. The resulting network comprises 2703 km, of which 759 km (28 percent) are republican roads, and 1943 km (72 percent) are local roads.

The Government is committed to bringing the entire LLN up to a maintainable standard and ensuring sustainable maintenance of this network. Moreover, the Government has committed to re-classifying the entire LLN as republican roads so that they will come under the management and maintenance responsibility of the ARD.

2. Summary of the Project.

(a) Project Description. MCC Funding will be used to rehabilitate up to 943 km of high priority LLN roads (45 percent of the LLN), consisting of 85 road segments throughout the country and amounting to 321 km of republican roads and 622 km of local roads. All rehabilitation works will be on existing alignments and will include pavement rehabilitation, improvements to up to 19 bridges, drainage facilities, and road safety features.

MCA-Armenia will select roads from among the LLN roads described above. MCC Funding will be provided to rehabilitate selected roads subject to the condition that each road must:

- Have an economic rate of return at least equal to 12.5 percent, calculated in a manner acceptable to MCC and based on a feasibility study and final design;
- Conform to Government requirements and MCC's Environmental Guidelines; and
- Conform to the World Bank policy on Involuntary Resettlement, where relevant.

MCC Funding will also be provided to ARD to conduct a technical audit of its existing performance based maintenance contracts and for technical assistance to create a long-term road maintenance strategic plan.

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress of the Rural Road Rehabilitation Project. Performance against these benchmarks and the overall impact of the Rural Road Rehabilitation Project will be assessed and reported at regular intervals to be specified in the M&E Plan or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks may be identified during implementation of the Project. Estimated amounts of MCC Funding for the Rural Road Rehabilitation Project are identified in Annex II of this Compact. Conditions precedent and sequencing of the Project shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(b) Project Implementation. The Rural Road Rehabilitation Project will be implemented through the ARD, under the authority of the Ministry of Transport and Communications ("***MoTC***"). ARD is responsible for planning, design and construction of all state owned roads in Armenia and is responsible for the maintenance of all main and republican roads. It has departments for design and tender, planning (road survey and economic evaluation), construction and rehabilitation and routine maintenance, as well as a road safety group and an on-site laboratory. ARD was the project implementation unit for two World Bank projects in the last 10 years and has a trained staff and the basic technical capacity to implement the Project. The Government will establish a rural roads coordination unit within the ARD, staffed with members of the former project implementation unit established by the World Bank for its completed transportation project. MCA-Armenia will enter into an Implementing Entity Agreement with the ARD that will set out the terms and conditions for the use of MCC Funding in implementing the Rural Road Rehabilitation Project.

3. Beneficiaries.

The principal beneficiaries of the Rural Road Rehabilitation Project are expected to be approximately 360,000 Armenians living in 265 rural communities connected by the rehabilitated LLN. Particular beneficiaries include: farmers who use the improved roads to get products to market and to get inputs to production; users of public transport; and other travelers.

4. Donor Coordination.

The Rural Road Rehabilitation Project will complement the rehabilitation and construction of larger roads and other rural roads recently undertaken by other donors. In addition, MCC support to the redefinition and management of the LLN will require collaboration and coordination with other donors active in the road sector. Although the World Bank's two transportation projects in Armenia, the Highway Project and the Transport Project, are closed, the World Bank takes an active interest in the sustainable maintenance arrangements of the roads. Coordination will also continue with the Lincy Foundation, which has completed several main road rehabilitation projects and is considering additional ones. Other donors include: the Japan International Cooperation Agency which is currently funding a landslide survey; the Kuwait Fund, which is currently considering a request to fund the rehabilitation of rural roads leading to places of historical and tourist significance; and the Asian Development Bank, which is establishing a country office in Armenia and has also expressed interest in road sector investments.

5. Sustainability.

(a) Institutional Sustainability.

The Government will ensure continued institutional support of the Project through the passage of appropriate legislation establishing the LLN as republican roads, placing them under the operations and maintenance jurisdiction of the ARD. The portion of the LLN to be rehabilitated with MCC Funding represents the initial phase of the establishment of this network and creates a commitment by the Government to build out the rest of the LLN, as well as establish a sustainable maintenance program for the LLN and main road network. The Rural Road Rehabilitation Project will further help to institutionalize performance based contracts, which were instituted by ARD in 2005 and provide a mechanism to promote local contractors by establishing a competitive and reliable contracting environment.

(b) Financial Sustainability.

Financial sustainability is a function of the Government's commitment to finance necessary annual road maintenance programs for the rehabilitated roads. Currently, the Government finances approximately USD $9 million annually of routine maintenance on the entire road network. As rehabilitation on the LLN proceeds, additional resources will be committed by the Government to cover routine maintenance on the additional roads. Moreover, the Government will establish a plan for financing periodic maintenance so as to ensure the long term sustainability of the entire road network. In addition, the Government agrees to fund any environmental mitigation costs associated with the Rural Road Rehabilitation Project in excess of MCC Funding allocated to cover such costs.

(c) Environmental and Social Sustainability.

