

MCA-Armenia

Water-to-Market Credit Program

Program Administration Policies and Procedures

March 10, 2009

**Water-to-Market Credit Program
Program Administration Policies and Procedures**

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I. MCA-ARMENIA

A. Introduction

On March 27, 2006 the Millennium Challenge Corporation (MCC) signed a five-year, USD 235.65 million Compact with the Government of the Republic of Armenia (GoA). The Compact is focused on one goal: the reduction of rural poverty through a sustainable increase in the economic performance of the agricultural sector. Armenia plans to achieve this goal through a five-year program of strategic investments in rural roads, irrigation infrastructure and technical and financial assistance to improve the supply of water and to support farmers and agribusinesses.

With almost 40% of the rural population living in poverty and agricultural productivity significantly below its potential, this initiative can make a major contribution to the reduction of poverty in the economy as a whole. The Program will directly impact approximately 750,000 people, or 75% of the rural population, and is expected to reduce the rural poverty and increase annual incomes.

The Compact officially entered into force on September 29, 2006 and the Millennium Challenge Account – Armenia, a State Non-Commercial Organization (MCA-Armenia), was established to manage the Compact programs and activities. Further information regarding the Compact and MCA-Armenia's Programs is available at the MCA-Armenia website (www.mca.am).

B. MCA-Armenia Projects

There are two main infrastructural constraints to agricultural productivity that MCA-Armenia is addressing: i) the poor quality of rural roads and ii) the deterioration of the irrigation system. These constraints are being addressed in two projects:

1. The Rural Roads Rehabilitation Project will expand access of rural communities to agricultural markets and increase non-farm income opportunities and social infrastructure by improving the condition of rural roads. USD 67 million will rehabilitate up to 943 kilometers of rural roads, more than a third of Armenia's proposed lifeline road network.
2. The Irrigated Agriculture Project will increase the profitability of the agricultural sector by extending and improving the irrigation network, strengthening irrigation entities to better manage the network and enabling farmers to commercialize their production. The beneficiaries of the Irrigated Agriculture Project are the 53 Water User Associations (WUAs) and their 250,000 member farmers who will benefit from more efficient and reliable irrigation water and intensive institutional strengthening. Within the irrigated agricultural project there are two activities:
 - a. The Infrastructure Activity will improve existing infrastructure to increase irrigated area and to improve the efficiency and sustainability of sourcing and delivery of water; and
 - b. Water-to-Market Activity (the "WTM Activity") will build the capacities of irrigation management organization, facilitating on-farm development through demonstrations and training, strengthening post-harvest, processing and market information services, and increasing access to credit to enable beneficiary farmers and the agribusinesses that serve them to transition to more profitable, commercially-orientated operations that are environmentally sustainable.

C. The Water-to-Market Activity

The objective of the WTM Activity is to accelerate the transition to more profitable agricultural production in the areas of irrigation rehabilitation by introducing and encouraging best practices in

irrigated agriculture, fostering the adoption of improved water management techniques, the shift and/or expansion to higher value crops, strengthening the post-harvest and processing enterprises linking producers to their markets, both domestic and international, and strengthening the capacity of Credit Providers to fund viable proposals in production and post-harvest activities.

The expected rehabilitation of 21 irrigation schemes and tertiary systems and the institutional strengthening activities that will be part of the Infrastructure Activity of the Irrigated Agriculture Project will impact approximately 115,000 farmers, covering about 46,000 hectares of irrigated land. The WTM Activity directly targets about 50 percent of those farmers to receive training and assistance with the expectation that many more will be reached indirectly as information is shared and passed throughout the beneficiary communities.

The WTM Activity ensures that MCC funding of the Irrigation Infrastructure Activity contributes to sustained increases in agricultural productivity and incomes through a combination of training, technical assistance, access to credit and essential equipment for farmers in the irrigation zones rehabilitated under the Program. This activity is valuable to financial institutions as farmers become better business customers and more knowledgeable consumers of credit. The following is a brief description of each of the project's components included in the WTM Activity.

Introduction of New On-Farm Water Management (OFWM) Technologies: The OFWM activity improves farmers' skills in water management techniques and their access to farm-level equipment that will enhance the efficiency of water use in irrigation. Training and demonstrations will be provided for 60,000 farmers in areas served by WUAs, of whom approximately 38,000 are expected to adopt water saving and productivity innovations to increase the net benefit to their farming operations.

Transition to Higher Value Agriculture (HVA): The HVA activity supports the transition of farmers to more profitable agricultural production through a combination of crop substitution, increased cropping intensity. The WTM Consultant will train in areas served by WUAs 30,000 farmers who are expected to have access to demonstrations that will lead to increased commercial value of their farm output. The training will focus on mitigating the attendant risks of commercial agriculture through demonstration, training, staggered development and follow-up as well as links to markets through component (Post Harvest, Processing and Marketing). By the end of the Compact, it is expected that approximately 7,800 hectares will be converted into higher-value agricultural cultivation as a result of increased access to water combined with an effective training program.

Post-Harvest, Processing and Marketing (PPM): The PPM activity will introduce and expand post-harvest operations that best preserve the quality of agriculture products and add value to production. When combined with reliable information on market conditions and opportunities, this will contribute to the better positioning of fresh and processed food products in the domestic, regional and international markets. Food safety and quality assurance considerations such as Hazard Analysis and Critical Control Point (HACCP) and International Standards Organization (ISO) certification will also be addressed through this sub-activity. It is expected that by end of the Compact these activities will impact 300 agribusiness associations and SMEs directly and 15,000 producers indirectly.

Improved Access to Credit: The objective of this sub-activity is to increase the availability of longer-term, affordable credit to the WTM beneficiaries. The principal beneficiaries of Access to Credit are farmers who have been trained under the OFWM and HVA activities. Improved irrigation and rural roads will present new opportunities for farmers and agricultural related businesses, for which financing is critical. MCA-Armenia established a wholesale Credit Facility for selected financial institutions to draw down for on-lending to the agricultural sector.

D. MCA-Armenia Program Management Framework

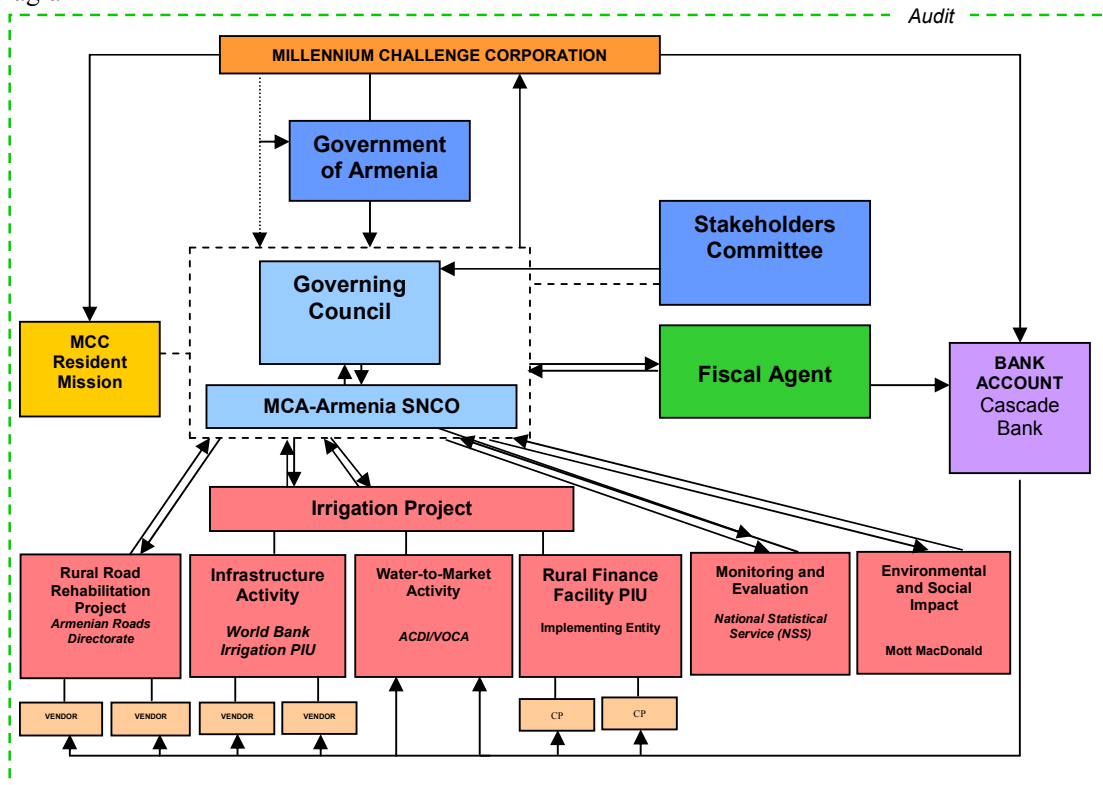
MCA-Armenia has overall responsibility for implementation of the Compact. To carry out this task, it will assign implementation responsibility to implementing units as follows:

1. The Rural Road Rehabilitation Project is being implemented by the Armenian Road Directorate State Non-Commercial Organization (ARD);
2. The Infrastructure Activity of the Irrigated Agriculture Project is being implemented by a specialist team within MCA-Armenia;
3. The Institutional Strengthening sub-activity of the Irrigated Agriculture Project’s WTM Activity is being implemented by the Mott MacDonald/VISTAA Consortium;
4. The Credit Program of the WTM Activity is being managed by the Rural Finance Facility PIU State Institution (RFF) of the Ministry of Finance and Economy, with support, technical assistance and oversight provided by the ACDI/VOCA Consortium Consultant (the “WTM Consultant”);
5. The on-farm water management, high value agriculture, and post-harvest, processing and marketing components of the Irrigated Agriculture Project’s WTM Activity are managed by the ACDI/VOCA Consortium.

