July 11, 2013

Mr. Davit Sargsyan
Minister of Finance
Ministry of Finance
1 Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

Re: HRITF Grant NoTF014138
Armenia Disease Prevention and Control Project

Dear Minister:

In response to the request for financial assistance made on behalf of the Republic of Armenia ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by the United Kingdom of Great Britain and Northern Ireland and the Kingdom of Norway ("Donors") under the Trust Fund for Health Results Innovation, proposes to extend to the Recipient a grant in an amount not to exceed one million eight hundred thousand United States Dollars (U.S.$1,800,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of which the World Bank receives notice of completion of internal approval procedures under the laws of the Recipient; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this
Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Henry Kerali
Country Director
South Caucasus Country Department
Europe and Central Asia Region

AGREED:

REPUBLIC OF ARMENIA

By

Name: Davit Sargsyan
Title: Minister of Finance
Date: 27/09/2013

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following terms shall have the following meanings:

(a) "Eligible PHC Facilities" means any PHC facility (including rural ambulatories and urban polyclinics), participating in the Project by means of a PHC Performance Agreement, as set forth in the PBF Manual.

(b) "Eligible Screening Tests" means medical tests performed at Eligible PHC Facilities, including PAP smear and smear reading, antenatal care tests and/or any other test agreed between the Recipient and the World Bank, eligible for reimbursement under the Project on a unit cost basis, as set forth in the PBF Manual.


(d) "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of the Appendix to the Financing Agreement.

(e) "HPIU" means the Health Project Implementation Unit established pursuant to MOH’s Decree Number 764 dated October 22, 1996, or any legal successor thereto.

(f) "Independent Counter-Verification Entity" means the entity referred to in Section I.A.3 of Schedule 2 to the Financing Agreement.

(g) "MCH" means maternal child health.

(h) "MOH" means the Recipient’s Ministry of Health or any legal successor thereto.

(i) "PBF Manual" means the performance-based financing manual referred to in Section I.A.4. (b) of Schedule 2 to the Financing Agreement.

(j) "Performance-Based Financing Scheme" means the Recipient’s program for reimbursement based on evaluation of performance of PHC Facilities, created pursuant MOH’s Order No. 859-A of May 10, 2011 consisting of: (i) the reimbursement of Eligible Screening Tests performed by Eligible PHC Facilities; and (ii) the provision of Performance-Based Incentives to Eligible PHC Facilities against their level of performance.
(k) “Performance-Based Incentives” means payments for reasonable costs of goods, works, Salary Incentives and services, made from the Recipient, through SHA, to an Eligible PHC Facility on the basis of its level of achievement of a set of performance indicators set forth in the respective PHC Performance Agreement and the PBF Manual.

(l) “PHC” means primary health care, an essential health care based on practical, scientifically sound and socially acceptable methods and technology made universally accessible to individuals and families in the community through their full participation and at an affordable cost.

(m) “PHC Coordinating Committee” means the committee referred to in Section 2.03 (b) of this Agreement.

(n) “PHC Performance Agreement” means each of the agreements between an Eligible PHC Facility and MOH, referred to in Section I.B.1 of Schedule 2 to the Financing Agreement.

(o) “Salary Incentives” means the incremental salary that pursuant to MOH’s Order No. 859-A of May 10, 2011, shall be paid to PHC personnel (doctors, nurses, and administrative staff supporting the Performance-Based Financing Scheme) to remunerate their performance on the basis of the level of achievement of a set of performance indicators set forth in the PBF Manual (and thus said expenditures constitute a subset of the Eligible Expenditures defined in the General Conditions).

(p) “SHA” means the Recipient’s state health agency established and operating pursuant to the Recipient’s resolution No. 593 of December 18, 1997 or any legal successor thereto.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to improve the prevention, early detection and management of selected diseases at the Primary Health Care (PHC) level using performance based financing. The Project consists of the following parts:

Part 1: Performance Based Financing to improve MCH Services in PHC Facilities

(a) Implementation of the Performance-Based Financing Scheme for MCH, through: (i) the reimbursement for Eligible Screening Tests performed at Eligible PHC Facilities; and (ii) the provision of Performance-Based Incentives to Eligible PHC Facilities against their level of performance achieved.