The key to ensuring environmental and social sustainability of the Project is ongoing public consultation. The Environment and Social Impact Officer ("***ESI Officer***") within the Management Unit will ensure that environmental and social mitigation measures are followed for all Project Activities in accordance with the provisions set forth in this Compact and in relevant Supplemental Agreements. The ESI Officer will serve as the point of contact for comments and concerns of parties affected by the implementation of all Project Activities under the Compact and will lead the effort to find feasible resolutions to those problems. The ESI Officer will convene periodic public meetings to provide implementation updates and to identify and address public concerns. The Stakeholders' Committee will also appoint representatives of civil society to the Governing Council and provide a link between local NGOs and program managers.

Environmental and social analyses of the roads will be conducted as part of the technical survey and design to determine the environmental impacts and existence of economic and physical displacement. In addition to the analyses, environmental management plans ("***EMPs***") satisfactory to MCC will be developed, implemented and monitored during project implementation. Disbursement of MCC Funding will be contingent upon issuance of environmental licenses, as needed, or any other required permits.

6. Policy, Legal and Regulatory Reforms.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government will pursue in support of the Rural Road Rehabilitation Project to reach its full

benefits. Satisfactory implementation of these reforms may be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) The Government will define and adopt into legislation the concept of a LLN of no less than 2,703 km of roads. LLN roads are to be defined as those which ensure road access from each community to the main road network. LLN roads should be classified as republican roads so that the maintenance of the LLN falls under the jurisdiction of the ARD.

(b) The Government will present an annual plan for the repair and routine maintenance of the entire LLN, acceptable to MCC, including the roads to be rehabilitated with MCC Funding.

(c) The Government will allocate sufficient funds in the budget for continued rehabilitation of a minimum of 532 km of the LLN over the Compact Term, with the following minimum annual km and threshold expenditure amounts:

(i) fiscal year 2006: 32 km; 1.01 billion AMD;*

(ii) fiscal year 2007: 100 km; 3.15 billion AMD;

(iii) fiscal year 2008: 100 km; 3.31 billion AMD;

(iv) fiscal year 2009: 120km; 3.97 billion AMD; and

(v) fiscal year 2010: 180 km; 5.95 billion AMD.

(d) The Government will allocate funds in the budget for routine maintenance of the entire Armenian road network in amounts at least equal to the amounts set out below for the following fiscal years, will expend such amounts for their intended purpose, and will make up any budget shortfall from the prior year's road maintenance budget:

(i) fiscal year 2006: 5.02 billion AMD;*

(ii) fiscal year 2007: 5.99 billion AMD;

(iii) fiscal year 2008: 6.29 billion AMD;

(iv) fiscal year 2009: 6.90 billion AMD; and

(v) fiscal year 2010: 7.36 billion AMD.

(e) The Government will submit a long-term routine and periodic maintenance plan for the entire road network by the end of the third year of the Compact Term.

* Actual budgeted in Armenian Drams ("***AMD***").

SCHEDULE 2 to ANNEX I

IRRIGATED AGRICULTURE PROJECT

This Schedule 2 describes and summarizes the key elements of the irrigated agriculture project that the Parties intend to implement in furtherance of the Irrigated Agriculture Objective (the "***Irrigated Agriculture Project***"). Additional details regarding the implementation of the Irrigated Agriculture Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Armenian agricultural productivity and profitability are constrained by dilapidated irrigated infrastructure and an outdated system characterized by water losses, inefficient operations and high costs of electric pumping. Farmers operate on small plots of land and are limited by an underdeveloped market economy. In addition, agriculture lending in Armenia is at a very low level. Despite this, a reformed institutional environment for modern irrigation management and agribusiness development is emerging at a critical juncture in the post-Soviet era. The Irrigated Agriculture Project will address the conditions necessary to achieve higher rural incomes based on irrigated agriculture. It includes infrastructure improvements on targeted irrigation schemes, as well as technical support and training for key actors in the irrigation sector, namely: the national Water Supply Agency (the "***WSA***"), the Water User Associations (the "***WUAs***"), federations of WUAs and their member farmers. In addition, the Project will provide medium and long-term lending to farmers and enterprises participating in the Project through registered credit organizations.

2. Summary of the Project and Project Activities.

The Irrigated Agriculture Project addresses the physical, managerial and financial investments needed to generate sustainable increases in rural incomes through irrigated agriculture. These investments will be implemented through two critical activities:

- Improving dilapidated infrastructure to expand the land area under irrigated production and improvements to the overall efficiency of sourcing and delivering water to member farmers (the "***Infrastructure Activity***"); and

- Building the management capacities of the WSA and WUAs and providing training and access to credit for member farmers to transition to more profitable, market-oriented agriculture (the "***Water-to-Market Activity***").

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against these benchmarks and the overall impact of the Irrigated Agriculture Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks may be identified during the implementation of each Project Activity. Estimated amounts of MCC Funding for each Project Activity for this Irrigated Agriculture Project are identified in Annex II of this Compact. Conditions precedent to each Irrigated Agriculture Project Activity and sequencing of these Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) Infrastructure Activity.

