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**CREDIT NUMBER 3920 AM**

# **Development Credit Agreement**

**(Health System Modernization Project)**

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 30, 2004**

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**CREDIT NUMBER 3920 AM**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated July 30, 2004, between the REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated April 15, 2004, describing the main features of the Borrower's health sector development program (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately 7 years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(D) the Borrower intends to contract from Japan a grant in an amount of \$1,250,000 (the Japanese Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and Japan (the Japanese Grant Agreement);

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement:

(a) the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Association or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

(b) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and the following additional terms have the following meanings:

“AIDS/HIV” means Acquired Immune Deficiency Syndrome/Human Immunodeficiency Virus;

“Environmental Management Plan” means the plan, satisfactory to the Association, prepared and adopted by the Borrower, describing the environmental, mitigation, monitoring and institutional measures to be applied in the implementation of the Project;

“Financial Management Manual” means a manual setting forth the administrative and financial procedures for the implementation of the Project as such manual may be amended from time to time with prior agreement of the Association;

“Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

“Health Information and Statistical Center” or “HISC” means a state organization established and operating pursuant to the Ministry of Health Decree Number 37, dated January 26, 1998, or any legal successor thereto;

“HPIU” or “Health Project Implementation Unit” means a project coordination unit established and operating pursuant to the Ministry of Health Decree Number 764 dated October 22, 1996, (as amended by Government Decree Number 765 dated December 22, 1999), or any legal successor thereto;

“MOE” means the Borrower’s Ministry of Environment or any legal successor thereto;

“MOH” means the Borrower’s Ministry of Health or any legal successor thereto;

“Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a supplemental letter to the Credit Agreement of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

“National Statistical Service” means a public agency established and operating pursuant to the Law on State Statistical Services Number HO-48 dated April 26, 2000, or any legal successor thereto;

“Operational Manual” means a manual satisfactory to the Association setting forth the implementation plan, operational and administrative procedures for the implementation of the Project including criteria for the selection of community projects and concluding implementation agreements for hospital mergers, as such manual may be amended from time to time with prior agreement of the Association;

“Procurement Plan” means the Borrower’s procurement plan, dated April 30, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

“Project Steering Committee” means an inter-sectoral Committee, responsible for project oversight, referred to in paragraph A.1(c) of Schedule 4;

“Special Account” means the account referred to in Section 2.02(b) of this Agreement;

“Staff Optimization Manual” means a manual satisfactory to the Association referred to in Section 6.01(c) of this Agreement setting forth the operational and administrative procedures in respect of the retrenchment of the health staff in the pilot hospitals under the Project, including compensation and retraining in compliance with the national legal requirements, as such manual may be amended from time to time with prior agreement of the Association;

“State Health Agency or “SHA” means a government agency established and operating pursuant to Government Resolution Number 593 of December 18, 1997, or any legal successor thereto; and

“UNICEF” means the “United Nations Children’s Fund.”

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million Special Drawing Rights (SDR 13,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Part A.1, A.2, A.3 and B, C and D of the Project; and (ii) amounts paid (or if the Association shall so agree amounts to be paid) on account of Grants to communities under Part A.4 of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for

the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April and October in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2014 and ending April 1, 2044. Each installment to and including the installment payable on April 1, 2024, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Ministry of Health (MOH) with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and health care standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02 The Borrower shall open pursuant to Section 6.01(a) of this Agreement and thereafter maintain in a commercial bank acceptable to the Association an account (Project Account), wherein it shall deposit an amount from its own resources sufficient to cover the portion of counterpart financing requirements for local expenditures for which the Borrower is responsible under the Project financing plan and which are projected to be made under the Project in the three months succeeding. The balance in the Project Account, as of the first day of each quarter, shall not be less than \$75,000 equivalent, or such other amount as may be approved by the Association on the basis of criteria agreed upon with the Borrower.

Section 3.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project shall be governed by

the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the



Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part C.2(b) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional event is specified, namely, that the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Condition, namely, that the Borrower has:

- (a) opened a Project Account with an initial deposit of \$75,000 equivalent;
- (b) approved a time based action plan for the improvement of the governance of public hospitals satisfactory to the Association; and
- (c) the Japanese Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness have been fulfilled.

