Eurasian Development Bank
Eurasian Fund for Stabilization and Development

APPRAISAL REPORT

on Application

of the Republic of Armenia

for a grant
to be provided by the Eurasian Fund for Stabilization and Development for the project
"Improvement of prevention and control of non-communicable diseases in primary health care"
in the amount of US$ 1 million

June 2017
Republic of Armenia
Fiscal year: 1 January - 31 December

National currency exchange rate
as of 03/04/2017

<table>
<thead>
<tr>
<th>Currency</th>
<th>交换率</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 RUB</td>
<td>8.64</td>
</tr>
<tr>
<td>1 KZT</td>
<td>1.54</td>
</tr>
<tr>
<td>1 US$</td>
<td>483.50</td>
</tr>
<tr>
<td>1 EUR</td>
<td>516.76</td>
</tr>
</tbody>
</table>

System of weights and measures: Metric

Acronyms and Abbreviations

CIS - Commonwealth of Independent States
EDB, Manager - Eurasian Development Bank
EEU - Eurasian Economic Union
EFSD, Fund - Eurasian Fund for Stabilization and Development
GDP - gross domestic product
GNI - gross national income per capita
IBRD - International Bank for Reconstruction and Development
IDA - International Development Association
IFI - International Financial Institution
RA - Republic of Armenia
UNWFP - World Food Program of the United Nations Organization
WB - The World Bank Group

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## I. Key Indicative Parameters Recommended by Resources Manager

<table>
<thead>
<tr>
<th>Project name</th>
<th>&quot;Improvement of prevention and control of non-communicable diseases (NCDs) in primary health care&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Health care</td>
</tr>
<tr>
<td>Form of financing</td>
<td>EFSD Grant in support of social sector</td>
</tr>
<tr>
<td>Recipient</td>
<td>Republic of Armenia (RA)</td>
</tr>
<tr>
<td>Main objectives of the Project</td>
<td>Improvement of methods of prevention, early detection, and treatment of NCDs in national and municipal institutions providing medical care.</td>
</tr>
</tbody>
</table>
| Project components | Prevention and control of NCDs in primary health care:  
|                  | a) Development of the institutional capacity of healthcare facilities in the area of breast cancer diagnosis;  
|                  | b) Funding of PHC Institutions.  
|                  | Raising public awareness about living a healthy lifestyle, prevention of risk factors for major NCDs, diets, physical activity, harm of tobacco use.  
|                  | Development of a web-based training module for continuing medical education (CME), including a certification program for family doctors, with an emphasis on NCD-focused courses, in order to organize and provide training for PHC Institutions.  
| Project management | -                                                                                     |
| Key performance indicators of the Project | Percentage of women aged 50-69, who have undergone screening for breast cancer at least once since the start of the Project in the Lori, Syunik, and Tavush marzes (provinces) of the Republic of Armenia;  
|                  | Percentage of healthcare providers, trained at NCD courses on the basis of the web-based continuing medical education module, implemented as part of the Project. |
| Total Project cost | US$ 1 million (net of taxes)                                                                    |
| Amount disbursed by the Fund in the currency of the Grant, Grant currency | US$ 1 million (net of taxes)                                                                    |
| Participation of Recipient in Project financing | Co-financing in the form of payment of taxes and other mandatory charges on the expenditures funded by the Grant |
| Grant availability period | 31 March 2021                                                                                  |
| Policies and procedures of Project implementation | • Procurement Policy for Projects Financed by EFSD;  
|                  | • Disbursement Handbook for World Bank Clients, May 2006, as amended;  
|                  | • World Bank Disbursement Guidelines for Projects, dated May 1, 2006, as amended;  
|                  | • Environmental and Social Safeguards Policy of the EDB.                                          |
II. Manager’s Appraisal of Application

This Appraisal Report has been prepared to provide an evaluation of the application of the Ministry of Finance of the Republic of Armenia (hereinafter - the Application) for an EFSD grant in the amount of US$ 1 million (hereinafter - the Grant) for financing the project "Improvement of prevention and control of non-communicable diseases in primary health care".

