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CONFORMED COPY

CREDIT NUMBER 4210 AZ

Financing Agreement

(Health Sector Reform Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 9, 2006

CREDIT NUMBER 4210 AZ

FINANCING AGREEMENT

AGREEMENT dated October 9, 2006, between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to thirty-four million three hundred thousand Special Drawing Rights (SDR 34,300,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is US Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the PIU in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the Project Operations Manual and the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
 - (a) The Project Operations Manual has 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.
- 4.02. The Additional Event of Acceleration consists of the following:
 - (a) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Project Operations Manual acceptable to the Association has been adopted by the Recipient.
 - (b) The PIU has been established with appointment of all necessary staff whose terms of reference and qualifications are acceptable to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient's representative is the Minister of Finance.

6.02. The Recipient's address is:

Ministry of Finance
83 Samed Vurgun Street
Baku AZ1022
Republic of Azerbaijan

Telex:

142116 BNKSL

6.03. The Association's address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By /s/ Oqtay Kazim oglu Shiraliyev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve overall health system stewardship and its financing; and (b) enhance equitable access to and technical and perceived quality of essential healthcare services in the Selected Districts in a fiscally responsible and sustainable manner with a view to improving health outcomes.

The Project consists of the following parts:

Component A: Capacity Building for Stewardship

Improvement of the capacity of the Ministry of Health of the Recipient in its policy making, planning, management and regulation, through provision of works, goods, training and consultants' services.

Component B: Improvement of Healthcare Service Delivery

Improvement of the appropriateness, quality, financial and technical efficiency of health care services in the Selected Districts, including: (1) upgrading and construction of primary health care facilities, and construction of three hospitals in the Selected Districts; (2) strengthening of managerial and clinical skills of the healthcare workers; (3) introduction of the new planning and management methods and tools for healthcare service delivery; and (4) improvement of coordination and strengthening of the system hierarchy between the primary and secondary levels of health care, through provision of goods, works training and consultants' services.

Component C: Sustainable Health Financing and Resource Allocation

Support for the health care financing reform, including: (1) strengthening of the planning, implementation and monitoring mechanisms for effective healthcare financing policy; (2) definition of a package of publicly-financed healthcare services and designing of new output-based or result-based budgeting and funding allocation mechanisms at the national, district and facility level; and (3) designing and assistance of the establishment of a health fund, acting as a single pool for health sector funds and a single payer/purchaser of healthcare services, through provision of works, goods, consultants' services and training.

Component D: Human Resources Development

Support to the long-term human resource needs of the health sector, including: (1) strengthening health workforce policy and planning capacity; (2) improvement of undergraduate medical education and graduate specialty training and in-service training of health professionals; (3) development of a certification system for healthcare

professionals; and (4) strengthening of the physicians' association, through the provision of works, goods, consultants' services and training.

Component E: Project Management, Monitoring and Evaluation

Provision of goods, consultants' services and training to the PIU for the effective implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than October 31, 2012.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section II. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	National Competitive Bidding, subject to the following additional provisions: <ul style="list-style-type: none">(i) there shall be no eligibility restrictions based on nationality of bidder and/or origin of goods;(ii) pre-qualification shall not be used for simple goods and works procurement and shall be conducted only for large works projects;(iii) entities in which the State or a State official owns a shareholding of whatever size 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 they operate under commercial law;(iv) no national preferences may be applied on the basis of the origin of products or labor;(v) joint venture partners shall be jointly and severally liable for their obligations;(vi) no "participation fee" shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) the bidding documents;(vii) in the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget;

(viii)	rebidding shall not be carried out without prior approval of the Association;
(ix)	works contracts of more than eighteen (18) months' duration shall include appropriate price adjustment provisions; and
(x)	prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.
(b)	Limited International Bidding
(c)	Shopping
(d)	Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>	
(a)	Quality-based Selection
(b)	Selection under a Fixed Budget
(c)	Least Cost Selection
(d)	Selection based on Consultants' Qualifications
(e)	Single-source Selection
(f)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g)	Sole Source Procedures for the Selection of Individual Consultants

D. Training

Training will be carried out under procedures acceptable to the Association. Training providers and trainees will be selected using criteria acceptable to the Association.

E. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section III. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Works		40%
(a) for Component B of the Project	10,976,000	
(b) for others	219,000	
(2) Goods	13,720,000	100%
(3) Consultant's Services, including Audits	5,371,000	100%
(4) Training		100%
(a) for the primary health training under Component B of the Project	343,000	
(b) for others	1,153,000	
(5) Incremental Operating Costs	960,000	100%
(6) Unallocated	1,558,000	
TOTAL AMOUNT	<u>34,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement;
 - (b) under Category 1 (a) unless the Rationalization Plan, acceptable to the Association, has been submitted to the Association; or
 - (c) under Category 4 (a) unless a national training center for post-graduate medical education has been established with appropriate facilities and equipment acceptable to the Association.

2. The Closing Date is December 31, 2012.

Section IV. Other Undertakings

1. The Recipient shall provide overall policy guidance for this Project and the health sector reform, through the State Commission on Health Sector Reform.

2. The Recipient, through the Ministry of Health, shall establish, not later than January 1, 2007, the four Working Groups consisting of experts, such experts to be paid supplementary compensation for their work performed, in accordance with the laws of the Recipient and the compensation scheme acceptable to the Association as set forth in the Project Operations Manual.

3 Without limitation upon the provisions of Section 3.01 and except as the Recipient and the Association shall otherwise agree, the Recipient shall:

(a) by January 1, 2007, open a Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in local currency equivalent to \$50,000; and

(b) maintain a balance in the Project Account, until completion of the Project, with the amount adequate for the subsequent three (3) months of Project implementation.

4. The Recipient shall ensure that all measures necessary for the carrying out of the FEMP shall be taken in a timely manner.

5. By December 31, 2006, the Recipient, through the PIU, shall have appointed an independent auditor under terms of reference acceptable to the Association.

6. The Recipient shall maintain, during the course of the Project implementation, the PIU with staff, facilities and other resources necessary for the successful implementation of the Project, satisfactory to the Association.

7. The Recipient shall maintain, during the course of the Project, the State Commission on Health Sector Reform and the Working Groups to support the implementation of the Project.

8. For Component B of the Project, the Recipient shall:

(a) furnish to the Association, for its prior review and concurrence, an architectural plan, an environmental assessment and the environmental management plan

for each healthcare facility acceptable to the Association, prior to commencing of any works on each facility; and

(b) ensure that all the measures elaborated in the environmental management plan for each facility, referred to in (a) above, shall be implemented in a timely manner.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2016 to and including February 15, 2026	1.25%
commencing August 15, 2026 to and including February 15, 2041	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “FEMP” means the framework environmental management plan, dated March 3, 2006, adopted by the Recipient, describing the environmental mitigation and monitoring measures under the Project.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
5. “Incremental Operating Costs” means the operation and maintenance costs which would not have been incurred absent the Project and includes office materials and supplies, associated office and equipment maintenance costs, communication, fuel, local travel, accommodation and subsistence of the PIU staff directly associated with planning and implementation of Project activities, PIU staff salaries, supplementary compensation for experts of the Working Groups, bank charges, and any other reasonable expenditures as may be agreed upon by the Association.
6. “PIU” means the Project Implementation Unit in the Ministry of Health of the Recipient, to be established pursuant to Section 5.01 (b) of this Agreement, responsible for the day-to-day implementation of the Project.
7. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 17, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
9. “Project Account” means the account to be opened pursuant to Paragraph 3, Section IV of Schedule 2 to this Agreement, maintained by the Recipient in local currency and to be used for financing the Recipient’s contribution to the Project expenditures.
10. “Project Operations Manual” means the operations manual to be adopted pursuant to Section 5.01 (a) of this Agreement, containing the procedures and

guidelines for the implementation of the Project, as the same may be amended from time to time with the agreement of the Association.

11. “Rationalization Plan” means a strategy from the supply side to consolidate, merge and reduce the number and mix of health facilities, technology and staffing in order to match the healthcare needs of the population and consequently improve access to care and overall sector efficiency.
12. “Selected Districts” means the districts of Apsheron, Agdash, Ismailli, Sheki and Gakh, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time.
13. “State Commission on Health Sector Reform” means the commission established by Presidential Decree No. 760 of March 13, 1998, composed of senior officials from various ministries.
14. “Training” means expenditures incurred in connection with the conduct of study tours, training courses, seminars, workshops and other training activities including expenditures for travel, accommodation and subsistence for trainers and trainees.
15. “Working Groups” means the inter-disciplinary group of professionals, who are not civil servants, to be established and organized in order to assist the PIU in its implementation of Components A through D of the Project.