Section 6.02. The date a hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economy of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy  
1 Government House  
Republic Square  
Yerevan 375010  
Republic of Armenia

Telex:  
243331 LADA SU

Facsimile:  
(3741) 151-069

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:  
INDEVAS  
Washington, D.C.

Telex:  
248423 (MCI) or  
64145 (MCI)

Facsimile:  
(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Yerevan, Republic of Armenia, as of the day and year first above written.

THE REPUBLIC OF ARMENIA

By: /s/ Vardan Khachatryan  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger Robinson  
Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) (a) Works under		90%
(i) Part B.2(a)	343,000	
(ii) Part B.2(b)	343,000	
(iii) Part B.2(c)	206,000	
(iv) Part B.2(d)	343,000	
(b) Works under other parts of the Project	411,000	
(2) (a) Goods under		100% of foreign expenditures and 100% (ex-factory cost) of local expenditures and 90% for other items procured locally
(i) Part B.2(a)	1,027,000	
(ii) Part B.2(b)	1,027,000	
(iii) Part B.2(c)	1,027,000	
(iv) Part B.2(d)	1,027,000	
(b) Goods for other parts of the Project	3,695,000	
(3) Consultants' Services	548,000	100% of foreign expenditures; 92% of local expenditures
(4) Training	1,369,000	100%
(5) Support to Redundant Health Staff	136,900	100%
(6) Community Grants	70,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Incremental Operating Costs	411,000	90%
(8) Unallocated	<u>1,016,100</u>	
TOTAL	<u>13,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Support to Redundant health staff” means the expenditures incurred for financing the cost of providing compensation benefits, hiring of consultants to advise retrenched staff on options and the provision of training and other services to assist in the re-employment of retrenched health staff in the pilot hospitals;

(d) the term “Community Grants” means grants distributed by HPIU to rural ambulatories in the communities on the basis of criteria outlined in the guidelines of the community grant program in the Operational Manual; and

(e) the term “incremental operating costs” means expenditures incurred for financing the costs of providing equipment and vehicle maintenance, cost of fuel, office utilities, minor office equipment, supplies, literature, field trips, meeting and in country travel costs related to the Project, HPIU staff salaries (excluding Government civil servants), relevant training of HPIU staff, translation costs, communication costs, reasonable banking charges and media advertisement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and,

(b) payments made for expenditures under Categories 1(a) (i), (ii), (iii) or (iv) and 2(a) (i), (ii), (iii) or (iv) and Category 5 of the table in paragraph 1 above until the Borrower has concluded tripartite implementation agreements with the hospital owners and hospital management for the implementation of the optimization program under Part B.2 of the Project satisfactory to the Association and a Staff Optimization Manual satisfactory to the Association.

(c) The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works contracts for values less than \$200,000 equivalent; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) for training; (f) community grants; and (g) support payments to redundant health staff, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to support the Borrower's first phase of the Program through expanding access to quality health care, improving the quality and effectiveness of selected hospital networks, and establishing capacity for health policy making and monitoring.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### Part A: Family Medicine Development

1. Strengthening the existing institutional capacity for training of family doctors and family medicine nurses to implement primary health care reforms through: (a) rehabilitating of training centers in Yerevan and the regions; (b) providing the training centers with vehicles, furniture, medical and office equipment, medical literature and other learning materials; and (c) training staff of training centers.
2. Training nurses and family doctors and providing them with stipends and lodging costs.
3. Strengthening the capacity of the Primary Health Care infrastructure through: (a) providing technical assistance for designing architectural plans, constructing health care centers and monitoring the environmental impacts related to the construction; (b) rehabilitating selected health centers; and (c) supplying standard medical equipment, supplies, furniture, IT equipment and vehicles.
4. Provision of grants to communities to undertake initiatives to strengthen the community's role in local health care issues.