The rationale for the evaluation and appraisal, provided by the Eurasian Development Bank in its capacity as the Resources Manager of the EFSD (hereinafter - the Manager) for the Application, is contained in Section III.

Having reviewed the Application, the Manager hereby requests the EFSD Council to consider the following conclusions and evaluation of compliance with qualification requirements for selection of applications:

1. The Application conforms to the mission of the Fund, its funding objectives, lending policy and conditionality, as defined by the Treaty on the Establishment of the Fund, Statute of the Fund, the Regulation on Provision of EFSD Grants, and relevant decisions of the EFSD Council.

2. The Republic of Armenia is in compliance with all the requirements, as defined by the Treaty on the Establishment of the Fund, Statute of the Fund and decisions of the EFSD Council. According to the information available to the Manager, the Republic of Armenia has no outstanding debts either to other Fund member states or to any major international financial institutions. By the date of the Fund Council approval of the Grant, the relevant supporting letters will have been received.

3. The overall level of risk in the implementation of the Project is rated as moderate.

4. Below are the recommendations of the Manager in case of approval by the EFSD Council of the Project funding application:

   **Policies and procedures for Project implementation**

   The Manager recommends adopting the following procedures for the Project:

   - **The Procurement Policy for Projects Financed by the EFSD** (hereinafter - the EFSD Procurement Policy). In accordance with the EFSD Procurement Policy, procurement procedures of IFIs, including IBRD, can be used for contracts funded by the EFSD. In order to make sure procurement operations are competitive and transparent, the Manager proposes, insofar as it is not inconsistent with its Procurement Policy, to rely on:
     - Standard competitive bidding documentation of IBRD.
   - **EDB Environmental and Social Safeguards Policy**. The Project has been assigned category "C" – "Projects with minimum or no adverse environmental and social impact". Such projects require no further environmental and social impact assessment.

   **Project implementation monitoring**

   Monitoring of the project implementation will include collection of information on the Project implementation status, on progress in achieving the pre-set Project monitoring targets, on the
current headway in the execution of the Procurement plan for the Project, as well as on financial accounts.

Engagement of expert consultancy for Project monitoring

The Manager will need additional funds to employ an engineering consultant, as well as consultants for monitoring the progress of implementation of the Project in accordance with the procurement and disbursement procedures of the IBRD. Preliminary estimates indicate that the above additional expenses for these purposes in the process of the Project implementation will require an amount of up to US$ 150 000.
III. Rationale of Appraisal

3.1 General

3.1.1. Overview of the social and economic condition of Armenia

The Republic of Armenia is a lower-middle-income country. According to the World Bank data, the gross national income per capita (GNI) decreased in 2015 by 3.5% down to US$ 3,880. The poverty level in the country with a population of 3.0 million people as of 2015 was 29.8% (compared to 27.6% in 2008). The measure of extreme poverty also increased to 2.0%, compared to the pre-crisis level of 1.6%. Low income and unemployment contribute to building up of labor migration: according to the 2015 household survey, in 2012-2015 the share of the working-age population in migration outflow (primarily to Russia) was 9.5%.

Enhancing resilience of the Armenian economy to shocks requires a different growth model. The pre-crisis model proved to be extremely vulnerable in its exposure to changes in the external environment, since until 2008-2009, the key growth drivers in the country were investments in housing construction, fueled by foreign direct investments, as well as by cash remittances of labor migrants and expat communities from abroad. Reduction of cash remittances following the recent downturn in the Russian economy caused a collapse in the construction sector, which dropped by 52% and dragged down the GDP growth by 13.3 percentage points. In 2014-2015, exports took over as the driving force of the economy, which account for about half of the real GDP growth. The remodeling of economic growth to focus on tradable sectors constitutes a positive development, but it is largely contingent on market factors, whereas measures to improve the business climate, to increase market openness, improve competition and diversification of the economy, are more important, because they will stimulate investment processes without additional risks for macroeconomic stability.

The market-driven growth is confirmed by the volatility of the real GDP during 2016. If in Q1 and the first half of the year the real GDP growth was 4.3% and 2.8%, respectively, according to the results of 9 months it fell to 0.4%. In January-September 2016, the decline in construction (-6.5%) and agriculture (-4.1%) largely leveled off the positive impetus from the growth of the service and industrial sectors, which accounted for 2.5 pp of real GDP growth. The contribution of net taxes was also negative and equal to 1 pp of GDP due to increased VAT refunds for exports.