(i) MCC Funding will be used to increase the land area under irrigated production and improve the overall efficiency of sourcing and water delivery to member farmers. This will be done by selectively:

(1) Rehabilitating infrastructure and equipment for up to 21 regional irrigation schemes, including:

(A) Conversion of part or all of 15 schemes from pump to gravity systems;

(B) Construction or rehabilitation of 7 reservoirs;

(C) Rehabilitation of 200 km of main canals;

(D) Renovation and resizing of 68 pumping stations; and

(E) Rehabilitation of tertiary canals utilizing a 15 percent beneficiary co-investment;

(2) Rehabilitating additional tertiary canal systems in up to nine WUAs utilizing a 15 percent beneficiary co-investment and not included in clause (i)(1)(E) above; and

(3) Renovating the drainage system serving the Ararat Valley production systems, including renovating open and closed drains, tube wells and artesian wells within 3 sub-regions.

MCA-Armenia will select individual components or groups of components from among the foregoing irrigation schemes for rehabilitation. MCC Funding will be provided to rehabilitate such components, subject to the condition that each individual component or group of components must:

- Have an economic rate of return at least equal to 12.5 percent, calculated in a manner acceptable to MCC and based on a feasibility study and final design;
- Conform to Government regulations and MCC's Environmental Guidelines; and
- Conform to the World Bank policy on Involuntary Resettlement, where relevant.

(ii) The Infrastructure Activity will be implemented through the Water Sector Development and Institutional Project Implementation Unit under the authority of the State Water Committee (the "***Irrigation PIU***"). Originally established for the World Bank's irrigation projects, the Irrigation PIU has a trained staff and the basic technical capacity to implement the Infrastructure Activity. MCC Funding will be used to recruit an outside project management advisor to assist the Irrigation PIU. MCA-Armenia will enter into an Implementing Entity Agreement with the Irrigation PIU that will set out the terms and conditions for the use of MCC Funding in implementing the Infrastructure Activity.

(b) Water-to-Market Activity.

(i) The Water-to-Market Activity will ensure that MCC Funding of the Infrastructure Activity is sustained through a combination of training, technical assistance, access to credit and essential equipment. Under the Water-to-Market Activity, MCC Funding will be used to build management capacities within the WSA and 53 WUAs and improve the ability of member farmers to convert the improved water supply to profitable production and pay for water charges through two sub-activities:

(1) Strengthening Irrigation System Entities. MCC Funding will be used to:

(A) Support organizational reforms and institutional strengthening of the WSA;

(B) Build administrative and operational capacity of the WUAs and the developing federations of WUAs; and

(C) Support the establishment of a professional irrigation association.

(2) Improving the Profitability of WUA Member Farmers. MCC Funding will be used to:

(A) Provide member farmers with access to technology and training in on-farm water management and higher value agricultural production;

(B) Provide training and consulting to individual member farmers, farmer groups and small and medium enterprises on post-harvest, processing and marketing investments; and

(C) Build capacity within credit organizations and provide funding to such credit organizations which will on-lend to member farmers and related enterprises.

(ii) The sub-activity to strengthen irrigation system entities will be managed in the Irrigation PIU. The sub-activity to improve profitability of WUA member farmers will be managed by an Outside Project Manager to be selected through a competitive international tender process.

3. Beneficiaries.

The beneficiaries of the Irrigated Agriculture Project will be the 53 WUAs and their approximately 250,000 member farmers who will benefit from more efficient and reliable irrigation water and intensive institutional strengthening. Among these member farmers, an estimated 60,000 will be reached with on-farm water management techniques. At least 30,000 member farmers will be reached with transition to higher value agriculture technology. A further subset of an estimated 15,000 member farmers will be reached with modern post-harvest,

processing and marketing techniques. Some 300 enterprises involved with post-harvest, processing and marketing are expected to benefit leading to significant additional job creation.

4. Donor Coordination.

The Irrigated Agriculture Project builds upon and complements an extensive body of work by several donors in irrigation and agriculture.

(a) World Bank and IFAD. The World Bank has contributed to the irrigation sector through three operations: the Irrigation Dam Safety Projects I and II; the Irrigation Development Project (the "***IDP***"); and the Irrigation Rehabilitation Project. The International Fund for Agricultural Development ("***IFAD***") has also contributed to the sector under the latter two World Bank projects, as well as its own Agriculture Research Project. Regarding improvements in WUA members' capacity to pay for water services, the World Bank is initiating a loan package to support the agricultural sector called the Rural Enterprise and Small-Scale Commercial Agriculture Development Project. IFAD is also extending a loan focusing on providing credit, grants and training to rural enterprises in communities of mountainous regions. Coordination with the World Bank and IFAD programs is advantageous in the following areas: (i) the phase out of the Government's subsidy polices and establishment of effective cost recovery mechanisms; (ii) the co-financing contributions by the WUAs to capital investments in the tertiary canal system; (iii) institutional strengthening; and (iv) technical and marketing support programs for member farmers.

