

CONFORMED COPY

IDA GRANT NUMBER H197 KG

Development Grant Agreement

(Health and Social Protection Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 2006

IDA GRANT NUMBER H197 KG

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated March 10, 2006, between KYRGYZ REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Recipient a letter on development policy within the framework of the “Manas Taalimi” Program” (Reference No. 20-1993), dated November 5, 2005, describing a program of actions designed to reform and improve the Recipient’s health sector during the period 2006-2010 (the Program) and expressing the Recipient’s commitment to the execution of the Program;

(B) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

(C) the Recipient intends to contract from the Government of the United Kingdom of Great Britain and Northern Ireland, acting through the Department for International Development, a grant equivalent to seven million Pounds Sterling (£7,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and the Association.

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 5 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Program of Work” or “APW” means the annual program of activities included in the Program to be carried out in each Fiscal Year (as defined hereinafter) under the Program, as agreed upon between the Recipient and the Association pursuant to paragraph 3 of Schedule 4 to this Agreement;

(b) “Designated Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(c) “Eligible Program Expenditures” means the expenditures for goods, works, consultants’ services, training, incremental operating costs and recurrent costs required for carrying out the Project in accordance with the respective APW;

(d) “EMP” means the Environmental Management Plan, prepared and adopted by the Recipient by an order of the Minister of Health No. 452 dated October 21, 2005, describing the environmental mitigation, monitoring and institutional measures under the Project, such EMP to be included in the Project Operational Manual (as defined hereinafter);

(e) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “Fiscal Year” means the twelve-month (12) period beginning January 1 and ending December 31 of each year;

(g) “Health Policy Council” means the council established by a Decree of the Recipient’s Minister of Health No.130 dated April 2, 2002 and referred to in paragraph 4 of Schedule 4 to this Agreement;

(h) “Inter-ministerial Coordination Committee” means the committee established by an Order No. 118 dated March 7, 2006 of the Recipient’s Minister of Health and referred to in paragraph 5 of Schedule 4 to this Agreement;

(i) “MHIF” means the Mandatory Health Insurance Fund under the Ministry of Health of the Recipient established by a Decree of the President of the Recipient No. 326 dated November 22, 1996, or any legal successor thereto;

(j) “MoEF” means the Ministry of Economy and Finance of the Recipient or any legal successor thereto;

(k) “MoH” means the Ministry of Health of the Recipient or any legal successor thereto;

(l) “MoLSP” means the Ministry of Labor and Social Protection of the Recipient or any legal successor thereto;

(m) “Procurement Plan” means the Recipient’s procurement plan covering the first and each successive APW, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement; and

(n) “Project Operational Manual” means the manual to be adopted by the Recipient pursuant to Section 6.01 of this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with

the national laws and regulations of the Recipient and including, *inter alia*: (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits and complaint mechanisms in case of misuse of the proceeds of the Grant, and monitoring and evaluation arrangements; (ii) sample formats of Annual Program of Work and annual reports; and (iii) the EMP; as the same may be amended from time to time with the agreement of the Association.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million four hundred thousand Special Drawing Rights (SDR 10,400,000).

Section 2.02. The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for the Eligible Program Expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, consultants' services, training, incremental operating costs and recurrent costs required under the Project and to be financed out of the proceeds of the Grant through the Transfers for APWs.

Section 2.03. The Closing Date shall be June 30, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in Dollar or in such other eligible currency or

currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on April 15 and October 15 each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MoH with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient, through MoH, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient, through MoH, shall update the Procurement Plan in accordance with guidelines agreed upon between Recipient and the Association, and furnish such updates to the Association at the same time when a respective APW shall be submitted for the Association's approval pursuant to the provisions of paragraph 3 of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient, through MoH, shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan designated to ensure the continued achievement of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Program.

(b) The Recipient, through MoEF, MoH and MHIF, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) have the Designated Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
- (iii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iv) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals were made from the Grant Account, the Recipient, through MoEF, MoH and MHIF, shall:

- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such financial records are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 3(b) of Schedule 4 to this Agreement, the Recipient, through MoEF, MoH and MHIF, shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Program, both cumulatively and for the period covered by said report and explains variances between the actual and planned uses of such funds;
- (ii) describes progress in Program implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Program implementation; and
- (iii) sets forth the status of procurement under the Program, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than sixty (60) days after the end of the first calendar quarter after the Effective Date and shall cover the period from the incurrence of the first expenditure under the Program through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than sixty (60) days after each subsequent calendar quarter and shall cover such calendar quarter.

Section 4.03. The Recipient, through MoEF, MoH and MHIF, shall:

(a) have the internal control framework, the operational processes and procedures followed under the Program, audited for each Fiscal Year (or other period agreed to by the Association), in accordance with terms of reference and by independent auditors both acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year (or such other period agreed to by the Association): (i) certified copies of the assessment of the internal control framework, the operational processes and procedures referred to in paragraph (a) of this Section for such Fiscal Year (or other period agreed to by the Association), as so audited; and (ii) an opinion on such processes and procedures by said auditors, in scope and detail

satisfactory to the Association, as to whether they provide the Recipient adequate accounting, internal control and financial reporting as intended for the Program; and

(c) furnish to the Association such other information concerning such internal control framework, operational processes and procedures, the audit of such internal control framework, operational processes and procedures and concerning said auditors, as the Association may from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program or significant part thereof, will be carried out.

(b) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of any grant made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore.