Since December 2015, the price level in the country has been declining. Amid the relatively tight monetary conditions, in October 2016 consumer price deflation for the 12 months was equal to 0.9% due to a drop in domestic demand and import prices. Global prices for energy resources and food, their total share accounting for about 60% of the consumer basket, decreased by 31.1% and 3.3%, respectively. Moreover, according to surveys conducted by the Central Bank of Armenia (CBA), in Q2 and Q3 of 2016, financial institutions and households expected inflation to be well below the targeted benchmark. In this context, the Central Bank of Armenia was easing the monetary policy in a step-by-step mode, including by cutting the base interest rate with a view to gradually closing in on the target bracket for the forecast horizon. However, the impact of the decline in the domestic demand and the external prices on the overall rate of inflation turned out to be more pronounced, than the effect of easing of the monetary policy in the short-term.

Improvement of the current account deficit and growth of the international reserves. Amid a significant increase in quantitative export volumes, and given the improvement in terms of trade, the current account deficit decreased to US$ 166.6 million (4%
of GDP) in the first half of 2016 down from US$ 236.9 million (5.7% of GDP) in the first half of 2015. Despite some minor strengthening of the real effective exchange rate and the diminished demand from the Russian Federation, the current substantial increase in exports is due to the formation of niches in the Russian market resulting from the imposed sanctions and the output of manufacturing industries for exports (jewelry and food). The need to pay off foreign debts of the banking and corporate sectors (US$ 183.4 million) leveled off the inflow of capital on the financial account, secured by the incoming foreign direct investments (US$ 81.1 million) and public sector borrowings (US$ 78.6 million), which led to a reduction in the gross international reserves of the country by US$ 216.4 million in January-June 2016. However, the proceeds from the external loans and borrowings by the Government of Armenia, as well as foreign currency purchase transactions by the CBA, proved instrumental in the restoration of the international reserves to US$ 1.8 billion, which is higher than their level at the beginning of the year by 2.6%.

With the improving external balance, the devaluation expectations of the population are declining, which has a positive effect on reducing the dollarization of deposits. The reduction of devaluation expectations encouraged growth of deposits in the national currency and contributed to a downturn in deposit dollarization. The growth of the deposit base at a fixed exchange rate in October 2016 amounted to 16.9% (YoY), compared to 0.3% (YoY) last year, while the share of foreign currency deposits dropped from 68.6% in October 2015 to 64.8% in October 2016. The increase in the level of time deposits in the banking system (the annual growth of AMD deposits of residents in September 2016 was 36.5% up, compared to 0.4% in the previous year), and the decrease in dollarization is also the result of changes in the Armenian legislation introduced to enhance confidence in the banking system and to ensure de-dollarization. Nonetheless, the credit dollarization declined at a slower pace: from 64.8% in October 2015 to 63.4% in October 2016, which should partly be attributed to the significant acceleration of export growth in 2016 - the key driver of growth in the last 4 years - increasing the demand for foreign currency loans.

Over the 9 months of 2016, the deficit of the national budget expanded by 4.1% of GDP, due to the increasing debt interest payments, as well as reduced non-tax revenues, while the tax revenues remained at the level of 2015. In January-September 2016, the increase in current revenue expenditures by 4.4% more than offset the 5.9% reduction in capital expenditures. As a result, the total expenditures grew by 3.0%, which, given the 0.9% reduction in the budget revenues, expanded the budget deficit to AMD 144.5 billion (33.4% higher than in the same period in 2015). In the context of zero growth of tax revenues in January-September 2016, the reduction of non-tax revenues by 17.8% more than offset the increase in the official transfers by 9.9%. The tax revenues remained at the level of 9 months of 2015, owing to the profit tax, income tax and sales tax proceeds. The growth of the latter is partly due to the twofold increase in the VAT threshold, as a result of which some of the VAT payers migrated to the sales taxpayer category. This measure, as well as the increased share of non-taxable exports and the introduction of some other tax benefits, in January-September 2016, VAT proceeds shrank by

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As of the end of October 2016.

