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**LOAN NUMBER 7987-AM**

# **Loan Agreement**

**(Additional Financing for the Health System Modernization Project (APL 2))**

**between**

**REPUBLIC OF ARMENIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated January 26, 2011**

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**LOAN NUMBER 7987-AM**

**LOAN AGREEMENT**

Agreement dated January 26, 2011, between REPUBLIC OF ARMENIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank 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 or in the Original Financing Agreement or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of nineteen million Dollars (\$19,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; and (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread.  
  
(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III — PROJECT**

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

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) The Borrower has opened a Project Account with an initial deposit of \$200,000 equivalent.
  - (b) The Project Operational Manual, acceptable to the Bank, has been amended by the Project Steering Committee.
  - (c) The Borrower has revised the Marz Hospital Optimization Plan to include Vanadzor hospital in Lori marz and Berd hospital in Tavush marz.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

5.01. The Borrower's Representative is its Minister of Finance.

5.02. The Borrower's Address is:

Ministry of Finance of the Republic of Armenia  
1 Melik-Adamyán Street  
Yerevan 0010  
Republic of Armenia

Facsimile:

+374-10-524282

5.03. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423(MCI) or  
64145(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/ Vache Gabrielyan

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Happi

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/infrastructure in the Selected Marzes to provide more accessible, quality and sustainable health care services to the population.

The Project consists of the following additional parts to the Original Project:

#### **Part A: Optimization of Hospital Infrastructure**

Provision of technical assistance, goods, works, and training to improve the quality of hospital services, and construction and rehabilitation of additional hospitals and ambulatories in Selected Marzes.

#### **Part B: Institutional Development**

1. Provision of technical assistance and training to strengthen the regulatory oversight and management functions, including review of the existing health related legislation, and conducting independent financial audits of selected hospitals participating in the Project and public disclosure of audit reports.
2. Provision of technical assistance, goods and training to improve the Borrower's public expenditure management to build capacity in: (a) piloting of case-mix hospital financing system; (b) completing the costing of hospital services; and (c) improving the State Health Agency structure and functions.
3. Provision of technical assistance and training to build for the development of national health policy and strategy, including developing a blood safety and an emergency care provision strategies.

## 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 Borrower and the Bank shall otherwise agree, the Borrower 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 Borrower 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. The Borrower shall maintain the Hospital Optimization and Modernization Coordinating Committee.
4. For the implementation of Part B of the Project, the Borrower 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 Bank, for the implementation of the Marz Hospital Optimization Plan; and
  - (b) exercise its rights under such agreements in such manner as to protect the interests of the Bank 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 Bank's prior approval.
5. For the implementation of Part B of the Project, the Borrower shall: (a) establish a National Health Account Unit at the State Health Agency and allocate adequate state budget funds for conducting health expenditure survey in 2013; and (b) revise the charter of the National Information and Analytical Center to institutionalize the development of health sector performance reports starting in 2012 and ensure adequate state funding provision accordingly.

##### **B. Anti-Corruption**

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

- C. **Safeguards.** The Borrower 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 Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
2. For purposes of Section 5.08 (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 Bank not later than six (6) months after the Closing Date of the Project.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. The Borrower shall prepare and furnish to the Bank not later than forty-five 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 Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank 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 Loan 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 Loan 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 Bank 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.

<b><u>Procurement Method</u></b>	
(a)	National Competitive Bidding of the Borrower may be used for procurement of goods and works for the Project, provided that the following provisions are complied with: <ol style="list-style-type: none"><li>(i) 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;</li><li>(ii) pre-qualification shall be conducted for large and complex works projects;</li><li>(iii) pre- and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;</li><li>(iv) joint venture partners shall be jointly and severally liable for their obligations;</li><li>(v) no bids shall be rejected at bid opening;</li></ol>

<u>Procurement Method</u>
(vi) bids can be cancelled and new bids invited, only if the conditions of clause 2.61 and 2.64 of the Procurement Guidelines are met;
(vii) all bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria;
(viii) advance Bank approval is required for any substantial modifications in the contract scope/conditions during implementation.
(ix) The Borrower shall use standard bidding documents, satisfactory to the Bank.
(b) Shopping
(c) 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 the 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) Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

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

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), 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 Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Goods, works, consultants’ services Training and Operating Costs for the Project	18,952,500	75%
(2) Front-end Fee	47,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b><u>19,000,000</u></b>	

**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

3. The Closing Date is December 31, 2014.

**SCHEDULE 3**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each February 15 and August 15  Beginning February 15, 2021 through February 15, 2035	3.33%
On August 15, 2035	3.43%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any

amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3.
  - (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
  - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

## APPENDIX

### **Section I. 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 with the modifications set forth in Section II of this Appendix.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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 and May 2010.
4. “Environmental Management Plan” means the plan under the Original Project, as amended to include the activities under the additional financing, which was approved by the Borrower on July 16, 2010, satisfactory to the Bank, describing the environmental, mitigation, monitoring and institutional measures to be applied in the implementation of the Project.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
6. “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.
7. “Marz Hospital Optimization Plan” means an updated plan to rationalize and consolidate existing health care facilities and health workforce at the Marz level as adopted by Marz authorities and approved by the Borrower on November 2, 2006, as amended.
8. “Original Financing Agreement” means the financing agreement for the Health System Modernization Project between the Borrower and the International Development Association, dated March 9, 2007, as amended to the date of this Agreement (Credit No. 4267-AM).
9. “Original Project” means the Project described in the Original Financing Agreement.
10. “Operating Costs” means expenditures incurred on account of the Project implementation such as salaries of staff members, except for those who are civil servants, office supplies, minor office equipment, field trips, consuming

materials, utilities, vehicle renting, operation and maintenance costs, mass media and printing costs, meetings and in-country travel costs, communication costs, storage costs, reasonable banking charges and other costs directly associated with the Project implementation and acceptable to the Bank.

11. “Project Account” means the account referred to in Section 4.01 (a) of this Agreement, maintained by the Borrower in local currency and to be used for financing the Borrower’s contribution to the Project expenditures.
12. “Project Operational Manual” means a revised manual satisfactory to the Bank, to be adopted by the Borrower in accordance with Section 4.01 (b) of this Agreement, setting forth the implementation plan, operational and administrative procedures for the implementation of the Project, including concluding implementation agreements for hospital mergers, as such manual may be amended from time to time with prior agreement of the Bank.
13. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
14. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 8, 2010 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.
15. “Training” means expenses incurred by the PIU in connection with carrying out training under the Project, including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and related supplies.

## **Section II. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be



posted on the Bank's website and otherwise be made known to staff and other stakeholders.”