#### Part B: Implementing the Hospital Network Optimization and Modernization Plans

1. Implementing improved governance and management arrangements in hospitals through the introduction of new financial management systems and accounting methodologies, developing and implementing consolidated budgets comprising of state and non-state sources of financing, implementing strategic development and performance plans, and publication of annual reports and audits.



2. Supporting the merging of the following hospitals, namely: (a) Mkhitar Heraci Yerevan State Medical University Hospital; (b) Surb Grigor Lusavorich Medical Center; (c) Surb Astvatsamayr Medical Center; and (d) Kanaker-Zeytun Medical Center through: provision of relocation costs, supplying medical equipment for diagnostic imaging and laboratory services, introducing information management systems and training management staff on its use, establishment of operating theatres, blood transfusion services and intensive care units, supplying medical waste management equipment and training staff on its use.

3. Providing regional hospitals with medical equipment and technical assistance for the preparation of regional optimization master plans.

4. Providing to retrenched staff relocation allowances, cash payments to staff close to retirement, training and other relevant services to pilot measures for mitigating social risks imposed by retrenchment.

Part C: Strengthening Government Capacity to Develop and Monitor Effective Health Sector Policies

1. Strengthening the capacity of government to develop and monitor implementation of health sector policies through:

(a) provision of training and technical assistance for the use of comprehensive monitoring methods to selected agencies such as the Health Information and Statistical Center, MOH, State Health Agency and National Statistical Services; and

(b) provision of technical assistance to prepare health reports, develop National Health Accounts (NHA) train health staff on epidemiology and publish and disseminate pertinent information.

2. Strengthening the regulatory, governance and management capacity of the health sector through:

(a) revising and improving health care legislation and selected health care quality mechanisms including licensing of health care provider units and health care professionals;

(b) providing technical assistance for developing key governance management and supervision instruments including those pertaining to hospital budgets, hospital strategic development plans and performance agreements;

(c) training of MOH, Yerevan Municipality, regional health department staff and hospital managers on health care governance and management;

(d) providing information technology (IT) and office equipment to MOH and accounting software and IT equipment to hospitals;

(e) developing and disseminating guidelines and regulations on medical waste management; and

(f) raising public awareness about public health care reforms.

3. Strengthening SHA's capacity in public expenditure management through: (a) training its' staff on efficient use of public funds to purchase health care services; (b) providing IT hardware upgrade and software; (c) providing consultants' services to: (i) evaluate and improve SHA's contracting process and payment mechanisms; (ii) review and improve the organizational arrangement of SHA; (iii) develop a management information system; and (iv) evaluate and improve medical programs financed by Government.

4. Developing mechanisms for monitoring and evaluation of implementation of public health through: (a) conducting a needs assessment and preparing an action plan for the development of a public health reference laboratory; (b) providing laboratory and IT equipment; (c) training public health staff in epidemiology and survey methods; and (d) designing and introducing a behavioral surveillance system for prevention of HIV/AIDS.

#### Part D: Project Management

Strengthening the capacity of the Health Project Implementation Unit (HPIU) through providing technical assistance related to project implementation, renovation of its offices, provision of IT equipment, office supplies, audits, training, and financing the core HPIU staff salaries and HPIU's operating costs.

\* \* \*

The Project is expected to be completed by December 31, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, (the Consultant Guidelines), and with the provisions of this Schedule.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

(a) General

Works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, of the Procurement Guidelines and the additional procedures in paragraph (b).

(b) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the Guidelines, the bidding process shall comply with the procedures set-forth below:

- (i) no preference of any kind shall be given based on nationality of the bidder and/or origin of goods. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers and/or origin of goods shall not be applicable to procurement procedures under the Credit;
- (ii) entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and operate under commercial law;
- (iii) pre-qualification shall be conducted for large works projects;
- (iv) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
- (v) joint venture partners shall be jointly and severally liable for their obligations;
- (vi) estimated contract prices shall not be advertised; and
- (vii) in handling the bids:
  - (A) bid prices shall be announced at bid opening. If a two envelope system is used, both envelopes shall be opened at bid opening and bid prices announced;
  - (B) no bids can be rejected at bid opening;
  - (C) bids shall not be rejected solely because they exceed the estimated price;
  - (D) bids can be cancelled and new bids invited, only if the conditions of clause 2.60 of the Guidelines are met; and any bid evaluation

criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and

- (E) advance Association's approval is required for any modification in the contract/scope conditions during implementation.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting. Goods and works which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Association's prior agreement, be procured in accordance with the provisions of said paragraphs.