The road and irrigation infrastructure activities are being implemented by the respective units under a series of design, supervision and construction contracts. The WTM Activity will be managed by the WTM Consultant to deliver services in specific geographic areas benefiting from MCC investments in irrigation infrastructure rehabilitation. The three project management entities (ARD, the Irrigation PIU and the WTM Consultant) will also provide technical expertise to assist in planning the work.

E. Organization Chart of MCA-Armenia Program

Diagram 1



II. CREDIT PROGRAM

A. Overview

The WTM Activity will introduce new technologies and demonstrate alternative farming practices to increase farm incomes. This, combined with the Rural Roads and Irrigation projects, will create new investment opportunities that will require financing. Currently, however, the availability of rural agricultural financing is severely constrained, and what financing is available is primarily short-term and expensive.

The Credit Program within the WTM Activity will support MCA-Armenia with two activities to increase the agricultural sector's access to credit and the ability to take advantage of new investment opportunities.

1. **Credit Facility:** MCA-Armenia will launch a USD 8.5 million wholesale Credit Facility. This facility will offer up to 7-year financing to eligible financial institutions at a fixed interest rate of 4.0% per annum, known as the Base Rate. The wholesale facility will provide lenders with needed longer-term capital for on-lending/on-leasing to MCA-Armenia's targeted farmers and agricultural-related businesses (End-Borrowers). Leasing is included within the scope of the Program and is considered a form of credit.
2. **Capacity Building Technical Assistance:** Technical assistance will be provided to both the supply side (Credit Providers) and to the demand side (End-Borrowers) to improve their capacity to engage in efficient financial intermediation.
 - a. **Credit Providers:** For Credit Providers (Financial institutions that have signed an MCA-Armenia Credit Facility Loan Agreement), assistance will be provided to strengthen their ability to safely and profitably extend loans to farmers and agribusinesses in the rural areas. Loan officers will receive training in practical lending techniques and become more knowledgeable about agricultural businesses, cash collection cycles, agricultural risks and how to mitigate these risks.
 - b. **End-Borrowers:** While loan officers need to better understand agricultural financing, farmers and agricultural businesses need to better understand the financial aspects of their business, how to keep good records and how to prepare and present their investment strategies or business plans in a way that demonstrates their ability to repay loans. Technical assistance will be provided to raise the financial literacy within potential End-Borrowers. The intent is to make them more knowledgeable consumers of credit and help to reduce loan transaction costs and risk for the Credit Providers.

B. Credit Program Participants

MCA-Armenia has overall management responsibility and will oversee the Credit Program. To assist in the implementation and management of the program MCA-Armenia has entered into agreements with two key program participants – the Rural Finance Facility and the WTM Consultant. These participants will perform their respective roles to support, implement and manage the day-to-day operations of the Credit Program and will contribute to its successful implementation. The role of the participants and their inter-relationships are described below. Section II E below provides a schematic representation of the following outline of the participants.

Millennium Challenge Corporation: The MCC will provide up to USD 8.5 million of funding to MCA-Armenia for the WTM Credit Program. Funds will be provided in tranches based on the program implementation progress.

Fiscal Agent: The Fiscal Agent is responsible for processing the disbursement of MCC funds after authorization by MCA-Armenia.

MCA-Armenia: MCA-Armenia has overall launch, implementation and management responsibility for the Credit Program, including:

- Establishing the framework of the WTM Credit Program (to be embodied in the Program Administration Policies and Procedures).
- Selecting financial institutions that will become Credit Providers.
- Allocating WTM Credit Facility funds to Credit Providers for on-lending for RFF-recommended loans.
- Supervising the Implementing Entity (the RFF) and delineating the RFF's scope of operations in the Implementing Entity Agreement available at the MCA-Armenia website (www.mca.am) including compliance with RoA environmental regulations and MCC Environmental Guidelines.
- Approving and implementing an audit plan with input from RFF and approval of MCC.
- Developing a disposition strategy for WTM Credit Facility funds at the completion of the Compact.

Rural Finance Facility: The RFF is designated as MCA-Armenia's Implementing Entity as more fully described in the Implementing Entity Agreement. The RFF will review loan applications (in the form of Loan Packages) submitted by Credit Providers for program eligibility (not credit quality) and will coordinate all operational activities with the Credit Providers. Tasks include:

- Reviewing Loan Packages (underwriting documents used by Credit Providers in assessing loan requests) to determine eligibility.
- Providing recommendations to MCA-Armenia on loan disbursements to Credit Providers.
- Monitoring Credit Providers for compliance with eligibility requirements (including environmental) for continued participation.
- Maintaining loan records and accounting of MCC funds provided under the MCA-Armenia Credit Program.
- Developing and implementing an Operations and Monitoring Manual for RFF staff use in administering the WTM Credit Facility to be approved by MCA-Armenia.
- Assisting MCA-Armenia in developing a disposition plan for the WTM Credit Facility.

Credit Providers: The selected Credit Providers are the front line to deliver the Credit Program. Tasks include:

- Marketing the MCA-Armenia Credit Program to the targeted sector of End-Borrowers.
- On-lending to eligible borrowers, in accordance with the Program Administration Policies and Procedures and the MCA-Armenia Credit Facility Loan Agreement.
- Submitting monthly, quarterly, and annual activity reports as required;
- Prudently monitoring all borrowers' disbursements, repayments, business activities and compliance with environmental requirements and maintain proper credit administration over lending activity.
- Providing their own independent credit analysis, collateral appraisals, credit decision, and accept all risks of the borrowers' and/or guarantors' repayment and loan recovery.

End-Borrowers:

- Adopting methodologies to improve agricultural production.
- Increasing investments in the agricultural sector.
- Improving their financial record keeping and becoming more knowledgeable in applying for and accessing credit.
- Utilizing funds for purpose intended and timely loan repayment.

WTM Consultant:

- Advising, assisting, working with and supporting MCA-Armenia and the RFF in their launch and implementation of the Credit Program.
- Capacity Building of Credit Providers' loan officers to more effectively review and analyze agricultural borrowers
- Capacity Building of End-Borrowers to increase their financial literacy and become better consumers of credit.

C. Credit Program Accreditation and Allocation Process

MCA-Armenia issued a request for financial institutions to seek accreditation in December 2007. In February 2008, 11 financial institutions were accredited as Credit Providers and later that month four were winners at an auction for the \$1.5 million allocation MCA-Armenia supplied in Compact Year Two. The preceding steps were conducted in accordance with the Program Administration Policies and Procedures (PAPP) existing at that time.

Henceforth, Credit Providers will be selected and WTM Credit Facility funds will be allocated as follows:

- 1. Accreditation of Financial Institutions as Credit Providers:** Following completion of all preparatory steps, including Governing Council approval of the Program Administration Policies and Procedures (which will define all aspects of the program and provide the documents which will be used therein), MCA-Armenia will commence the accreditation process for financial institutions according to the following steps:
 - MCA-Armenia will announce the commencement of the accreditation process and will issue the request for financial institutions to seek accreditation. The announcement will provide links to MCA-Armenia's website where copies of the PAPP and the MCA-Armenia Credit Facility Loan Agreement will be available for review. Approximately five business days following the announcement, MCA-Armenia will host a conference to answer questions financial institutions may have on the program.
 - Within ten business days following the announcement, financial institutions will be required to submit their requests for accreditation in hard-copy. Late requests will be rejected. The financial institutions must:
 - A. provide evidence that they meet the established eligibility criteria listed in Section III A;
 - B. disclose on an MCA-Armenia supplied cost matrix the following information: 1.) Interest rate – the maximum rate of interest that will be charged to End-Borrowers (including the Base Rate plus the institution's Spread) (The maximum interest rate to be charged to End-Borrowers under this Program shall not exceed 12%. Any requests for accreditation specifying End-Borrower rates in excess of 12% will not be considered by MCA-Armenia.), 2.) Fees – the maximum percentage of fees to be charged to End-Borrowers over the life of the loan (excluding other third-party direct costs related to the loan such as appraisal, notary, recording or filing fees) 3.) Detailed explanation with maximum percentages of the loan for any other expenditures that any prospective End-Borrower must incur in order to be able to access a loan. This includes, but is not limited to stock investments;