6 Growth of current expenditures was caused by the increases in public debt interest payments by 24.3%, in transfers by 7.7% (including 17.8% increase in VAT refunds to exporters), in social benefits and pensions by 3.2%, in wages by 2.3%, in purchases of goods and services, and in subsidies (1.4%). Social expenditures increased as a result of the legislative amendments providing for payment of maternity benefits (from the beginning of 2016, non-working mothers were included in this category), and higher lump-sum childbirth benefits, as well as allowances for children up to two years of age. In view of the 2016 reclassification of expenditures for education from "procurement of goods and services" to "subsidies", both these expense items should be considered together.

7 Revenues from property taxes dropped by 45%, sales of goods - by 12.9%, fines - by 7.0%.

Doubling the VAT threshold from AMD 58.35 million to AMD 115 million took effect starting from 1 July 2015. Since 1 January 2016, four groups of goods have been exempt from VAT, including imports of bees, other animals, hemp and prefabricated structures for greenhouses; since 31 March, cars imported from the EEU countries have been exempt from VAT.
The decline in imports in the EEU countries resulted in reduced proceeds from customs duties by 13.8%.

The Armenian authorities anticipate further shortfalls in revenues from foreign trade operations and an expansion of the national budget deficit to 5.9% of GDP by the year-end, compared to the previously anticipated 4.1% of GDP, which was agreed upon in the context of the IMF-funded program. However, in view of the increased external debt service payments, which in September 2016 reached 48.2% of GDP, as early as starting in 2017 further consolidation of the budget will be required, as well as reduction of the deficit to ensure debt sustainability. For consolidation of the budget, additional revenues need to be provided by expanding the taxable base through the enactment of the tax code, which will be facilitated by elimination of the inefficient tax and customs preferences and improvement of the tax payment discipline. The additional revenues, thus obtained, will help maintain the current level of social and capital expenditures, and will improve debt sustainability.

The IMF considers the prospects for Armenia’s debt sustainability to be contingent on further consolidation of public finances. At the same time, the assumption is that in the medium term the proposed reduction of the deficit, by and large, should be accomplished by increasing the revenues. The capacity for further cost adjustments is limited, and it should currently be considered top priority to proceed with the adoption of the Tax Code, which, according to the authorities, will have a positive impact on increasing the input of taxes in GDP to a cumulative 2% in the period from 2017 to 2021, as a result of raising certain tax rates, trimming some tax benefits and improving tax administration.

As a result of the reforms carried out, Armenia’s has improved its position in terms of institutional capacity and infrastructure. Thus, according to the World Bank’s "Doing Business 2017" and "2016 World Governance Indicators", Armenia has improved its ratings in recent years. The greatest progress was recorded in the availability of bank loans, in connections to power supply systems, in contract performance, in ensuring supremacy of law and control of corruption. However, the deterioration of the ratings in political stability, effectiveness of government regulation policies, specifically, in respect of obtaining construction permits, addressing insolvency, as well as protection of the rights of investors, is indicative of the need for Armenia to accelerate the pace of the ongoing reforms in these areas.

3.1.2. Status of healthcare sector

In the context of a complicated social and economic setting, Armenia managed to make some progress in dealing with a number of key issues in the healthcare sector. This progress is due to the implementation of large-scale institutional and structural reforms aimed at improving the efficiency of the healthcare sector, access, and quality of services provided. In particular, the reforms were focused on: 1) refocusing the health care system to providing primary care; 2) optimization of the performance of medical institutions; 3) modification of mechanisms of payment for healthcare services, and 4) providing the required medical assistance to vulnerable groups of the population.

Primary medical care is normally provided to the population at regional outpatient clinics or rural medical stations or paramedical centers on the basis of one doctor for 1,200-2,000 local people and one pediatrician per 700-800 children. According to the reform objectives, the separation of outpatient clinics from in-patient hospitals should put an end to the problem of unclear delineation between the functions and responsibilities of primary and secondary levels of medical assistance. Making outpatient clinics autonomous institutions has effectively terminated the vicious incentive to provide redundant hospitalization for patients, which was common under the previous system of funding. Currently, outpatient clinics are encouraged to conduct treatment

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9 The customs duties of the EEU countries are charged as a function of the total amount of customs duties imposed on goods imported into the territory of the EEU, based on the quotas allocated to the member countries. The quota of Armenia is equal to 1.13%.