(b) USAID and USDA. USAID is currently funding a Water Management Program that focuses on national water policy (including drinking water) and the institutional framework for that policy. The Government and MCA-Armenia will align policy reform and support to the WSA and WUAs through this program's progress and insights. The USAID-supported Armenia SME Market Development Project will continue to support agribusiness, textiles and stone-work enterprises until September, 2006, and the Micro Enterprise Development Initiative provides management consulting services to financial institutions and business service providers also until September, 2006. United States Department of Agriculture ("***USDA***") funding supports the Center for Agribusiness and Rural Development to develop value-adding enterprises producing high quality product to meet market demand. The USAID and USDA programs represent economic development approaches that will be complemented by MCA-Armenia's support to WUA member farmers and related enterprises.

5. Sustainability.

(a) Institutional Sustainability.

The Government has taken substantial steps to strengthen the institutional framework for rural development. The management of Armenia's irrigation system has recently been decentralized to 53 regional WUAs. The Government has enhanced water management efficiency by merging responsibilities for irrigation and drainage. The Irrigated Agriculture Project will benefit from an extensive Water-to-Market Activity which will provide organizational support for the WSA reforms, management capacity building of the WUAs and developing regional federations of WUAs, and guidance for the formation of a professional irrigation association. Technical assistance will be targeted to ensure that the WSA, WUAs and federations of WUAs have

systems to effectively manage and finance their operations. In addition, credit organizations will receive training and capital to expand financial services targeted at WUA member farmers.

(b) Financial Sustainability.

Armenia's irrigation system has suffered from a lack of resources for maintenance. The Irrigated Agriculture Project aims to address this problem, which has lead to the degradation of the system over time.

First, the Irrigated Agriculture Project is designed to rely less on pumping systems and more on gravity-based irrigation, which should decrease energy costs. However, to the extent pumping systems will be rehabilitated, the Government will present an adequate plan for coverage of operations and maintenance costs, including depreciation, before MCC Funding will be disbursed for civil works on these systems.

Second, the institutional strengthening of the WUAs under the Water-to-Market Activity will also increase the capacity of WUAs to finance themselves through member contributions and water charges. Investing in human capacities (farmers' technical and management skills and approach toward the market) to transform their enterprises to be profitable by competing in commercial markets significantly contributes to the financial sustainability of the irrigation system. Improved capacity of credit organizations to on-lend to rural borrowers will be sustained and expanded as new profit opportunities in the value chain emerge.

Third, the Government will continue its policy of WUA co-financing of tertiary canals consistent with the World Bank IDP and will implement such co-financing in a manner satisfactory to MCC. In addition, the Government agrees to fund any environmental mitigation costs associated with the Irrigated Agriculture Project in excess of MCC Funding allocated to cover such costs.

(c) Environmental and Social Sustainability.

The key to ensuring environmental and social sustainability of the Project is ongoing public consultation. The ESI Officer within the Management Unit will ensure that environmental and social mitigation measures are followed for all Project Activities in accordance with the provisions set forth in this Compact and in relevant Supplemental Agreements. The ESI Officer will serve as the point of contact for comments and concerns of parties affected by the implementation of all Project Activities and will lead the effort to find feasible resolutions to those problems. The ESI Officer will convene periodic public meetings to provide implementation updates and to identify and address public concerns. The Stakeholders' Committee will also appoint representatives of civil society to the Governing Council and provide a link between local NGOs and program managers.

ESIAs of the Irrigated Agriculture Project will be conducted as part of the technical survey and design. EMPs satisfactory to MCC will be developed, implemented and monitored during project implementation. Should the issue of involuntary resettlement arise, the Irrigated Agriculture Project will be conducted in compliance with the World Bank Policy on Involuntary Resettlement. To maximize the positive social impacts of the Project, the Implementing Entities for the Water-to-Market Activity will ensure that women are adequately represented in the groups targeted for assistance.

6. Policy Actions; Legislative and Regulatory Reform.

The Parties have identified the following policy actions and legislative and regulatory reforms that the Government will pursue in support of the Irrigated Agriculture Project to reach its full benefits. Satisfactory implementation of these reforms may be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement:

(a) The Government will arrange for 15 percent WUA co-financing of investments in tertiary canal systems consistent with the World Bank IDP and will implement such co-financing in a manner satisfactory to MCC.

(b) Before the end of the second quarter of the second year of the Compact Term, the Government will adopt and implement a plan acceptable to MCC for the restructuring of the WSA.

(c) Before the end of the second year of the Compact Term, the Government will adopt appropriate legislation and/or regulations required by the Water Code of 2002 to establish a national policy on irrigation that will govern the relationships among the State Committee of Water Economy, the WSA, WUAs and the federations of WUAs.

(d) The Government will use its best efforts to ensure that water charges collected from WUAs continue towards the goal of full recovery of operations and maintenance costs. During the Compact Term, at least the following percentages of annual operations and maintenance costs will be covered:

(i) 2006: 46 percent;

(ii) 2007: 55 percent;

(iii) 2008: 60 percent;

(iv) 2009: 66 percent; and

(v) 2010: 70 percent.