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- C. submit a copy of their latest audited financial statement and accompanying auditor notes; and
- D. submit the package of all available current year interim quarterly financial statements used for public disclosure purposes, which includes the following reports according to the decisions 205N and 279N made by RA Central Bank Council on July 10, 2007 and on August 12, 2003:
- 1) Financial results interim statement – form 6
 - 2) Interim balance sheet – form 7
 - 3) Interim report on changes in equity – form 8
 - 4) Interim cash flow statement – form 9
 - 5) Notes to interim financial statements, including the accounting policy – form 5 (refers to banks only)
- As requests for accreditation are received from financial institutions, MCA-Armenia will record the date and time of receipt. Immediately after the deadline for responses has passed, MCA-Armenia will open the responses in the presence of representatives of the financial institutions (All financial institutions that apply will be invited to attend.) — MCA-Armenia will assemble the cost matrices by institution in order of those with the lowest interest rates to the highest.
 - Immediately thereafter MCA-Armenia will review the requests, including the audits and quarterly reports, and develop a list of those entities which appear to meet the eligibility criteria. That list will then be submitted to the Central Bank of Armenia for confirmation that those financial institutions are in fact licensed by and in compliance with the Central Bank requirements. Following confirmation or correction by the Central Bank, any required modifications to the list will be made and MCA-Armenia will submit the list of interested and eligible financial institutions with each one's cost matrix information to the Governing Council for its approval. MCA-Armenia or the Governing Council may choose to deny a financial institution accreditation on the basis of adverse information in the institution's audit or quarterly financial reports.
 - Following receipt of Governing Council approval, the eligible financial institutions will be invited to sign the MCA-Armenia Credit Facility Loan Agreement. As each eligible, approved financial institution executes the Agreement, it will be designated as a Credit Provider and will be eligible to participate in Stage Two (the allocation process). MCA-Armenia plans accreditation for February 2009, and those accredited financial institutions could draw funds through the end of the Credit Program. However, MCA-Armenia may also open an additional accreditation if it wishes to recruit more financial institutions after the February process. The cost matrix for all Credit Providers will be publicly available and be posted on MCA-Armenia's website, in the Credit Program brochures distributed by the Water-to-Market Project and through other forums as appropriate.
2. **Allocation of WTM Credit Facility Funds:** Following completion of Stage One, the allocation process (Stage Two) will begin. Credit Providers will share in the annual allocation of Program funds as specified below. Program funds will be available on a demand-driven first-come, first-served basis subject to the limits in each Credit Provider's Loan Agreement. All Credit Providers shall have an equal chance to draw Program funds which will be available on a continuous basis throughout the year. (There are no "windows" set aside by Credit Provider classification such as banks or UCOs.)-

Program funds are intended to be drawn down annually over a period of three years as follows:

January 2008 to September 2008 - USD 1,500,000

January 2009 to September 2009 - USD 5,500,000

October 2009 to September 2010 - USD 1,500,000

- MCA-Armenia receives funds from the MCC on periodic requests based on need and within a quarterly approved authorization. For planning purposes and in consultation with the participating Credit Providers, MCA-Armenia will estimate quarterly the amount of funds expected to be disbursed and will make such funding request to the MCC. (The quarterly funding should reflect the seasonality of Armenia's agricultural credit demand. MCA-Armenia anticipates the earmarks per quarter would not exceed \$2.0, \$2.0 and \$1.5 million respectively for the quarters January-March, April-June, and July-September.) MCC transfers dollars to MCA-Armenia which will convert the needed dollars into Armenian Dram to meet funding requests from Credit Providers. Credit Provider obligations to MCA-Armenia shall be in AMD.
- End-Borrowers approach the Credit Provider of their choice with loan requests. The Credit Provider makes a credit decision and develops loan packages for credit worthy applicants. At its option, the Credit Provider can either immediately fund the loan with its own resources and be refinanced by the Credit Facility for loans determined to be eligible by RFF, or apply for funds from the Credit Facility and disburse the loan when funds are received. (Refinance in this context refers to refinancing of the Credit Provider's own funds which were extended to a new eligible End Borrower or for incremental credit to an existing borrower for an eligible purpose in conformance with the PAPP.) In either case, the Credit Provider submits one or more loan packages to RFF under a Funding Transmittal Request for a determination of eligibility.
- Funding Transmittal Requests submitted to RFF determined to be eligible are sent to MCA-Armenia with a recommendation for disbursement. MCA-Armenia reviews the recommendation and, if in agreement, authorizes the Fiscal Agent to have the funds disbursed. Credit Program funds are disbursed to individual Credit Providers subject to the quarterly earmark until the annual allocation of Program funds is exhausted or the Credit Provider's institutional limit as described in Section III C. is reached, whichever comes first. MCA-Armenia reserves the right to decline a loan based on its interpretation of the eligibility criteria.
- As fund disbursements are received by a Credit Provider, RFF will enter the amount of each disbursement in a register that lists the AMD and equivalent dollar amount of all funds received for each Credit Provider. The register should also show: 1.) the outstanding amount owed MCA-Armenia by any Credit Provider at any given time and 2.) the aggregate equivalent dollar amount for all Credit Providers drawn during each Compact year.
- The allocation process for a year concludes upon the occurrence of the earlier of the following two events: 1.) the full utilization of the annual allocation of funds or 2.) the end of the last business day of September.

D. Credit Program Implementation and Funds Flow

The following describes the operational funds flow for the Credit Program. The graphic in Section II E below provides a schematic representation of the inter-relationship of the participants and the flow of funds.

MCC provided USD 1.5 million for the Credit Program in Compact Year Two ending September 30, 2008. An additional USD 5.5 million is expected to be funded during Compact Year Three and USD 1.5 million in Compact Year Four. These funds will be provided through the Fiscal Agent in tranches based on demand from End-Borrowers.

RFF will assemble from Credit Providers by the 5th of the month prior to the beginning of each quarter an estimate of End-Borrower demand for funds. MCA-Armenia will include this amount in its quarterly disbursement request to MCC.

All financial institutions that are designated as Credit Providers in the Accreditation process will be able to seek financing or refinancing from MCA-Armenia (through the RFF) for eligible loans. Credit Providers will submit Funding Transmittal Requests supported by Loan Packages to the RFF, and the RFF will make a determination as to whether the loan meets the eligibility criteria. *The RFF will not be making a credit decision regarding the loan – the credit decision is the sole responsibility of the Credit Provider.* If the loan does not meet the eligibility criteria, the loan will not be funded and the ineligible Loan Package will be returned to the Credit Provider with the reason for the rejection. Ineligible loans will be deducted from the Funding Transmittal Request and not funded. If the loan is eligible under the Credit Program, the RFF will recommend funding and submit The Funding Transmittal Request to MCA-Armenia who will review the recommendation. If MCA-Armenia approves the recommendation it will 1.) notify RFF and 2.) authorize the Fiscal Agent to transfer the total amount of the End-Borrower's loan proceeds, in AMD, to the Credit Provider. RFF notifies the Credit Provider of the approval so the Credit Provider may prepare its paperwork for expeditious closing of the loan upon receipt of funds.

The Fiscal Agent will disburse funds to Credit Providers as authorized by MCA-Armenia. Credit Providers should allow 5 total days of processing between the RFF (3) and MCA-Armenia (2). The Fiscal Agent must disburse within 30 days of notice by MCA-Armenia, but has been asked to process loan disbursements expeditiously. Upon receipt of funds from MCA-Armenia, Credit Providers shall have 20 calendar days to either disburse the funds to the End-Borrower or return the funds to MCA-Armenia. Such funds not returned by the close of business on the 20th day shall be subject to a penalty rate of 12% in addition to the 4% base rate, for a total rate of 16%. Both will apply from the date of receipt by the Credit Provider to the date the funds are returned to the MCA-Armenia account.

Barring an event of default, Credit Providers shall be eligible to revolve the repayments from End-Borrowers into new eligible loans. Thus the funds borrowed by a Credit Provider will constitute a revolving fund to be devoted to targeted WTM End-Borrowers. The Credit Provider must submit the loans funded from repayments to the RFF for determination of eligibility and the month end revolving fund balance should not exceed AMD 8.5 million. For any loans funded from repayments, the applicable maximum interest and fees will be those specified in the latest MCA-Armenia Credit Facility Loan Agreement that the Credit Provider has signed. Should the latest signed Agreement be that of April 9, 2008, then the applicable maximum rate shall be that agreement's Base Rate (4%) plus the Spread specified in the Allocation Notice attached to that Agreement. For a Credit Provider who was awarded multiple spreads, the applicable Spread shall be the average of its awarded April 9 spreads. MCA-Armenia will enter into amended or new Credit Facility Loan Agreements (to be determined by Legal Counsel) with the four Credit Providers holding signed April 9 Agreements so their Agreements conform to this revised version of PAPP.