10 The 2017 national budget approved by the Armenian Government is based on the estimated deficit reduction to 2.7% of GDP.
of patients at the primary care level, which contributes to more cost-effective satisfaction of the medical needs of the population.

Improvement of the primary healthcare sector was carried into effect by shifting the bulk of medical services from hospitals to outpatient clinics and ambulatory care facilities, and by maximizing the satisfaction of the population with provided primary and in-patient health care. This concept found its real-life implementation in the establishment of the institution of 'family doctor', whose mission consists in continuous monitoring and provision of primary medical care to the smallest cells of society - families. At this point in time, all primary-care medical professionals undergo compulsory education programs at specialized departments for training of family doctors, and many outpatient medical facilities in rural areas are furnished with modern medical equipment. As a result, the number of visits to primary health care institutions increased twofold between 2001 and 2009 (from 1.8% to 3.4%).

Currently there are 500 medical or paramedical stations in the country, one in each village, offering basic medical care services for children and adults, antenatal care, control checkups of infant development processes, prescribing medication, providing first aid, emergency care, home visits and preventive care services, such as preventive vaccination and regular healthcare consultations. Several villages, grouped together, usually have a common outpatient healthcare center with a family doctor or general practitioner, who can provide a broader range of medical services. All cases, which are beyond the frame of competence of a rural health care network, are referred to the regional outpatient clinics or to hospitals.

Performance of medical institutions was also optimized by merging hospitals, reducing the bed capacity, eliminating duplication of care services, and vacating redundant premises. In order to support the optimization efforts, the Government invested in modernizing hospitals and training clinical personnel. Moreover, hospitals have been provided wide autonomy in decision-making regarding their own expenses and staffing issues.

In the context of transition from free healthcare to healthcare based on splitting the costs between the population and the government, it was decided to establish a special authority - the State Healthcare Agency of the Republic of Armenia (SHA), responsible for providing patients with a free choice of a doctor and medical care institution. Based on the key government target programs, which are adopted at the end of the year, alongside with the budget, the SHA of RA makes payments for the medical services provided by healthcare institutions, signs contracts with medical institutions for government procurement services under the target programs.

The death rate of the Armenian population from NCDs is one of the highest among the EFSD member countries: 93% of deaths in Armenia occur precisely because of NCDs, including 27% of cases caused by malignant neoplasms:
Mortality of the population caused by NCDs, including malignant growths, 2017.

Courtesy of the World Health Organization

At the same time, as compared with other EFSD member countries, the level of public expenditure on health per capita in Armenia is one of the lowest:

ОБЩИЕ РАСХОДЫ НА ЗДРАВООХРАНЕНИЕ НА ДУШУ НАСЕЛЕНИЯ (В ДОЛЛАРАХ США)

Courtesy of the World Bank

In 2014, healthcare expenditures were equal to 4.48% of GDP, and the level of per capita health financing in Armenia was US$ 161.6.

3.2. Project description

3.2.1. Purpose of Project

The Project pursues the objective of improvement of methods of prevention, early detection and treatment of NCDs in national and municipal institutions providing medical care (hereinafter - Medical Institutions). To achieve this goal, the Project is expected to complete the following main tasks:
• Expansion of the NCD management program with a view to preventing breast cancer for women 50-69 years of age in three provinces of Armenia with the worst poverty level (Lori, Syunik, Tavush);
• Development of the institutional capacity of primary healthcare facilities in providing adequate diagnosis of breast cancer;
• Adoption of a new model of continuing education for primary health care providers through the development and implementation of a web-based training program.

3.2.1. Project components

The Project consists of four components and is expected to be completed by the end of 2019 in three provinces of Armenia with the worst poverty level (Lori, Syunik, and Tavush).