(b) Provision of: (i) Operating Costs to SHA for the carrying out the Performance-Based Financing Scheme for MCH; (ii) training and capacity building activities to key stakeholders on the implementation of the Performance-Based Financing Scheme for MCH; and (iii) provision of support for the carrying out of MCH health promotion activities, including national public information campaigns.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MOH and HPIU with
the assistance of SHA in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Institutional and Other Arrangements.** The Recipient shall: (a) operate and maintain, until the completion of the Project, an implementation unit within MOH, to be responsible for the overall coordination of the Project (the “HPIU”). Such unit shall have staff in adequate numbers and with qualifications and experience satisfactory to the World Bank; (b) not later than thirty (30) days after the Effectiveness Date of the Financing Agreement, create and thereafter operate and maintain the PHC Coordinating Committee, with membership and composition acceptable to the World Bank, including representatives of the relevant MOH departments and units, SHA and the HPIU, with the responsibility of supervising and guiding the implementation of the Performance-Based Financing Scheme; (c) carry out the Project in accordance with the PBF Manual satisfactory to the World Bank; (d) not later than six months after the Effectiveness Date of the Financing Agreement, select and contract an Independent Counter-Verification Entity, independent from the Recipient with experience and qualifications in the health and social sectors acceptable to the World Bank, pursuant to the provisions of Section 2.06 of this Agreement and in accordance with terms of reference satisfactory to the World Bank, for the carrying out of technical reviews of agreed results during Project implementation, particularly focused on the compliance with the verification protocols included in the PBF Manual; (d) cause the Independent Counter-Verification Entity to carry out at least two technical reviews per year during Project implementation, and thereafter prepare a report of such scope and in such details as the World Bank shall reasonably request; and (f) furnish to the World Bank as soon as available, the reports of the Independent Counter-Verification Entity referred to in (e) above.

2.04. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient, through HPIU, shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient, through HPIU, shall have the Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard 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 World Bank not later than six months after the end of such period.
2.06. **Procurement**

(a) **General.** All goods, non-consulting service and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding; and

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts which are specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection; and

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost
Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### Article III

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services, Training and Workshops; and Operating Costs</td>
<td>243,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Performance-Based Financing Scheme under Part 1(a) of the Project</td>
<td>1,557,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,800,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term:

(a) “Operating Costs” means reasonable and necessary incremental expenditures, as approved by the World Bank on the basis of budgets acceptable to the World Bank, incurred by MOH, HPIU and SHA on account of Project implementation, management, monitoring and evaluation, including the cost of office rental, office equipment and supplies, office equipment maintenance and repair, vehicle operation (including fuel costs) and repair, travel, communication, translation and interpretation, bank charges, verification and counter-verification of Eligible PHC Facilities’ performance, salaries of HPIU staff and other miscellaneous costs as may be agreed with the World Bank, but excluding salaries of officials and employees of MOH and SHA.
(b) "Training and Workshops" means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including cost for visa, travel per diem and hotels and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training workshop.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient.

(b) under Category (2) unless the Recipient, through MOH, has submitted evidence satisfactory to the World Bank that Performance-Based Incentives and reimbursement for Eligible Screening Tests payments have been made to Eligible PHC Facilities by the Recipient in accordance and in compliance with the provisions of the PHC Performance Agreements and in accordance with the procedures set forth in the PBF Manual and the additional instructions referred to in Section 3.01 of this Agreement.

(c) Notwithstanding the provisions of Section 3.01 of this Agreement, withdrawals under Category (2) may be made by the Recipient as follows:

(i) Withdrawals shall be made on: (A) a monthly basis, or any other frequency agreed between the Recipient and the World Bank, based on withdrawal requests specifying the number of Eligible Screening Tests performed in each Eligible PHC Facility in any given period; and (B) a semiannual basis, or any other frequency agreed between the Recipient and the World Bank, based on withdrawal requests specifying the amounts to be paid for Performance-Based Incentives for each Eligible PHC Facility in any given period. Withdrawal requests under both (A) and (B) above shall be accompanied by the necessary supporting documentation, as specified in the PBF Manual.

(ii) If, at any time, the World Bank determines that any portion of the amount disbursed by the World Bank to the Recipient under Category (2) was used for items improperly procured in violation of Section 2.06 of this Agreement, made for reimbursement of expenditures which are not eligible under the Performance-Based Financing Scheme or not in compliance with the provisions of this Agreement and the provisions in the PBF Manual, the Recipient shall promptly refund any such amount to the World Bank as the World Bank shall specify by notice to the Recipient.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2018.
Article IV
Recipient’s Representative; Addresses

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile:
+374-10-524282

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: Telex: Facsimile:

INDEVAS 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)