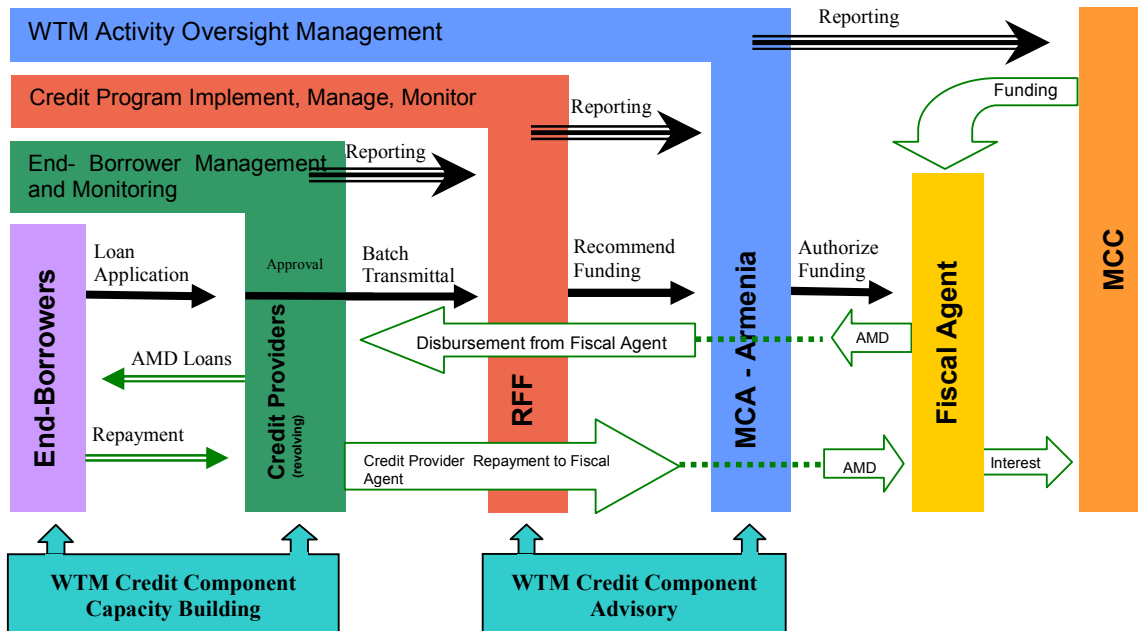
Credit Providers will pay interest quarterly on the outstanding balance of their Credit Program loan into an MCA-Armenia bank account monitored by the Fiscal Agent. Interest will accrue on a calendar quarter basis and to avoid late charges, payment must be in the bank account not later than the fifth business day after quarter end. The RFF shall send a bill to the Credit Providers quarterly specifying the amount of interest due. The RFF shall provide a copy of the billing to both MCA-Armenia and the Fiscal Agent. The Credit Provider shall pay the interest by electronic transfer to an account established by the Fiscal Agent for MCA-Armenia. Under current MCC requirements, the interest will be remitted to the US Treasury. The Fiscal Agent shall notify MCA-Armenia, MCC and the RFF when the interest is paid and provide evidence of the payment.

The loans from MCA-Armenia to Credit Providers will be due at maturity and will be paid to MCA-Armenia or its designated fiduciary and liquidation agent (Section VII).

Loans granted under the WTM Credit Facility are subject to further post-disbursement review and monitoring. If a loan is determined to be ineligible after disbursement, it shall be considered a default under the Loan Agreement, unless the default is remedied, which may occur by one of four methods:

- correct the ineligibility and provide the RFF with sufficient evidence to show that the loan complies with the Lending Policy; or
- provide RFF with justification of the variance and request, and within five (5) business days receive, a waiver from RFF; or
- substitute one or more additional loan that are eligible for funding and have an aggregate principal amount at least equal to that of the ineligible loan; or
- repay to MCA-Armenia the CF Loan funds advanced for the ineligible loan within 10 business days. Such repaid funds may subsequently be re-advanced to Credit Providers for eligible loans.

E. Credit Program Management Structure, Reporting and Funds Flow



F. Oversight, Management and Reporting

MCA-Armenia has overall responsibility for administration of WTM Credit Facility funds. It will authorize transfer of those funds in a controlled manner to Credit Providers, based upon the RFF recommendations based upon review of the Loan Packages, which shall contain attestation from the Credit Providers as to compliance of the Loan Package with MCA-Armenia requirements. Responsibilities include:

- Overseeing the RFF in all aspects of its WTM Credit Facility related activities including ensuring that the RFF complies with the Implementing Entity Agreement;
- Reviewing reports submitted by the RFF on the implementation and management of the program;
- Conducting field visits to inspect WTM Credit Program activities (including both Credit Providers and End-Borrowers);
- Preparing and providing summary loan activity reports (generated by the RFF) to MCC and the Governing Council on a periodic basis as agreed;
- Preparing and providing all such reports to MCC as prescribed in the Compact; and
- Procuring and paying for annual outside audits of all Credit Provider WTM Credit Facility accounts and the RFF.

MCA-Armenia may approve up to 10 waivers to the guidelines for End-Borrower Loans contained in these Program Administration Policies and Procedures (including loans above AMD 10.5 million) in cases in which a Credit Provider requests such a waiver and the RFF recommends same. The Credit Provider would propose a waiver to the RFF, which would determine whether such a waiver is appropriate. If the RFF approves, it would recommend such a waiver to MCA-Armenia. The MCA-Armenia CEO is authorized to approve such waivers up to the amount of AMD 17 million. Amounts above AMD 17 million would require Governing Council approval and MCC no-objection. Any exceptions shall be promptly reported to the Governing Council and MCC. No environmental compliance waivers will be permitted. All waivers approved, regardless of the threshold, must be reviewed individually as part of the annual outside audit.

RFF and Credit Provider Obligations and Responsibilities

MCA-Armenia will charge the RFF and Credit Providers with oversight responsibilities as well and will be supported in its oversight, management and reporting responsibilities by them, as follows:

1. The RFF will:
 - Oversee, on behalf of MCA-Armenia, the Credit Providers with regard to compliance with Program Administration Policies and Procedures.
 - Conduct random site visits to ensure compliance of End-Borrower loans to Program Administration Policies and Procedures.
 - Maintain loan records and accounting of MCC funds provided under the MCA-Armenia Credit Program.
 - Prepare and provide reports to MCA-Armenia.
2. The Credit Providers will:
 - Assess initial End-Borrower eligibility and promptly report to the RFF any subsequent determination or discovery of non-eligibility
 - Provide reports to the RFF on WTM Credit Facility loan performance.

The WTM Consultant will provide advisory assistance to both the RFF and MCA-Armenia as they manage and implement the Credit Program.

III. CREDIT PROVIDERS – ELIGIBILITY AND PARTICIPATION REQUIREMENTS

A. Eligibility Criteria

These eligibility criteria outline the requirements which interested financial institutions must meet or exceed to become eligible for participation and to remain in compliance as a Credit Provider. MCA-Armenia relies on licensing and supervision of banks and universal credit organizations by the Central Bank of Armenia in lieu of due diligence of each institution seeking accreditation. MCA-Armenia and/or its designee will periodically monitor or inspect all selected Credit Providers with regard to their continued compliance with the eligibility criteria. Each Credit Provider or interested financial institution must:

- Be licensed by and in compliance with Armenian laws and the regulations of the Central Bank of Armenia;
- Agree to, and be in compliance with, the terms and conditions of the MCA-Armenia Credit Facility Loan Agreement between MCA-Armenia and the Credit Provider; and
- Attest to a commitment to servicing the agricultural sector of Armenia and primarily the trained beneficiaries of the Water-to-Market project by presenting the Credit Program at Water-to-Market HVA and OFWM training sessions at least three times a month, on a rotating basis through the marzes served.

MCA-Armenia encourages lending throughout all marzes. It will compile an annual public statement of the number and AMD value of loans each Credit Provider makes by marz.

When institutions apply for participation in the Credit Program they must provide a copy of their latest audited financial statement with accompanying auditor notes and all available current year quarterly financial reports used for public disclosure purposes. Upon review of the audited statement or quarterly reports, MCA-Armenia or the Governing Council may choose to not accept a financial institution as a Credit Provider should the documents raise adverse information. This applies to initial acceptance as a Credit Provider and to continued participation in the Program.

Participation Guidelines

MCA-Armenia intends to offer all eligible and interested banks and UCOs the opportunity to become accredited as a Credit Provider under the Credit Program. Credit Providers who sign an MCA-Armenia Credit Facility Loan Agreement are eligible to receive allocations of WTM Credit Facility funds on a first-come, first served basis for on-lending to WTM End-Borrowers based on Funding Transmittal Requests conforming to PAPP and the Loan Agreement. The accreditation and allocation processes are described in Section II C.

Loans to Credit Providers

The MCA-Armenia Credit Facility Loan Agreement stipulates the terms and conditions under which Credit Providers can borrow the wholesale funds under the Credit Program. Institutional limits apply to the outstanding amount of funds any one Credit Provider may have from the MCA-Armenia Credit Facility. There are two limits that apply to all Credit Providers and the limit resulting in the smaller amount shall take precedent. First, is the limit related to a Credit Provider's capital; the outstanding amount of funds borrowed from MCA-Armenia may not exceed twice the capital reported in the Credit Provider's last audited financial statement. (Credit Providers have widely differing levels of financial capacity, and MCA-Armenia incorporates this limit as a risk management tool to guide the amount of funds it places with any one institution.) A second limit also applies and is this is the AMD equivalent of two million USD. MCA-Armenia may decide in its discretion to adjust this level if it believes necessary for the Program. Specific example: A Credit Provider's last audited financial statement indicates it has the AMD capital equivalent of \$750,000. The outstanding amount of MCA-

Armenia funds this Credit Provider may hold is the AMD equivalent of \$1,500,000. If that Credit Provider's next audited financial statement indicates capital equivalent to \$1,200,000, then a limit of \$2,000,000 would apply, not \$2,400,000 which would be twice the capital.