These percentages will be calculated in a manner acceptable to MCC according to the following formula: WC/SC.

WC = Actual water charges collected during the most recently completed fiscal year as reported by the Board of WUAs and federations of WUAs pursuant to the Law on Water User Associations and Federations of Water User Associations.

SC = Operations and maintenance costs for the most recently completed fiscal year of the WSA and the WUAs as reported by the Board of WUAs and federations of WUAs pursuant to the Law on Water User Associations and Federations of Water User Associations.

(e) The Government will allocate funds to cover rehabilitation of the irrigation system in at least the amounts specified in the recommendation of the Technical Commission on

Water System Operation and Maintenance, excluding any amounts provided for rehabilitation by MCC Funding.

(f) The Technical Commission on Water System Operation and Maintenance will make a recommendation with respect to the overall costs to cover depreciation of the irrigation system. The Government will ensure that such depreciation costs are reflected in its annual budgets throughout the life of the Program Assets.

(g) Before the end of the 18th month of the Compact Term, the Government will develop and adopt legislation and/or regulations, or amend existing legislation and regulations, to facilitate the establishment of agricultural cooperatives.

(h) By the end of the first year of the Compact Term, the Government will develop and adopt legislation and/or regulations to improve statistics on agriculture, including an accounting of the sector and data collection procedures.

(i) The Central Banking Authority will modify the regulatory framework for the licensing of MFIs as credit organizations.

(j) In an effort to ensure that the councils of the Water User Associations are more representative of their constituencies, the Government will adopt the amendment of Article 16 of the Law on Water User Associations and Federations of Water User Associations proposed by the Government on September 13, 2005.

(k) The Government will allocate in its budget and expend amounts satisfactory to MCC to fund the activities of the National Statistical Service, including conducting the Integrated Survey of Living Standards and the Community Survey. These surveys will be used by MCC as a key monitoring indicator and for impact evaluations. Funding by the Government should increase year-to-year to ensure sustainability post-Compact.

ANNEX II

FINANCIAL PLAN SUMMARY

This Annex II to the Compact (the "***Financial Plan Annex***") summarizes the Multi-Year Financial Plan for the Program. Except as defined in this Financial Plan Annex, each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

1. General.

A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A. By such time as specified in the Disbursement Agreement, MCA-Armenia will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the Entry into Force, the Parties shall mutually agree in writing to a Detailed Financial Plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.

2. Implementation and Oversight.

The Multi-Year Financial Plan and each Detailed Financial Plan shall be implemented by MCA-Armenia, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.

3. Estimated Contributions of the Parties.

The Multi-Year Financial Plan Summary identifies the estimated annual contribution of MCC Funding for Program administration, monitoring and evaluation, and each Project. The Government's contribution of resources to Program administration, monitoring and evaluation, and each Project shall consist of (i) "in-kind" contributions in the form of Government Responsibilities and any other obligations and responsibilities of the Government identified in this Compact, including contributions identified in the notes to the Multi-Year Financial Plan Summary and (ii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; *provided,* in no event shall the Government's contribution of resources be less than the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact.

4. Modifications.

The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and Project and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the

Compact, change the designations and allocations of funds between Program administration and a Project, between one Project and another Project, between different activities within a Project, or between a Project identified as of the Entry into Force of this Compact and a new Project, without amending the Compact; *provided, however,* that such reallocation (i) is consistent with the Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (iii) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact.

5. Conditions Precedent; Sequencing.

MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program and each Project is subject to satisfactory progress in achieving the Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity or Project or Project Activity. The sequencing of Projects or Project Activities and other aspects of how the Parties intend the Projects to be implemented will be set forth in the Implementation Plan, including Work Plans for the applicable Project, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

EXHIBIT A

Multi-Year Financial Plan Summary

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Rural Road Rehabilitation Project						
A. Infrastructure Improvements	$0.49	$17.92	$22.62	$13.46	$10.00	$64.50
B. Technical Audit of Performance Based Maintenance Contracts			$0.30			$0.30
C. Road Maintenance Strategic Plan				$0.30		$0.30
D. Project Administration	$0.40	$0.40	$0.40	$0.40	$0.40	$2.00
Sub-Total	**$0.89**	**$18.32**	**$23.32**	**$14.16**	**$10.40**	**$67.10**
2. Irrigated Agriculture Project						
A. Infrastructure Activity						
Infrastructure*	$5.31	$30.16	$32.07	$25.17	$15.87	$108.59
Project Administration	$0.93	$0.93	$0.93	$0.93	$0.93	$4.67
B. Water-to-Market Activity						
Institutional Strengthening	$0.53	$0.98	$1.45	$0.69	$0.51	$4.16
Improved Profitability of WUA Members	$0.74	$4.55	$6.14	$6.99	$7.07	$25.50
Project Administration	$0.72	$0.61	$0.64	$0.41	$0.39	$2.76
Sub-Total	**$8.24**	**$37.24**	**$41.23**	**$34.20**	**$24.77**	**$145.67**
3. Monitoring and Evaluation	**$1.44**	**$0.92**	**$0.95**	**$0.97**	**$0.81**	**$5.08**
4. Program Administration and Control						
A. Program Administration	$1.41	$0.99	$1.06	$1.06	$1.09	$5.60
B. Audit	$0.17	$0.80	$0.93	$0.71	$0.52	$3.13
C. Fiscal Management	$0.49	$2.33	$2.70	$2.04	$1.50	$9.06
Sub-Total	**$2.06**	**$4.12**	**$4.69**	**$3.81**	**$3.11**	**$17.79**
MCC CONTRIBUTION	**$12.63**	**$60.61**	**$70.20**	**$53.13**	**$39.09**	**$235.65**

