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CONFORMED COPY

CREDIT NUMBER 4267-AM

Financing Agreement

(Health System Modernization Project (APL2))

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 9, 2007

CREDIT NUMBER 4267-AM

FINANCING AGREEMENT

AGREEMENT dated March 9, 2007, entered into between REPUBLIC OF ARMENIA (“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 this Agreement have the meanings ascribed to them in the General Conditions for in the Appendix to this Agreement.

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 fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000) (variously, “Credit” and “Financing”) 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 IV 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is United States Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project through the MOH 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 Operational Manual and the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) The Project Operational 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.
 - (b) The Marz Optimization Plan 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:

Any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient has opened a Project Account with an initial deposit of \$200,000 equivalent.
 - (b) The Project Operational Manual, acceptable to the Association, has been adopted by the Project Steering Committee.

- 5.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance and Economy.

- 6.02. The Recipient's Address is:

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

Telex:

243331 LADA SU

- 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)

1-202-477-6391

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By /s/ Vardan Khachatryan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Naira Melkumyan

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen the MOH's capacity for more effective system governance, scaling up family medicine-based primary health care and upgrading selected healthcare service delivery networks in the Selected Marzes to provide more accessible, quality and sustainable health care services to the population.

The Project constitutes the second phase of the Program, and consists of the following parts:

Component A: Family Medicine Development

1. Improvement of the retraining and residency training of family doctors and family nurses.
2. Strengthening of the primary health care infrastructure through rehabilitation of ambulatories and construction of rural centers.

Component B: Optimization of Hospital Infrastructure

1. Support of the optimization of physical infrastructure and human resources in the Selected Marzes, in line with the Marz Optimization Plan.
2. Rehabilitation of merged hospitals and provision of modern medical equipment.
3. Provision of training and technical assistance to introduce hospital quality assurance and medical waste management systems.

Component C: Institutional Development

1. Capacity building for the development of national health policy and strategy, assessment of health sector performance through periodic monitoring and evaluation of health outcomes, service utilization and private health expenditures at the hospital level and preparation of a human resources development strategy in the health sector.
2. Strengthening of regulatory, oversight and management functions through review of the existing health-related legislation and introduction of the revision as a result.
3. Improvement of public expenditure management in the State Health Agency of the Recipient in order to build its capacity, including: (a) development of the quality monitoring system for publicly funded services; (b) development of methodology for services costing; and (c) provision of technical assistance for improvement of its structure and function.

4. Strengthening of the design and implementation of the national non-communicable disease prevention and control strategy through training, piloting and evaluation of program outcomes.

5. Improvement of the medical education system, through: (a) the review of the higher medical education system; (b) review and revision of professional education standards; (c) development of the knowledge evaluation system; (d) revision of the continuous medical education program; and (e) evaluation of the needs of the State Medical University and the National Institute of Health of the Recipient.

Component D: Project Management

Strengthening of the management capacity of the MOH of the Recipient and its HPIU to monitor and administer implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Without limitation upon the provision of Section 3.01 and except as the Recipient and the Association shall otherwise agree, the Recipient shall 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.
2. The Recipient shall maintain the Project Steering Committee consisting of the representatives of the 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 arrangements of strategic technical assistance.
3. By August 1, 2007, the Recipient shall establish the Hospital Optimization and Modernization Coordinating Committee.
4. For the implementation of Component B of the Project, the Recipient shall cause each of the Selected Marzes to:
 - (a) enter into an implementation agreement among the MOH, Director of the hospital and the head of the Marz, satisfactory to the Association, for the implementation of the Marz Optimization Plan; and
 - (b) exercise its rights under such agreements in such manners as to protect the interests of the Association and to accomplish the purposes of the Project, and shall not assign, amend, abrogate or waive any of such agreements, or any provisions thereof without the Association's prior approval.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

The Recipient shall take, or cause to be taken, all measures necessary for the carrying out of the Environmental Management Plan in a timely manner.

Section II. Project Monitoring, Reporting and 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 calendar semester, and shall be furnished to the Association not later than one month 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 six (6) months prior to the Closing Date.

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 as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association starting from the first disbursement made under the Project.
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 fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. 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 Section.