The Loan Agreement will guide the borrowing and lending between MCA-Armenia and the Credit Providers. The following is offered as a general framework of the Loan Agreement's terms and conditions. The form of Loan Agreement is attached as Annex III.

The Credit Provider shall be fully responsible for the full repayment of any loan granted by MCA-Armenia from the Credit Facility, regardless of the repayment or performance of the corresponding loan to the End-Borrower. The Credit Providers shall rely on their own judgment, due diligence, and credit analysis when granting loans under the Credit Program. The Credit Provider will accept all financial and other risks of the End-Borrower and hold MCA-Armenia harmless of any responsibility or liability.

Loan funds are strictly for the purpose of on-lending to farmers and agricultural related enterprises in Armenia. Loans to the Credit Providers will be based on the delivery of eligible Loan Packages to the RFF. Eligible loans are more fully described in Section IV, End-Borrowers - Eligibility and Participation Requirements. All loan funds drawn from the Credit Facility shall correspond to specific loans disbursed to End-Borrowers by the Credit Provider under the Credit Program.

Interest will accrue from the date of each loan advance to the Credit Provider at the Base Rate (a fixed rate of 4.0%) per annum until fully repaid. Interest will be calculated on a *simple basis* of 365/366 days per year. Principal repayment is due at the maturity of the Loan Agreement or upon uncured default.

Principal repayments received from End-Borrowers will be retained in a revolving fund by the Credit Providers and recycled in the form of new loans to eligible End-Borrowers. Credit Providers shall promptly re-lend principal repayments. Credit Providers shall utilize existing loan repayments to fund new loans before drawing down new funds from MCA-Armenia. During each calendar month, Credit Providers shall revolve into new eligible loans enough funds so that no more than AMD 8.5 million remains in the revolving fund at month end. If a Credit Provider's month end revolving fund balance exceeds AMD 8.5 million for two consecutive months, each of those two month end revolving fund balances will be subject to a penalty rate of 12% to be paid to MCA-Armenia. (The penalty rate is in addition to the 4% Base Rate and will apply as if the month end balance existed for the full month. Therefore a Credit Provider will pay a total of 16% on those funds.) Should a Credit Provider's month end revolving fund balance exceed AMD 8.5 million for four consecutive months, the Credit Provider shall pay the full amount remaining in the revolving fund to MCA-Armenia. Such repaid funds will be available for any Credit Provider to use for eligible loans under Funding Transmittal requests.

The Credit Provider will maintain a dedicated account (the "Credit Provider Account") in its accounting system into which all loan activities from the Credit Program will be recorded. The Credit Providers will maintain adequate records and accounts to reflect, in accordance with sound accounting practices, the operations of the Credit Program (loan advances received from MCA-Armenia, disbursements of loans to End-Borrowers, repayment of such loans and subsequent re-disbursements of new loans). Credit Providers shall establish in their accounting systems appropriate accounting codes for special identification of loans to End-Borrowers under the Credit Program.

Credit Providers shall maintain a financial management system adequate to meet all Credit Program information, accounting, and reporting requirements. Specifically, Credit Providers agree to:

- maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the Credit Provider's operations and financial condition with regard to the WTM Credit Facility loans;
- have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with IAS;

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- furnish to MCA-Armenia or its designee as soon as available, but in any case not later than six months after the end of each fiscal year, certified copies of audited financial statements and accounts, including auditor notes; and
 - furnish to MCA-Armenia or its designee such other information concerning the Credit Program's financial operations within the Credit Provider as MCA-Armenia shall reasonably request.

Credit Providers will retain, until at least one year after MCA-Armenia has received the audit report for the fiscal year in which the last WTM Credit Facility related transaction took place, all records pertaining to the loans from the WTM Credit Facility and all on-lending loans to End-Borrowers.

Credit Providers will be subject to an audit of their Credit Provider Account at the discretion of MCA-Armenia and according to provisions of MCC Compact Section 3.8 – Records and Information: Access, Audits, and Reviews.

B. Credit Authority and Approval

Credit Providers shall adhere to sound credit underwriting practices for agricultural and commercial lending. Credit authority and approval for eligible End-Borrowers will reside with the Credit Provider. In order to obtain refinancing for such loans under the WTM Credit Facility, Credit Providers shall utilize the standardized MCA-Armenia Loan Package Coversheet Checklist for transmittal to the RFF (Attachment 3 to the "Form of Loan Agreement," which is attached hereto as Annex III) and attach the documents cited in Items 5 & 16 of the Checklist. (For loans that are not refinanced, signed copies of the Loan Agreement and Security Agreement will be provided after loan closing). At a minimum a Loan Package will include:

- General, background, and contact information about the borrower and the business activity,
- Evidence of Credit Provider Analysis of the loan which can be the form (based on Credit Provider Internal Policy/Regulations) a Credit Provider uses to make a credit decision such as: a scoring form or an application and analysis form,
- Environmental Questionnaire and Checklist.

C. Loan Documentation

The Credit Provider bears all responsibility and liability for properly documenting loans. Loan documentation should:

- Legally document the extension of credit.
- Demonstrate the borrower's ability to repay.
- Provide evidence of a proper security interest in any collateral.
- Document the monitoring of a borrower's performance.
- Include an End-Borrower's environmental questionnaire and Credit Providers checklist/ review.
- Include in the loan agreement a clause that the loan is granted under MCA-Armenia's Credit Program and that MCA-Armenia or its designee can inspect or monitor the borrowers' business activities.
- Allow transfer of the loan to MCA-Armenia or its agents in the event of default.

D. Documentation of Loan Approval and Disbursement

The Credit Provider shall complete all items in the "Loan Package Coversheet Checklist" (Attachment 3 to the "Form of Loan Agreement," which is attached hereto as Annex III) and include copies of all documents specified in Items 5 & 16 of the Checklist. Failure to provide a complete loan package may result in the rejection of refinancing request. The Credit Provider's monthly data submission (see Section V Monitoring and Reporting) shall specify the exact date on which funds were disbursed to each End-Borrower.

E. Credit Files

The Credit Provider shall maintain orderly and up to date credit files on loans granted under the WTM Credit Facility. Credit files should provide:

- Sufficient information to make knowledgeable credit decisions;
- Enough information for others to assist a customer when necessary or respond to credit inquiries;
- Sufficient information for an audit of the borrower relationship with the Credit Provider;
- Environmental checklist and documentation;
- All loan approval documentation, including but not limited to:
- Credit presentation
- Financial statements
- Field visit or inspection reports
- Memos or other information regarding the borrower's activity, including any collection efforts
- Guarantees and the related financial information of the guarantor

IV. END-BORROWERS - ELIGIBILITY AND PARTICIPATION REQUIREMENTS

A. Objective

The Credit Program is designed to support the provision of affordable, long-term credit to farmers trained by WTM and agricultural-related businesses, to be used to finance investment opportunities which will arise from improved irrigation and value-added agriculture. It is intended to promote a moderate tolerance of loan risk, to be focussed on End-Borrower cash-flow as well as collateral, and to encourage new and innovative ways of serving the credit needs of End-Borrowers. It is anticipated that the Credit Program will assist Credit Providers in developing lasting, quality, profitable relationships and to expand financial services to the agricultural sector.

B. Eligible Loan Purposes

Credit Program funds are eligible for any productive agricultural purpose (associated with high value agriculture crops and technologies promoted by the WTM Activity) or directly related agribusiness activity throughout all of Armenia wherever the MCA-Armenia Irrigated Agriculture Project is being implemented. Such purposes would include but not be limited to:

Supporting Production of High Value Agricultural Crops Promoted by WTM.

Establishment, expansion or renovation of greenhouses and integral components such as heating and ventilation systems,

On-farm water management and irrigation technologies including:

- drip irrigation systems for: greenhouses, orchards, vineyards, open field fruit and vegetables
- sprinkler irrigation systems, particularly micro-sprinkler,
- siphons, spiles, gated pipe, pipe with hydrants,
- Poly pipe irrigation systems
- Linings for earthen ditches,
- ET gauges,
- Soil moisture meters w/sensors

Establishment, renovation or expansion of orchards, vineyards, and nurseries including:

- Saplings and tree stock,
- Root stock,
- Vine stock,

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- Trellis (wires and posts), shading, netting

Modernization of agricultural equipment including acquisition of:

- newer tractors (up to three years old),
- tillage equipment,
- planters,
- sprayers,
- harvesting equipment,
- laser controlled land leveling equipment,

Supporting Post Harvest Processing and Marketing on and off-farm.

Establishment and/or expansion of collection and consolidations centers,

Cold storage, sorting, grading, packing and drying facilities and equipment, including sandwich panels, ventilation, storage containers,

Processing lines and equipment,

Refrigerated and non-refrigerated trucks, forklifts,

Repair expenses for food safety improvement, quality management systems investment and certification (HACCP, ISO),

Fresh fruit and vegetable sale pavilions

Other Agribusiness.