Component 1. Prevention and control of NCDs in primary health care

Research results show that some cancer types, including breast cancer, prevail because of the lack of well-defined public healthcare infrastructure that should ensure control of the infection factors that cause cancer morbidity, as well as the absence of basic health care prevention and screening services for most of the population. Early detection of curable breast cancer types by means of mass screening of women aged 50-69 will prevent premature mortality of women, especially among those poor and living in rural areas. Thus, the main objective of this component is to build the capacity of Medical Institutions and provide support to the Government and the World Bank in funding primary health care facilities on the basis of results-based financing. This component consists of:

a) Development of the institutional capacity of healthcare facilities in the area of breast cancer diagnosis, including:
   - Training of personnel of the Medical Institutions involved in breast screening checkups as part of the Project;
   - Purchase of a mobile mammography unit and transfer free of charge to medical facilities providing primary medical care (hereinafter referred to as PHC Institutions) for breast screening purposes;
   - Maintenance of the mobile mammography unit during the Project implementation.

b) Funding of PHC Institutions, including:
   - Financing of breast cancer screening activities, based on supporting evidence of actually performed medical tests;
   - Purchase of computer equipment for PHC Institutions, provided that the preset target screening tasks will be completed.

Component 2. Raising public awareness about living a healthy lifestyle, prevention of risk factors for major NCDs, diets, physical activity, harm of tobacco use.

Component 3. Development of a web-based training module for continuing medical education (CME), including a certification program for family doctors, with an emphasis on NCD-focused courses, in order to organize and provide training for PHC Institutions.

At the moment, introduction of an online training module for family doctors is one of the top priority requirements, because it will allow doctors to upgrade their skills without leaving their communities, located far away from educational centers. Thus, this component envisages development and implementation of a pilot web-based education & certification program for PHC professionals, focused specifically on NCD training courses. At the same time, the assumption is that upon implementation of the program the certification courses will be provided every 3 years in order to enable renewal of the practitioner's license.
Component 4. Project management

Providing support to the Project Implementation Unit in its daily coordination efforts for the Project implementation activities, including financial management, procurement, accounting and records, authorized expenses, monitoring and evaluation of effectiveness, interaction with the beneficiaries, generation and submission of financial statements and other project reporting documentation, as required by the Project Reporting Agreement, engagement and expenses for external auditors, ensuring compliance with the requirements of the applicable policies and procedures for the Project.

3.2.3. Project Funding Requirements

<table>
<thead>
<tr>
<th>Component</th>
<th>EFSD, US$</th>
<th>RA(^{11}), US$</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prevention and control of NCDs in primary health care:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Development of the institutional capacity of Medical Institutions in</td>
<td>769,475</td>
<td>117,500</td>
<td>51%</td>
</tr>
<tr>
<td>the area of breast cancer diagnosis;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Funding of PHC Institutions.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Raising public awareness about living a healthy lifestyle, prevention</td>
<td>50,000</td>
<td>12,500</td>
<td>5%</td>
</tr>
<tr>
<td>of risk factors for major NCDs, diets, physical activity, harm of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tobacco use.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Development of a web-based training module for continuing medical</td>
<td>102,000</td>
<td>25,500</td>
<td>11%</td>
</tr>
<tr>
<td>education (CME), including a certification program for family doctors,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with an emphasis on NCD-focused courses, in order to organize and provide</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>training for PHC Institutions.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Project management</td>
<td>78,525</td>
<td>19,631</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,000,000</strong></td>
<td><strong>166,631</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Application of RA

3.2.4. Project Implementation Unit

Since 1999, Health Care Programs Implementation Agency\(^{12}\) (Agency) has been operating in the country. It is the principal institution running all WB projects in the sector and has proven good experience in project implementation. The Agency is staffed with high-skilled personnel, and starting in 2010, with the support of the Armenian Government, the World Bank and the HRITF (Health Results Innovation Trust Fund), the principal actors involved in the funding schemes for results-based payments are the Agency and the Ministry of Health of the Republic of Armenia. As part of the WB project "Prevention and control of diseases", a Manual for results-based financing has already been developed and is being used.

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\(^{11}\) In respect of tax payments and other mandatory charges on the expenditures funded by the Grant.