*Tertiary canals will be subject to a 15% farmer co-financing requirement.

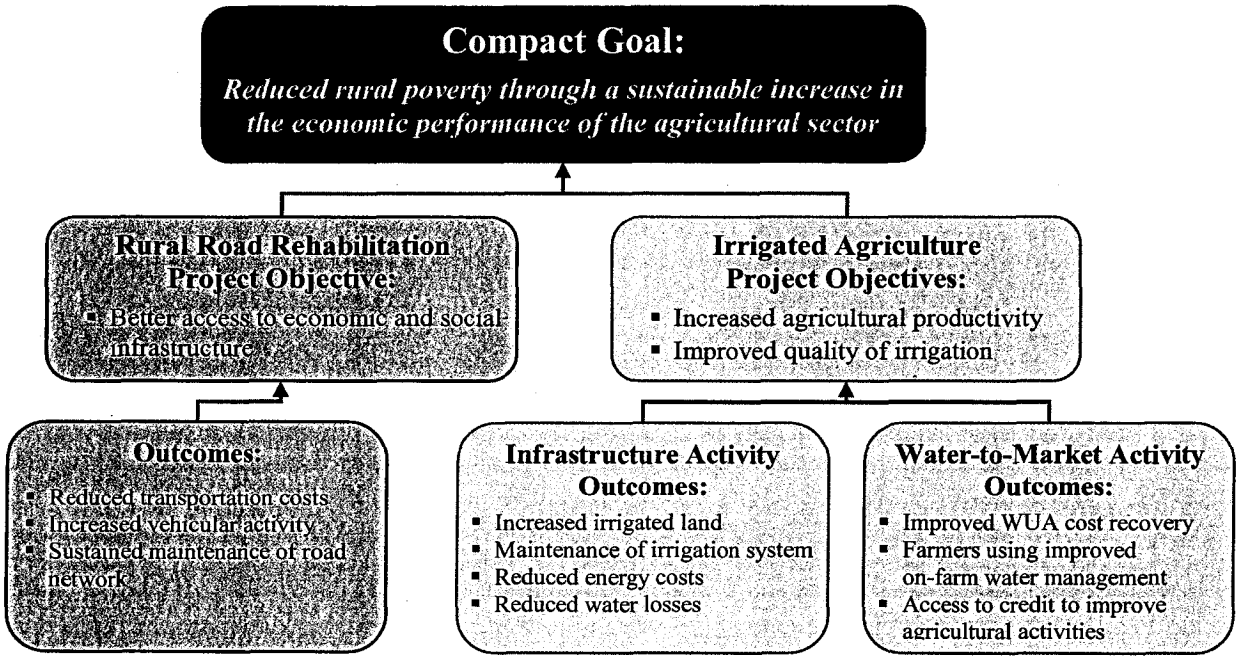
ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "***M&E Annex***") generally describes the components of the M&E Plan for the Program. Except as defined in this M&E Annex, each capitalized term in this M&E Annex shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) shall formulate, agree to and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (1) how progress toward the Objectives and the intermediate results of each Project and Project Activity set forth in this M&E Annex (the "***Outcomes***") will be monitored (the "***Monitoring Component***"), (2) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project Activities to determine their efficiency, effectiveness, impact and sustainability (the "***Evaluation Component***"), and (3) other components of the M&E Plan described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, will be made publicly available on the MCA-Armenia Website and elsewhere. The Objectives and Outcomes of the MCA-Armenia Program can be summarized as follows:



2. Monitoring Component.

To monitor progress toward the achievement of the Objectives and Outcomes, the Monitoring Component of the M&E Plan shall identify (a) the Indicators, (b) the party or parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Armenia, and (c) the method by which the reported data will be validated.

(a) Indicators. The M&E Plan shall measure the results of the Program using quantitative, objective and reliable data ("***Indicators***"). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved (each, a "***Target***"). The M&E Plan will measure and report on Indicators at four levels. First, the Indicators for the Compact Goal (each, a "***Compact Goal Indicator***") will measure the results for the overall Program. Second, the Indicators for each Objective (each, an "***Objective Indicator***") will measure the final results of the Projects to monitor their success in meeting each of the Objectives, including results for the intended beneficiaries identified in accordance with Annex I (collectively, the "***Beneficiaries***"). Third, intermediate Indicators (each, an "***Outcome Indicator***") will measure the intermediate results achieved under each of the Project Activities to provide an early measure of the likely impact of the Project Activities. A fourth level of Indicators (each, an "***Output Indicator***") will be included in the M&E Plan to measure the direct outputs of the Project Activities. All Indicators will be disaggregated by gender, income level and age, to the extent practicable. Subject to prior written approval from MCC, MCA-Armenia may add Indicators or refine the Targets of existing Indicators.