Development of machinery contracting and other service businesses that support smallholders,

Agribusiness marketing and export services.

In general, loans solely for working capital are not authorized. (See paragraph below for an exception.) Working capital in support of a related investment purpose may, however, be included as a component of an End-Borrower Loan, *provided* that the working capital component does not exceed 20% of the total End-Borrower Loan amount.

Loans products structured as “dealer finance” or value chain products to work directly with demonstration and other support activities of Water-to-Market’s High Value Agriculture Component or Post Harvest Processing and Marketing Component may be given for working capital. Such loans are intended as a means by which the End-Borrower can provide inputs to outgrowers and others to facilitate spread of WTM technologies. Development of such loan products shall require MCA-Armenia approval, be undertaken jointly with RFF, the WTM Consultant and the Credit Providers and may feature maturities less, but not more than the standard 2-7 years for other WTM loans. An example might be a seed center supported by the High Value Agriculture Component obtaining a loan for inputs to produce seedlings for transplanting and the seed center in turn providing seedlings to outgrowers, partially on credit.

C. Eligible End-Borrowers

End-Borrowers must be farmers or agriculturally-oriented businesses (including businesses that provide services or supplies to farmers or agri-businesses) that would be benefiting from the irrigation rehabilitation investments. Eligible borrowing entities include only the following that are current in payments for irrigation fees and land taxes:

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- farmers who have (A) completed at least 75 percent of the Water-to-Market Activity classroom training and (B) attended at least one practical, on-farm demonstration through the Water-to-Market Activity (each, a “Trained Farmer”). If any part of the loan will be used for obtaining, transporting, storing, or using pesticides, borrowers must complete training on the safe use of pesticides.
 - individual household-based agri-businesses or sole proprietors engaged in delivery of agricultural services, input supply or agri-product processing,
 - enterprises (limited liability companies, joint stock companies, farmer associations, cooperatives) engaged in agri-product processing, agri-services provision, marketing, input supply, supply of irrigation equipment as a dealer or wholesaler.

It is presumed that End-Borrowers will be financially viable and capable of demonstrating the ability to repay the loan. However all decisions of an End-Borrower’s financial viability and capacity to repay will be made by the Credit Provider and will not be a condition for approval of the loan for refinancing under the Credit Program.

D. End-Borrower Loans – Required Terms and Conditions

Eligibility Criteria - End-Borrowers must meet the Credit Program criteria for eligibility.

Loan Currency - All loans by MCA-Armenia to the Credit Providers and subsequent on-loans to the End-Borrowers will be denominated in AMD.

Loan Amounts - Loans to End-Borrowers shall not be less than AMD 300,000 or greater than AMD 10.5 million. Loans above AMD 10.5 million may be granted for agribusiness activities on an exceptional basis with prior written approval by MCA-Armenia. Exception must be justified by the Credit Provider and submitted to the RFF before disbursing the loan. The RFF would review the justification and recommend approval or decline by MCA-Armenia. MCA-Armenia’s CEO would approve or reject the exception on loans up to AMD17 million. Amounts above that would require Governing Council approval and MCC no objection.

Loan Purpose/Uses - Loans must be for agricultural or agriculture related commercial purposes. Funds must be used for medium to long-term capital investments (except for limited amounts of working capital as specified in Section IV B.) in conjunction with MCA-Armenia’s WTM Activities.

Loan Tenor/Maturity - Loan tenors should coincide with the required payback period based upon the financial projections and/or the useful life of the collateral. The minimum loan term is two years (except for “dealer finance” and “value chain” products mentioned in Section IV B-2.) and the maximum is seven years.

Interest Rates - Interest rates on loans to End-Borrowers of a specific Credit Provider shall not exceed the amount listed in that Credit Provider’s MCA-Armenia Credit Facility Loan Agreement.

Interest Rates on Loans Provided from Reflows of Principal Repayment- Interest rates on loans provided from reflows shall be the maximum rate specified in the latest MCA-Armenia Credit Facility Loan Agreement that Credit Provider has signed. Should the latest signed Agreement be that of April 9, 2008, then the applicable maximum rate shall be that agreement’s Base Rate (4%) plus the Spread specified in the Allocation Notice attached to that Agreement. For a Credit Provider who was awarded multiple spreads, the applicable Spread shall be the maximum of its awarded April 9 spreads.

Loan Fees and Other Charges – Loan fees and other charges for any Credit Provider shall not exceed those listed in that Credit Provider’s MCA-Armenia Credit Facility Loan Agreement.

Environmental Compliance - All loans must pass an environmental review as described in Section VI “Environmental Standards.” Any loan activity must meet the MCC Environmental Guidelines including those related to pesticides and requirements of RoA on Environmental Impact Assessment (see Chapter 2 of the Environmental Law). Any activities that exceed the limitations established in

the RoA Government decree (#193) on ultimate levels of intended activities shall require an impact assessment as prescribed in the Environmental Law or not be financed.

End-Borrower Monitoring - End-Borrowers must agree to reporting and monitoring requirements as stipulated by MCA-Armenia, including cooperation with any audits. End-Borrowers must agree to provide access to business records by MCA-Armenia or its designee, the RFF, to ensure compliance with End-Borrower eligibility criteria. All data collected during any monitoring or evaluation shall be kept in the strictest of confidence between MCA-Armenia, the RFF, and the Credit Provider.

Restructuring or Modifications - No restructuring or modification of any End-Borrower's loan terms and conditions is permitted without the prior written approval of MCA-Armenia.

Collateral - Credit Providers are expected to use reasonable judgment and not take excessive collateral or base their lending decision solely on collateral. Lenders are highly encouraged to utilize borrower's rural assets rather than real property located in Yerevan.

Events of Default - Standard events of default shall apply to End-Borrowers who fail to make timely principal and interest payments, fail to meet reporting requirements, breach any loan covenant, or other such default terms as stipulated in the loan agreement.

Representations and Warranties - On the extension of each loan to an End-Borrower or any subsequent advances which may be made against that loan by the Credit Provider, the End-Borrower shall sign customary representations and warranties appropriate to the type of financing.

Aggregations - Loans to one borrower or an aggregate (collection) of borrowers shall not exceed the maximum lending limit established by MCA-Armenia. Loans to two (2) or more borrowers are to be aggregated whenever according to the RoA Law on Banks and Banking the borrowers are considered to be related entities.

Leasing - All terms and conditions that apply to loans shall be converted to the lease equivalent. The maximum allowed interest rate under a Credit Provider's MCA-Armenia Credit Facility Loan Agreement is considered to be the maximum allowed implicit interest rate under a lease. All leases shall have a fixed purchase option with residuals no greater than 5% of the capitalized costs of the equipment.

The calculated implicit interest rate, which is the all-in rate of the lease, (that includes the payment stream, any deposits, advance payments, or residual value) shall be equal to the Base Rate plus the agreed upon Spread. The implicit interest rate is calculated by solving for i (interest) on a financial calculator. (n = number of payments, PV = the capitalized cost of the equipment less any advance or down payment, PMT – the monthly lease payment, FV = the residual value, solve for i).

Prohibited Loans/Leases

- Loans that do not meet the WTM End-Borrower eligibility criteria.
- Loans for illegal purposes.
- Loans that fail to meet RoA environmental standards and MCC Environmental Guidelines, including on pesticides.
- Loans to purchase, construct, or improve a residential dwelling.
- Loans to refinance existing debt.
- Loans for consumer purposes.
- Loans to MCA-Armenia employees or auditors, Credit Providers, employees, external auditors, officers and directors, and WTM Activity employees.
- Loans for the following enterprises: bee keeping, fish farming, mushroom growing, any livestock, swine or poultry production; and anything related to these enterprises such as buildings or processing of their products.

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- Loans for purchase of land. This applies to all categories of land, regardless if it is an orchard, vineyard, land used for vegetable production or land to be developed into orchards or vineyards.
 - Loans for deep wells
 - Loans for passenger cars, even though they are used for the business activity being financed.
 - Loans to purchase any tractor which is more than three years old.
 - Other ineligible purposes as may be determined by MCA-Armenia and any activities restricted for MCC funding by MCC Compact Section 2.3: Limitations on the Use or Treatment of MCC Funding (<http://www.mcc.gov/countries/armenia/032706ArmeniaCompact.pdf>)

Waiver of Eligibility Criteria – A waiver can be considered for loans greater than AMD 10.5 million that have an impact on community economic development, creation of new jobs, or an exceptional role for the WTM program. Such waivers shall only be extended to businesses involved in food processing, consolidation centers and other infrastructures for their further development.

E. Credit to Women

Women in Armenia may have difficulty accessing credit. About 34 percent of farmer households are headed by women, yet only about 8% of loans processed through the Implementing Entity in other credit windows have been made to women. The Credit Providers are encouraged to practice equal opportunity lending practices and demonstrate gender neutrality. Credit Providers are highly encouraged to provide special counseling and assistance to women applicants. It is also desirable for lenders to encourage, train and promote women into lending officer positions.