\(^{12}\) http://www.healthpiu.am
3.4. Distribution of responsibilities in Project implementation

The Recipient of the EFSD Grant, which is the Republic of Armenia, will include the funds provided by the EFSD in its national budget.

The responsibility for the implementation of the Project and compliance with the terms and conditions of the Project Agreement is expected to be distributed between the executive authorities and organizations of the RA as follows:

- The Ministry of Health of the Republic of Armenia shall: (a) be responsible for the Project implementation with the support of the PIU; (b) ensure supplies of the procured equipment and software to the Recipients; (c) enter into contracts (together with the PIU) with the relevant PHC Institutions on provision of financial and technical support as part of the Project;
- The Health Care Programs Implementation Agency of the Ministry of Health of the Republic of Armenia in the implementation of the Project, including by engaging in daily coordination of the implementation activities; in financial and procurement management of the Project; in accounting records keeping; in monitoring authorized spending of funds; in monitoring and evaluation of implementation effectiveness; in preparation and submission of financial statements and other Project reports to the Manager; in organizing external audits; in ensuring compliance with requirements of applicable policies and procedures; and in transferring funds to PHC Institutions via the Special Account;
- The Ministry of Finance of the Republic of Armenia shall on a timely basis provide co-financing of the Project from the national budget of the Republic of Armenia, shall open and maintain a special account in the name of the PIU and shall ensure compliance with the special status of the said account in accordance with the terms and conditions of the EFSD Grant Agreement.

3.5. Organization chart of Project implementation
3.5. Funding flowchart of Project implementation

**Cash Flow Chart**

- **Account of EFSR Resources Manager**
  - Advance
  - Payment under contracts (co-financing)

- **Account of Agency for co-financing by RA at Armenian Treasury**
  - Payment under contracts

- **Special account of Agency at Treasury of RA**
  - Payment for medical tests

**Flowchart of Financial Documents**

- **Manager**
  - Disbursement application signed by authorized rep.
  - Documents supporting expenses

- **Ministry of Finance of RA**
  - Disbursement application
  - Documents supporting expenses

- **Ministry of Health Care of RA**
  - Disbursement application
  - Documents supporting expenses

- **Health Care Programs Implementation Agency**
  - Work completion reports
  - Invoices

- **Ministry of Health of RA**
  - Test completion reports

- **Suppliers**
- **PHC Institutions**
3.6. Recommended procurement and disbursement procedures

In order to ensure cost-effective spending of the Grant funds and minimize fiduciary and corruption risks, the Project will rely on the following policies and procedures:

- Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, January 2011) (hereinafter - Guidelines for Procurement of Consulting Services);
- Standard Competitive Bidding Documents of IBRD.

Applicable methods of procurement of goods, works, and non-consulting services are as follows:

- International competitive bidding, if so provided in the Procurement Plan for the Project. In other cases, the following shall apply:
  - Local competitive bidding:
    a) for purchase of goods, priced at US$ 100 to US$ 1,000,000, inclusive;
    b) for performance of works, costing from US$ 200 to US$ 5,000,000, inclusive.
  - Procurement in free market:
    a) for purchase of goods, priced at below US$ 100,000;
    b) for performance of works, costing below US$ 200,000.

Applicable methods of procurement of Consulting Services, contingent on the nature of procurement, are as follows:
- Quality- and cost-based selection (QCBS);
- Quality-based selection (QBS);
- Fixed budget selection (FBS);
- Least-cost selection (LCS);
- Consultant’s qualifications-based selection (CQS);
- Single-source selection (SSS);
- Selection of individual consultants (ICS).

3.7. Recommended disbursement procedures

In order to ensure cost-effective spending of the Grant funds, the following forms and policies will be used:

- World Bank Disbursement Guidelines for Projects, May 1, 2006, as amended.

The Grant funds shall be disbursed to the Recipient by means of:

- Advancing the necessary amounts to cover expected purchases by transferring to the Special Account;
- Direct payments under the contracts paid by the Grant funds.

The amount of the Grant funds, kept on the Special Account, must not exceed US$ 150,000. The maximum amount to be transferred to the Special Account is calculated as a difference between the maximum balance and the amount previously transferred to the Special Account, but not duly documented by the Recipient.