(i) Compact Goal Indicators. The M&E Plan shall contain the Compact Goal Indicators listed in the table below with their definitions. The corresponding Targets to be achieved are in the following tables.

Compact Goal Indicators		
Purpose	**Indicator**	**Definition of Indicator**
Reduced rural poverty	Poverty rate in rural areas	Poverty rate in rural areas as measured by the National Statistical Service of Armenia
Increased economic performance of the agricultural sector	Change in real income from agriculture in rural areas	Change in real income from sale of agricultural produce per household member measured as an index

Compact Goal Targets						
Indicators	Baseline	Year 4 2009	Year 5 2010	Year 6 2011	Year 7 2012	Year 8 2013
Poverty rate in rural areas (percentage) Baseline: 2004	32%	31%	30%	29%	28%	26%
Change in real income from agriculture in rural areas (Index) Baseline: 2005 = 100	100	102	105	109	115	123

(ii) Objective and Outcome Indicators. The M&E Plan shall contain the Objective and Outcome Indicators listed in the tables below, with their definitions. The corresponding Targets to be achieved are in the tables following the definitions.

Rural Road Rehabilitation Project Indicators		
Purpose	**Indicator**	**Definition of Indicator**
Objective		
Better access to economic and social infrastructure	Satisfaction with public transportation in rural areas	Percentage satisfied
Outcomes		
Reduced transportation costs	International Roughness Index (IRI) for roads in Project area	Weighted index to measure road roughness (correlated with transportation costs)
Increased vehicular activity	Average daily traffic in Project area	Average daily number of vehicles on road sections in Project area weighted by length of corresponding road sections
Sustained maintenance of road network	Government budgetary allocations for rehabilitation of road sections in the road lifeline network	State budget expenditure on rehabilitation of road sections in the road lifeline network (AMD in millions)
	Government budgetary allocations for routine maintenance of the entire road network	State budget expenditures on routine maintenance of the entire road network (AMD in millions)

Rural Road Rehabilitation Project Targets						
Objective Level Indicators (Metric of Project success observable by end of Compact)	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Satisfaction with public transportation in rural areas (percentage)[1]	TBD	TBD	TBD	TBD	TBD	TBD
Outcome Level Indicators (early Indicators of Project Activities impact on Objectives)						
International Roughness Index (IRI) for roads in Project area (m/km)	9.3	9.9	10.2	7.7	5.7	5.0
Average daily traffic in Project area (vehicles)	380	390	400	410	440	460
Government budgetary allocations for rehabilitation of road sections in the road lifeline network (AMD in millions)	n/a	1,010	3,150	3,310	3,970	5,950
Government budgetary allocations for routine maintenance of the entire road network (AMD in millions)	n/a	5,020	5,990	6,290	6,900	7,360

[1] The Targets for this Indicator will be calculated using baseline information from the 2007 Integrated Survey of Living Standards (ISLS) to be conducted by the National Statistical Service of the Republic of Armenia.

Irrigated Agriculture Project Indicators		
Purpose	**Indicator**	**Definition of Indicators**
Objectives		
Increased agricultural productivity	Increase in area covered by high value added ("***HVA***") crops	Increase in hectares covered by HVA crops (i.e., vegetables, potato, fruits, grapes)
Improved quality of irrigation	Share of respondents satisfied with irrigation services	Percentage of respondents satisfied with irrigation services

Infrastructure Activity Indicators		
Purpose	**Indicator**	**Definition of Indicators**
Outcomes		
Increased irrigated land	Additional land irrigated under Project	Annual increase in irrigated land in Project area (hectares)
Maintenance of irrigation system	Government budgetary allocations for maintenance of irrigation system	State budget expenditures on maintenance of irrigation system (AMD in millions)
Reduced energy costs	Annual energy savings under Project	Reduction in Kilowatt hours used (thousand KWh)
Reduced water losses	Water losses in primary canals under Project	Share of water losses compared to total water intake (percentage)
	Water losses in tertiary canals under Project	Share of water losses compared to total water intake (percentage)
Water-to-Market Activity Indicators		
Purpose	**Indicator**	**Definition of Indicators**
Outcomes		
Improved WUA cost recovery	Recovery of WUA operations and maintenance cost by water charges	Share of WUA water charges compared WUA annual operations and maintenance cost (percentage)
Farmers using improved on-farm water management	Number of farmers using better on-farm water management	Number of farmers using better on-farm water management: drip irrigation; ET Gage, and soil moisture monitoring
Access to credit to improve agricultural activities	Loans provided	Loans provided under the Project (USD in thousands)