V. MONITORING AND REPORTING

Credit Providers are responsible for all monitoring and management of End-Borrower loans regardless of any parallel monitoring or evaluation made by MCA-Armenia or its designee. MCA-Armenia may inspect, monitor, or audit any loan disbursement, loan file and documentation, credit underwriting policies and procedures, or other aspects of the loan process of the Credit Provider under the WTM Credit Facility. Credit Providers shall comply with audit requirements requested by MCA-Armenia and as contained within MCC Compact Section 3.8 – Records and Information: Access, Audits, Reviews. (<http://www.mcc.gov/countries/armenia/032706ArmeniaCompact.pdf>)

Credit Providers will be required to adhere to the monitoring and reporting standards as established by MCA-Armenia. MCA-Armenia or its designee will provide uniform monitoring and reporting formats and requirements. Reporting may include but not be limited to the following:

- Monthly reconciliation statements of the Credit Provider's Account;
- Monthly statistical data in a uniform format as provided by MCA-Armenia. Generally, statistical data will include the following information regarding WTM Credit Facility loans:
 - Number and amount of loans disbursed disaggregated by gender and age of borrower;
 - Exact disbursement date of loans to each End-Borrower.
 - Amount of loan repayments;
 - Number, amount, and percentage of performing loans;
 - Number, amount, and percentage of total WTM Credit Facility portfolio of non-performing loans (60, 90, 180, or more days past due);
 - Weighted average maturity (calculated by RFF);
 - Weighted average interest rate (calculated by RFF).
- Quarterly progress reports on lending activities under the Credit Program, including compliance with environmental requirements;

VI. ENVIRONMENTAL STANDARDS

A. Requirements

The Credit Providers are responsible for ensuring that borrower' activities funded by WTM loans do not lead to environmental, health, or safety hazards. The Credit Provider will need to ensure that the activities are in compliance with the MCC Environmental Guidelines and RoA environmental laws. All relevant documents and permits should be kept in each End-Borrower's document file to be made available as needed.

B. Environmental Review

Each loan will undergo an environmental review procedure as follows:

(1) The Credit Providers shall incorporate within their credit applications an environmental questionnaire (Attachment 1 to the "Form of Loan Agreement," which is attached hereto as Annex III). The End-Borrower shall complete this questionnaire. The End-Borrower is responsible for obtaining all appropriate permits and approvals that may be required for the particular type of activity to be financed, and are issued by relevant local and/or national authorities.

(2) The Credit Providers will review, as part of their due diligence of the End-Borrower's loan, the End-Borrower's questionnaire and will complete the environmental checklist (Attachment 2 to the "Form of Loan Agreement" (Annex III). The Credit Providers will conduct an onsite review as needed. The Credit Provider will use the environmental checklist to determine if the End-Borrower's loan activity is included within those activities described in *Chapter 2: Environmental Impact Assessment of the Intended Activities* in the RoA law on environmental impact assessment (November 20, 1995). If the activity exceeds the limits established in the RoA Government decree #193, March 30, 1999 (RoA government decree on ultimate levels of intended activities), an environmental assessment (EA) will need to be developed. This EA will be subject to the State Environmental Expertise. The Credit Provider will also ensure that the End-Borrower will not use the loan for obtaining or using pesticides restricted under the MCC Environmental Guidelines.

(3) Activities that do require EAs will not be eligible for funding until a positive conclusion is received from the [State Environmental Expertise]. These loans require written approval from the MCA-Armenia or its designee before the loan will be eligible under the WTM Credit Facility.

(4) The Credit Provider will submit to the RFF a copy of the borrower's credit application, environmental questionnaire, the Credit Provider's completed checklist, and any required permits and clearances. Any EAs required for the project will also be submitted.

(5) The status of compliance with agreed environmental mitigation measures is reported by Credit Provider officers in their regular (quarterly) reporting on project implementation. In the case of non-compliance, the officers (with the RFF and MCA-Armenia assistance) will investigate the nature and reason(s) for noncompliance and a decision will be taken about follow-on actions (adjustments or suspensions). The RFF, in turn, will provide this information to MCA-Armenia.

VII. DISPOSITION OF CREDIT PROGRAM FUNDS

The WTM Credit Facility will remain in place for four years following the Compact end, providing a permissible maturity on Credit Facility loans made to Credit Providers under the MCA-Armenia Credit Facility Loan Agreement up to, but not beyond September 2015. Subject to selection by MCA-Armenia of an acceptable fiduciary and liquidation agent to assume management and oversight of the Credit Facility following Compact end, Credit Providers who are not in default may continue to revolve repayments from End-Borrowers into new loans up until September 15, 2015 or such earlier date as MCA-Armenia notifies the Credit Provider that, pursuant to the terms of the MCA-Armenia

Credit Facility Loan Agreement or these Program Administration Policies and Procedures, the Credit Facility Loan shall be required to be repaid in full.

No later than six months prior to the end of the Compact period, MCA-Armenia should have secured a fiduciary or liquidation agent to manage all of the remaining assets at the end of the Compact period. The contract with the agent should address how the funds are to be used, for how long, what the ultimate disposition of the funds will be and what reports will be provided to MCC in the interim. The selection of the fiduciary agent and the final plan for the disposition of assets will be subject to a no-objection by MCC.

If no fiduciary agent is selected by the date that is three months prior to the termination date of the Compact, all new MCC credit-related activities will cease as quickly as practicable. In this instance, MCC would choose, through its own selection process, a liquidation agent to oversee the liquidation and disposition of assets.

VIII. AUDIT PLAN FOR MCA-ARMENIA CREDIT FACILITY

A. Background

This Audit Plan begins with MCA-Armenia's 2008 Financial Year and ends on the termination date of the Compact between the Republic of Armenia and the Millennium Challenge Corporation. MCA-Armenia's financial year ends on December 31 of each year. The disposition plan for Credit Program funds, which shall be in place no later than six months prior to the end of the Compact, should address continuing audit requirements through September 15, 2015.

B. Entities to be Audited

1. The RFF loan accounting records of the MCA-Armenia Credit Facility.
2. Loan Accounting records of each participating Credit Provider holding an outstanding Credit Provider loan as of the end of the Financial Year.

C. Responsibilities for Audit

MCA Armenia is responsible for procurement of audit services and will act as the Party of the service contract with the selected independent audit firm. RFF will act as a facilitator and information source for the audit company.

Audits shall be conducted annually on each respective entity as of December 31, except for the first year, for which the audit shall be conducted for the period from January 1, 2008 to March 31, 2009 AND the last year, for which the audit shall be conducted through the date the Compact ends. Audit results shall be delivered to MCA-Armenia or its assigned successor and MCC no later than 90 days after each year-end (or the end of the period as specified above).

D. Timing of the Audit

Audits shall be conducted annually on each respective entity as of December 31, except for the last year, which audit shall be conducted as of the date the Compact ends. Audit results shall be delivered to MCA-Armenia or its assigned successor and MCC no later than 90 days after each year-end.

E. Special Requirements

- 1.) Any loans which have been subject of a waiver (see PAPP Section II F) shall be reviewed individually as part of the audit. The RFF, in its audit notification to MCA, shall include a list of all loans which have been the subject of a waiver.
- 2.) Independent of the audits procured by MCA-Armenia, each Credit Provider is contractually required to furnish the RFF as soon as available, but in any case not later than six months after the end of each fiscal year, with certified copies of their audited financial statements and

accounts. The RFF shall review these audited statements and submit them to MCA-Armenia with any observations and comments of relevance to the Credit Program.

- 3.) The RFF shall review the results of the audits and make recommendations to MCA-Armenia for correcting any deficiencies cited. MCA-Armenia is not bound to accept these recommendations, and may include further corrective action, if required.

ANNEX I - DEFINITIONS

AMD	Armenian Dram
Base Rate	The rate of interest (4%) charged by MCA-Armenia for loans to the Credit Providers
CBA	Central Bank of Armenia
CEO	Chief executive officer of MCA-Armenia
Compact	Agreement between the Millennium Challenge Corporation and the Government of Armenia
Credit Facility	USD 8.5 million wholesale financing to financial institutions for on-lending to WTM beneficiaries
Credit Program	That portion of the WTM Activity focused on increasing rural and agricultural credit, a part of which is the Credit Facility.
Credit Provider Account	An account to be established by each Credit Provider at a commercial bank acceptable to MCA-Armenia (including within their own bank). This term includes not only the actual bank account, but all accounting entries and sub-accounts related to the WTM Credit Program.
Credit Provider	A financial institution that has been accredited by MCA-Armenia and signed an MCA-Armenia Credit Facility Loan Agreement.
End-Borrower	An eligible individual or business applying for or receiving credit under the WTM Credit Facility
Funding Transmittal Request	A form prepared by Credit Providers and submitted to the RFF to request financing or refinancing under the MCA-Armenia Credit Facility Loan Agreement for End-Borrower loans granted under the Credit Program.
GoA	Government of the Republic of Armenia
Governing Council	Governing Council of MCA-Armenia
HVA	High Value Agriculture, a component of the WTM Activity
IAS	International Accounting Standards
Implementing Entity	The RFF who implements and monitors the day-to-day activities of the Credit Program on behalf of MCA-Armenia
Loan Agreement	The loan agreement executed between MCA-Armenia and a Credit Provider.