The minimum amount to be drawn is equal to US$ 40,000.
3.8. **Assessment of environmental and social impacts of the Project**

According to the EDB Environmental and Social Safeguards Policy, the Project has been assigned category "C" - Projects with minimum or no adverse environmental and social impact. Such projects require no further environmental and social impact assessment; however, the Manager reserves the right to consult with the Recipient on matters related to the environmental impact of the Project.

3.9. **Project implementation monitoring**

The Manager recommends introducing the following performance indicators for Project monitoring and evaluation to be used in regular progress reports submitted by the Recipient:

- Percentage of women aged 50-69, who have undergone screening for breast cancer at least once since the start of the Project in Lori, Syunik, and Tavush provinces of the Republic of Armenia;
- Percentage of healthcare workers, trained at NCD courses on the basis of the web-based continuing medical education module, implemented as part of the Project.

Monitoring of the Project implementation by the Manager will include analysis of the following Recipient's reporting documents on the Project:

a) Quarterly:

- Project progress reports;
- Progress report on achieving Project monitoring performance indicators;
- Project procurement progress report;
- Interim financial statements, including a report on sources and spending of funds, a report on spending of funds for the Project activities; a special account statement, a report on financial status, an adjusted balance of the special account; an expense sheet;
- Accounts and records in support of: 1) expenses on contracts for the procurement of goods, works and services in amounts over US$ 30,000 (as required by the Grant Agreement), and 2) performance by PHC Institutions of activities paid by the Grant funds.

b) Upon completion of the Project: the Final Report on Project Implementation; Final audit report on the Project.
### 3.10. Project Risk Assessment

<table>
<thead>
<tr>
<th>Risk group</th>
<th>Description</th>
<th>Level of risk</th>
<th>Impact on Project performance</th>
<th>Risk mitigation</th>
<th>Risk level after corrective action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional capacity of PIU</td>
<td>During the implementation of the EFSD Project, the PIU may have to assume the responsibility and accountability for management of another project, and it may result in a lack of skilled staff and work time.</td>
<td>Moderate</td>
<td>Moderate</td>
<td>▪ Regular consultations with all IFIs engaged by this PIU. ▪ Ensure operational performance capacity of the PIU, including by provision of necessary resources and skilled personnel, which constitutes a separate responsibility of the Recipient under the Agreement and a condition for its entry into force.</td>
<td>Low</td>
</tr>
<tr>
<td>Corruption and fiduciary risks</td>
<td>In the process of funding of the Project, corruption and fiduciary risks may arise in connection with alleged misuse of the funds. The Corruption Perception Index rating of Armenia in 2016 is 113th out of 176 countries.</td>
<td>Moderate</td>
<td>Moderate</td>
<td>▪ Monitoring of authorized spending of Grant funds. ▪ Application of policies and procedures acceptable to the Manager for procurement and disbursement of funds. ▪ In cases, as may be defined in the agreement, application of contract preliminary review procedure. ▪ Application of compliance control procedures in accordance with the Statute of the Manager. ▪ Application of penalties for non-compliance with requirements of the policies and procedures contained in the Agreement.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Risk of Project output volatility</td>
<td>Despite the fact that the Armenian Sustainable Development Program makes provision for allocation of funds from the national budget for the healthcare sector in the amount of 2% of GDP by 2017 and 3% of GDP by 2025, there is still a risk that, following the completion of the Project the Government will face a shortage of resources to continue financing of breast cancer screening programs on the basis of the results-based payment scheme.</td>
<td>Moderate</td>
<td>Moderate</td>
<td>▪ The Project includes activities that contribute to strengthening the lobbying capacity of the Ministry of Health of the Republic of Armenia. ▪ Consultations with the Government of the Republic of Armenia and other donors working in the sector, on the continuation of budget allocations for NCD treatment.</td>
<td>Moderate</td>
</tr>
</tbody>
</table>
3. **Total risk level**

The overall level of risks in the implementation of the Project is rated as **moderate**.

**Reference information:**

<table>
<thead>
<tr>
<th>Probability of impact</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
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<td>High</td>
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<tr>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
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<tr>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Moderate</td>
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