- 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 Section.
- 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:

Procurement Method
<p>(a) National Competitive Bidding of the Recipient may be used for procurement of goods and works for the Project, provided that the following provisions are complied with:</p> <ul style="list-style-type: none"> (i) entities in which the Recipient 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; (ii) pre-qualification shall be conducted for large works projects; (iii) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders; (iv) joint venture partners shall be jointly and severally liable for their obligations; (v) estimated contract prices shall not be advertised; (vi) no bids shall be rejected at bid opening; (vii) no bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.61 of the Procurement Guidelines are met;

(viii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria; and
(ix) advance Association approval is required for any modifications in the contract scope/conditions during implementation.
(b) Shopping
(c) Direct Contracting
(d) Procurement from UN Agencies

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.

Procurement Method
(a) Least Cost Selection
(b) Selection under a Fixed Budget
(c) Selection based on Consultants’ Qualification
(d) Single-source Selection
(e) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. 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. All other contracts shall be subject to Post Review by the Association.

Section IV. 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 Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance 75% (inclusive of Taxes) of Eligible Expenditures, consisting of goods, works, consultants' services, Training and Operating Costs.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2012.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15, commencing April 15, 2017 to and including October 15, 2026:	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. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
3. “Environmental Management Plan” means the plan, adopted by the Recipient on February 5, 2007, satisfactory to the Association, describing the environmental, mitigation, monitoring and institutional measures to be applied in the implementation of the Project.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
5. “HPIU” means the Health Project Implementation Unit established and operating pursuant to the Ministry of Health Decree Number 764 dated October 22, 1996, or any legal successor thereto.
6. “Hospital Optimization and Modernization Coordinating Committee” means the committee to be established pursuant to Paragraph A.2 of Section I of Schedule 2 to this Agreement, in order to guide and monitor the implementation of Component B of the Project.
7. “MOH” means the Ministry of Health of the Recipient.
8. “Marz Optimization Plan” means a plan to rationalize and consolidate existing healthcare facilities and health workforce at the Marz level as adopted by Marz authorities and approved by the Recipient on November 2, 2006.
9. “Operating Costs” means the incremental expenses incurred by the HPIU on account of the Project implementation, including the costs of communication, supplies, printing and publications, vehicle operation and maintenance, office refurbishment, office maintenance and utilities, office property insurance costs, project audit expenses, local travel costs and field trip expenses, international training and business trip costs, bank charges and costs for other goods and services, state taxes, duties and fees associated with such costs, remuneration for staff, including qualified social charges but excluding salaries of civil servants, and such other expenditures as may be agreed upon by the Association.

10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 5, 2007 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.
12. “Project Account” means the account referred to in Section 5.01 (a) of this Agreement, maintained by the Recipient in local currency and to be used for financing the Recipient’s contribution to Project expenditures.
13. “Project Operational Manual” means a revised manual satisfactory to the Association, to be adopted by the Recipient in accordance with Section 5.01 (b) of this Agreement, 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.
14. “Project Steering Committee” means an inter-sectoral Committee established through the Prime Minister’s Decree Number 836-N dated December 14, 2004 (as amended by the Prime Minister’s Decree Number 920-N dated November 23, 2006), responsible for Project oversight, referred to in Part A.1 of Section I of Schedule 2 to this Agreement.
15. “Program” means the program designed to develop the Recipient’s health sector and set forth or referred to in the letter dated January 26, 2007 from the Recipient to the Association, aiming at improving the organization of the health care system in order to provide more accessible, quality and sustainable health care services to the population, in particular to the most vulnerable groups, and to better manage public health threats.
16. “Selected Marzes” means the Marzes of Aragatsotn, Armavir, Kotayk, Lori, Shirak, Syunik, Tavush and Vayots Dzor of the Recipient, or any other Marzes which the Recipient and the Association shall agree.
17. “Training” means training activities (other than consultants’ services) to be carried out under the Project, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops, as well as lodging subsistence, local and international per diem allowances according to the guidelines of the Recipient, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility

rental costs, and other expenditures directly related to the training workshop and study tour activity, as may be agreed upon by the Association.