Loan Package	The set of required documents required to be submitted to the RFF by the Credit Provider for funding.
MCA-Armenia	Millennium Challenge Account – Armenia, a State Non-Commercial Organization established to implement the MCC grant
MCC	Millennium Challenge Corporation, a United States Government corporation designed to work with some of the poorest countries in the world.
MCC Environmental Guidelines	The MCC Environmental Guidelines, which are available at http://www.mcc.gov/countrytools/compact/fy06guidance/eligible/english/03e-english-environmental_guidelines.pdf
Medium to Long-Term Financing	Loans with tenors of 2-7 years
OFWM	On-Farm Water Management, a component of the WTM Activity
PPM	Post-harvest, Processing and Marketing, a component of the WTM Activity
Program	All the MCA-Armenia activities under the Compact
RFF	Rural Finance Facility Project Implementing Unit State Institution
RoA	Republic of Armenia
SNCO	State Non-Commercial Organization
SOW	Scope of Work
TOR	Terms of Reference
Trained Farmer	Farmers who have (A) completed at least 75 percent of the Water-to-Market Activity classroom training, and (B) attended at least one practical, on-farm demonstration through the Water-to-Market Activity
UCO	Universal Credit Organization as defined and regulated by the CBA
WTM Activity	Water-to-Market Activity of MCA-Armenia’s Irrigated Agriculture Project
WTM Consultant	ACDI/VOCA Consortium
WTM Loan Portfolio	Credit Providers’ portfolio of loans issued under the Credit Program
WUA	Water User Association.

ANNEX II - REQUEST FOR FINANCIAL INSTITUTIONS TO SEEK CREDIT PROGRAM ACCREDITATION

Background

The United States of America, acting through the Millennium Challenge Corporation (MCC), and the Government of the Republic of Armenia have entered into a Millennium Challenge Compact pursuant to which MCC will provide assistance in the amount of US\$ 235,650,000 (“MCC Funding”) to reduce poverty through economic growth in Armenia (the “Compact”). Except as MCC may specifically otherwise agree, no party other than MCA-Armenia shall derive any rights from the Compact or have any claim to any proceeds of the MCC Funding. The Compact and related supplemental agreements are available at the following websites: www.mca.am, www.mcc.gov.

MCA-Armenia is offering all qualified financial institutions (those which meet the eligibility criteria as defined herein) the opportunity to participate in a USD 8,500,000 on-lending program (the Water-to-Market Credit Program). Those financial institutions which are interested in and eligible to participate in the Credit Program (the Credit Providers) shall be eligible to access wholesale loan funds with a maturity of up to seven (7) years at a fixed interest rate of 4.0% per annum from MCA-Armenia, for the purpose of on-lending to farmers and agricultural related businesses in conjunction with strategic investments being made under MCA-Armenia Compact in improved irrigation and rural roads.

Credit Program funds are intended to be drawn down and loaned to participating Credit Providers over a period of three years on the following basis:

01/2008 to 09/2008 – USD 1,500,000

01/2009 to 09/2009 – USD 5,500,000

10/2009 to 09/2010 – USD 1,500,000

Participation Guidelines

MCA-Armenia is seeking requests for credit program accreditation from banks and universal credit organizations (UCOs) wishing to participate in the Credit Program as Credit Providers. Selected Credit Providers will be eligible to access on a first-come, first-served basis medium to long-term wholesale funds as offered by MCA-Armenia through September 30, 2010.

Eligibility Criteria

All banks and UCOs which meet the following criteria are eligible to participate:

- Are licensed by and in compliance with Armenian laws and the regulations of the Central Bank of Armenia.
- Agree to the terms and conditions of the MCA-Armenia Credit Facility Loan Agreement (the loan agreement between MCA-Armenia and the Credit Provider).
- Attest to a commitment to servicing the agricultural sector of Armenia and primarily the trained beneficiaries of the Water-to-Market project by presenting the Credit Program at Water-to-Market HVA and OFWM training sessions at least three times a month, on a rotating basis through the marzes served. (MCA-Armenia prefers coverage of all marzes. Institutions should specify any marzes they will not be able to serve with the credit funds.)

Accreditation and Allocation Process

MCA-Armenia will conduct an accreditation process followed by the allocation of funds on a first-come, first-served demand driven basis to the Credit Providers.

In Stage One, the accreditation process, following submission of requests for accreditation, MCA-Armenia will make a determination of eligibility to participate in the allocation process. Those banks and UCOs determined to be eligible will be designated as Credit Providers upon signing an MCA-Armenia Credit Facility Loan Agreement.

MCA-Armenia reserves the right to reject any and all accreditation requests based on adverse information in a financial institution's audited financial statement and accompanying notes.

Credit Providers must sign the MCA-Armenia Credit Facility Loan Agreement before participating in the allocation process.

In Stage Two, the allocation process, Credit Program funds will be allocated to Credit Providers based upon Water-to-Market End-Borrower demand evidenced by Funding Transmittal Requests conforming with the PAPP and the MCA-Armenia Credit Facility Loan Agreement (as judged by RFF and MCA-Armenia.)

Information Available to Interested Banks and UCOs

A detailed description of the Credit Program and participation guidelines is contained within the Program Administration Policies and Procedures manual and can be obtained at the address below from 09.00 hrs to 17.00 hrs Yerevan time or from MCA-Armenia's web site (www.mca.am).

MCA-Armenia will hold a conference on February __, 2009 at __pm. or am at (specify location) for all interested banks and UCOs. This conference will provide further explanation of the program, the eligibility criteria and the process of accreditation.

Interested banks and UCOs should contact MCA-Armenia at the address below to obtain the solicitation package.

Instructions for Responding

All requests for accreditation for the Credit Program must be received at the address below by no later than: 17:00 hrs, [February __, 2009]. Any request for accreditation delivered after this time will be rejected.

MR. RUDOLF PETROSYAN
Millennium Challenge Account Armenia SNCO
Procurement Officer
2/1 Melik Adamyanyan str., Yerevan, Republic of Armenia, 375010
Telephone: (374-10) 54 68 16 (17, 18, 19) ext 208
Fax: (374-10) 54 79 86
E-mail:petrosyanr@mca.am

MCA – Armenia Water-to-Market Credit Program Statement of Eligibility and Application for Accreditation

Name of Institution: _____

Type of Institution¹: _____

Address of Registered Office: _____

Is the institution licensed by the Central Bank of Armenia and in compliance with Armenian law and Central Bank of Armenia regulations? (If so, please attach copy of license). Yes No

Is the institution committed to servicing the agricultural sector of Armenia and primarily the trained beneficiaries of the Water-to-Market project by presenting the Credit Program at Water-to-Market HVA and OFWM training sessions at least three times a month, on a rotating basis through the marzes served?
Yes No

The institution is **unable** to serve the following marzes with credit funds: _____

Does the institution agree to all terms and conditions of the MCA-Armenia Credit Facility Loan Agreement? Yes No

Attach a copy of the latest audited financial statements of your institution in English and Armenian, to include auditor notes.

Attach the package of all available current year interim quarterly financial statements used for public disclosure purposes, which includes the following reports according to the decisions 205N and 279N made by RA Central Bank Council on July 10, 2007 and on August 12, 2003:

- 1) Financial results interim statement – form 6
- 2) Interim balance sheet – form 7
- 3) Interim report on changes in equity – form 8
- 4) Interim cash flow statement – form 9
- 5) Notes to interim financial statements, including the accounting policy – form 5 (refers to banks only)

Attach the package of all available current year interim quarterly financial statements used for public disclosure purposes, which includes the following reports according to the decision 205N made by RA Central Bank Council on July 10, 2007:

- 1) Financial results interim statement – form 6
- 2) Interim balance sheet – form 7
- 3) Interim report on changes in equity – form 8
- 4) Interim cash flow statement – form 9
- 5) Notes to interim financial statements, including the accounting policy – form 5

The capital of the institution as specified in this audited financial statement is AMD _____.

¹ Bank or Universal Credit Organization,

MCA-Armenia Cost Matrix for Financial Institutions Seeking Credit Program Accreditation

_____ (name of Financial Institution) Agrees to the Following Maximum Charges for Lending to Water to Market End-Borrowers should it be Accredited as a Credit Provider.

Item:	Amount:
1.) Maximum Interest Rate: (Annual rate up to 12%)	%
2.) Maximum fees ** directly related to the loan (As % of the loan amount over the life of the loan) or (A fixed AMD amount over the life of the loan)	% or AMD
3.) Maximum other costs or investment required of those receiving loan. *** (As % of the loan amount over the life of the loan)	%

** The above relate to Credit Provider charges. End-Borrowers will pay third party charges such as appraisal fees, notary fees, filing or recording fees as is the ordinary practice with financial institutions in Armenia.

*** This includes such items as investment in stock.

I affirm that the above statements are correct and that this institution is eligible and would like to participate as a Credit Provider in the Water-to-Market Credit Program².

Signature: _____

Name: _____

² This application form must be signed by the Managing Director/Chief Executive/General Manager/Chairman of the Board of the institution (which must attach an authorization certificate) and witnessed by other management personnel of the institution.

Title: _____

Date: _____

Witness:

Signature: _____

Name: _____

Title: _____

Date: _____

ANNEX III - FORM OF LOAN AGREEMEN