Irrigated Agriculture Project Targets						
Objective Level Indicators (Metric of Project success observable by end of Compact)	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Increase in area covered by high value added (HVA) crops (hectares)	0	0	110	1,100	4,020	2,540
Share of respondents satisfied with irrigation services (percentage)[2]	TBD	TBD	TBD	TBD	TBD	TBD
Infrastructure Activity: Outcome Level Indicators (Early Indicators of Project Activities impact on Objectives)	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Additional land irrigated under Project (hectares)	0	0	0	2,400	10,900	20,340
Government budgetary allocations for maintenance of irrigation system (AMD in millions)[3]	TBD	TBD	TBD	TBD	TBD	TBD
Annual energy savings under Project (thousand KWh)	0	0	0	0	2,800	25,520
Water losses in primary canals under Project (percentage)	28%	30%	31%	28%	23%	17%
Water losses in tertiary canals under Project (percentage)[4]	TBD	TBD	TBD	TBD	TBD	TBD
Water-to-Market Activity: Outcome Level Indicators (Early Indicators of Project Activities impact on objectives)	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Recovery of WUA operations and maintenance cost by water charges (percentage)	n/a	46%	55%	60%	66%	70%
Number of farmers using improved on-farm water management (number; cumulative)	0	0	5,390	14,300	24,900	35,420
Loans provided (USD in thousands)	0	0	1,600	2,400	2,500	2,000

(b) Data Collection and Reporting. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible

[2] The Targets for this Indicator will be calculated using baseline information from the 2007 Integrated Survey of Living Standards (ISLS) to be conducted by the National Statistical Service of the Republic of Armenia.

[3] The Targets for this Indicator will be available at the end of the second quarter of 2006, when the recommendations of the Technical Commission on Water System Operation and Maintenance are due for Government confirmation.

[4] The Targets for this Indicator will be incorporated once individual WUAs agree to the 15% co-financing required to proceed with the investments in tertiary canals.

parties. The Management Unit shall conduct regular assessments of program performance to inform MCA-Armenia and MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. With respect to any data or reports received by MCA-Armenia, MCA-Armenia shall promptly deliver such reports to MCC along with any other related documents, as specified in the M&E Plan or as may be requested from time to time by MCC.

(c) Data Quality Reviews. From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection. The data quality reviewer shall enter into an Auditor / Reviewer Agreement with MCA-Armenia in accordance with Annex I.

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component shall contain a methodology, process and timeline for analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability. This component should use state-of-the-art methods for addressing selection bias and should make provisions for collecting data from both treatment and control groups, where practicable. The Evaluation Component shall contain two types of reports: Final Evaluations and Ad Hoc Evaluations, and shall be finalized before any MCC Disbursement or Re-Disbursement for specific Program activities or Project Activities.

(a) Final Evaluation. MCA-Armenia, with the prior written approval of MCC, may engage an independent evaluator to conduct an evaluation at the expiration or termination of the Compact Term ("***Final Evaluation***") or at MCC's election, MCC may engage such independent evaluator. The Final Evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Program; (ii) estimate, quantitatively and in a statistically valid way, the causal relationship between the Compact Goal (to the extent possible), the Objectives and Outcomes; (iii) determine if, and analyze the reasons why, the Compact Goal, Objectives and Outcomes were or were not achieved; (iv) identify positive and negative unintended results of the Program; (v) provide lessons learned that may be applied to similar projects; (vi) assess the likelihood that results will be sustained over time; and (vii) any other guidance and direction that will be provided in the M&E Plan. To the extent engaged by MCA-Armenia, such independent evaluator shall enter into an Auditor / Reviewer Agreement with MCA-Armenia in accordance with Annex I.

(b) Ad Hoc Evaluations. Either MCC or MCA-Armenia may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term ("***Ad Hoc Evaluations***"). If MCA-Armenia engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Armenia, subject to the prior written approval of MCC, following a tender in accordance

with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation or special study may be paid from MCC Funding. If MCA-Armenia requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or to seek funding from other donors, no MCC Funding or MCA-Armenia resources may be applied to such evaluation or special study without MCC's prior written approval.

4. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) Costs. A detailed cost estimate for all components of the M&E Plan.

(b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Objectives and Outcomes; *provided,* such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan.

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governance Agreement, and any other relevant Supplemental Agreement.

(b) Stakeholders' Committee. The completed portions of the M&E Plan will be presented to the Stakeholders' Committee at the Stakeholders' Committee's initial meetings, and any amendments or modifications thereto or any additional components of the M&E Plan will be presented to the Stakeholders' Committee at appropriate subsequent meetings of the Stakeholders' Committee. The Stakeholders' Committee will have opportunity to present its suggestions to the M&E Plan, which the Governing Council will take into consideration in its review of any amendments to the M&E Plan during the Compact Term.

(c) MCC Disbursement and Re-Disbursement for a Project Activity. As a condition to each MCC Disbursement or Re-Disbursement there shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements.

(d) Modifications. Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; *provided,* any such modification or amendment of the M&E Plan has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.