4. Procurement from UN Agencies. Medical equipment for PHC and training centers estimated to cost less than \$600,000 equivalent per contract may be procured directly from UNICEF or any other UN agencies providing similar equipment in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

5. Community Participation. Goods, works and services required for Part A.4 of the Project may be procured on the basis of community participation in accordance with the procedures set forth in the Operational Manual.

### Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely of national consultants.

#### B. Other Procedures

1. Least-cost Selection. Service for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a single source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association

#### Section IV. Review by the Association of Procurement Decisions

##### A. Prior Review

The following review procedures shall apply to contracts for which the Procurement Plan provides for prior review by the Association:

1. Goods, Works and Services (other than Consultants' Services). The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to contracts for goods, works or services (other than consultants' services). However, if such contracts are to be procured on the basis of direct contracting procedures, the following procedures shall apply instead: (a) prior to the execution of such contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract for its approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services Provided by Firms. The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to contracts for consultants' services provided by firms. However, if such contracts are to be procured on the basis of single source selection, the following procedures shall apply instead: (a) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall

have been given; and (c) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants' Services Provided by Individuals. The following prior review procedures shall apply to contracts for the employment of individual consultants: (a) the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants (or, if the consultant is to be selected on a sole source basis, the qualifications, experience, terms of reference and terms of employment of the consultants) shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract

B. Post Review.

The following post review procedures shall apply to all contracts for which the Procurement Plan does not provide for prior review by the Association:

1. With respect to contracts for goods, works or services (other than consultants' services), the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to contracts for consultants' services, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Implementation Program**

#### Part A Institutional Arrangements

1. The Borrower shall:

(a) designate MOH with the responsibility for Project implementation with assistance from the Ministry of Finance, State Health Agency, Health Information and Statistical Center (HISC), the Yerevan and Regional Health Departments, teams of the affected health facilities and the training institutions;

(b) require HPIU to carry out the administration and coordination of the Project;

(c) maintain a Project Steering Committee consisting of representatives from MOH, and other key stakeholders with the responsibility for guiding and coordinating the implementation of the Program, defining terms of references, participating in technical evaluations, and working directly with consultants on strategic technical assistance assignments;

(d) establish not later than November 30, 2004, a high level policy steering group for the coordination of the health sector performance reports and National Health Accounts and expand the existing working group for the National Health Accounts to include representatives from the National Statistics Committee, Ministry of Finance and Health Information and Statistical Center.

#### Part B. Implementation Arrangements

1. The Borrower shall: (a) no later than December 31, 2004, adopt guidelines for selection of regional hospital networks to benefit under the regional hospital optimization component; (b) no later than December 31, 2005, adopt regulations to provide for financial and managerial autonomy of family medicine practices based on autonomous financing from the State Health Agency and number of patients enlisted with each practice as outlined in the regulations; and (c) re-structure SHA contracts for PHC by distinguishing the services provided by family doctor teams and transitional PHC teams from the services provided by outpatient specialists.



Part C. Monitoring and Evaluation

1. The Borrower shall designate the HISC with the overall responsibility for monitoring the reforms and shall provide HISC and HPIU with the resources necessary to design and implement an evaluation framework for the Project.

2. The Borrower shall:

(a) require HISC to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) require HISC and HPIU to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 28, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project, on the progress in implementing the EMP including the extent to which regulations for the management of medical waste have been developed by the Ministry of Environment, and the achievement of the objectives of the Project during the period following such date; and

(c) review with the Association, by June 30, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories 1-7 set forth in the table in paragraph 1 of Schedule 1 to this Agreement.
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, services, support to redundant teachers, community grants, and operating costs required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$1,500,000 in respect of the Special Account to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the

General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.