(ii) Sub-paragraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions, namely that, the Recipient, through MoEF and MoH, shall have adopted the Project Operational Manual, satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Economy and Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Economy and Finance
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

Telex:

245-156NUR KH

Facsimile:

(996-312) 661645

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KYRGYZ REPUBLIC

By: /s/ Zamira Sydykova

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Shigeo Katsu

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Transfers for APWs	10,400,000	Such amount of Eligible Program Expenditures as shall be agreed upon between the Recipient and the Association for respective APW
<hr/>		
TOTAL	<u>10,400,000</u>	

2. For the purposes of this Schedule, the term “Transfers for APWs” means the amount of the proceeds of the Grant transferred by the Association, through the Recipient’s MoEF, to MoH’s budget to cover reasonable costs of goods, works, consultants’ services, training, incremental operating costs and recurrent costs required for the implementation of respective APW.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) Transfers for APWs, unless the MoH’s budget has been approved by the Recipient for the Fiscal Year covered by the respective APW.

4. The withdrawals from the Grant Account shall be made quarterly or at other intervals as may be agreed upon by the Recipient and the Association on the basis of an APW for the respective Fiscal Year and a report to be submitted to the Association in form and substance satisfactory to the Association, such report to include the FMRs, budgets, updated Procurement Plan and progress against agreed sector monitoring indicators and other information as the Association shall specify by notice to the Recipient. In case of the first such request submitted to the Association, the Recipient

shall submit to the Association only the APW for the respective Fiscal Year and statement with the projected sources and applications of funds for the Project for the first six-month period of that APW.

B. Designated Account

1. The Recipient shall open and maintain in Dollars a designated account in the National Bank of the Kyrgyz Republic.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Designated Account an amount equal to the lesser of: (a) the amount so requested for respective APW to be deposited quarterly or other intervals as may be agreed upon by the Recipient and the Association; or (b) the amount which the Association has determined, based on the APW applicable to such withdrawal application, is required to be deposited in order to finance Eligible Program Expenditures during the six-month (6) period following the date of such application.

3. The amounts deposited into the Designated Account shall be exclusively used for the Eligible Program Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Designated Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in paragraph 3 of Schedule 4 to this Agreement adequately provide the information required in paragraph A.4 of this Schedule 1 as such information and the scope of the reports are specified in the Project Operational Manual; and

(b) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(iii) of this Agreement, any of the audit reports, including the procurement audit, required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Designated Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made from the Grant Account.

5. The Association shall not be required to make further deposits into the Designated Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Designated Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any amount deposited in the Designated Account was utilized for an expenditure which is not an Eligible Program Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Designated Account (or, if the Association shall so request, refund to the Association) an amount equal to such expenditure not so justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Designated Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) Refunds to the Association made pursuant to sub-paragraph (a) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve health status of the of the population of the Recipient through creation of effective, comprehensive and integrated delivery system of individual and public health services, including increased responsibility of every citizen, family, society and public administration bodies for health of each person and for the society as a whole.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives.

Part A: “Manas Taalimi” Program and its associated Program of Work

Support to MoH in the implementation of the “Manas Taalimi” Program covering period 2006-2010 and its associated Program of Work to be agreed upon annually between the Recipient and the Association, including strengthening MoH’s institutional and fiduciary capacities.

Part B: Strengthening the Administrative System of the MoLSP

Support to MoLSP in the implementation of proposals on consolidating and restructuring cash social assistance benefits, developing eligibility conditions for the consolidated benefit structure and building and efficient administrative system for implementing associated benefits, including institutional strengthening.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods which may be procured within the territory of the Recipient through adequate competition, acceptable to the Association, and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions as set forth in the Annex to this Schedule.

3. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the

circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. 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.

**Annex
to
SCHEDULE 3**

National Competitive Bidding procedures of the Recipient may be used for procurement of goods and works provided that the following provisions are complied with:

A. Registration and Licensing

(a) Bidding shall not be restricted to pre-registered/licensed firms.

(b) Where registration or licensing is required, bidders: (i) shall be allowed a reasonable time to complete the registration or licensing process; and (ii) shall not be denied registration/licensing for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(c) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

B. Advertising

Invitations to bid shall be advertised in the Bulletin of State Procurement and in at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.

C. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.

D. Participation by Government-owned enterprises

Government-owned enterprises in the Kyrgyz Republic shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Association.

F. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids.

(b) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.

(c) Domestic preference should not be applied.

(d) Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiation shall take place.

G. Price Adjustment

Civil works contracts of long duration (for example, more than eighteen (18) months) shall contain an appropriate price adjustment clause.

H. Rejection of Bids

All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

I. Rejection of an Individual Bid

An individual bid shall be rejected only in the following cases:

(a) The bidder is not qualified;

(b) The bidder does not accept the correction of an arithmetical error in his bid by the Tender Commission of the procuring entity;

(c) The bidder is not responsive to the requirements of the bidding documents; or

(d) Under the circumstances referred to in Article 6 of the Law of the Kyrgyz Republic on the State Procurement.

J. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.

SCHEDULE 4

Implementation Program

1. The Recipient shall carry out the Project in accordance with the provisions of the Project Operational Manual, including provisions of the EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operational Manual without prior approval of the Association.
2. On behalf of the Recipient, MoH shall have overall leadership and coordination role for the execution of the Project, with staffing and resources adequate to enable it to effectively oversee the Project implementation. MoH shall designate its Finance Department to:
 - (a) prepare applications for withdrawal of the Grant proceeds;
 - (b) maintain records and accounts related to the Project and to arrange the audits thereof; and
 - (c) incorporate procurement activities reports into annual reports referred to in paragraph 3 of this Schedule.
3. The Recipient, through MoH, shall:
 - (a) not later than August 15 of each year during the implementation of the Project, or such later date as may be agreed by the Association, submit to the Association an APW, satisfactory to the Association and the Recipient, prepared in accordance with the format included in the Project Operational Manual and which shall include agreed amounts of Transfers for APWs for the respective Fiscal Year;
 - (b) not later than April 15 of each year during the implementation of the Project or such later date as may be agreed by the Association, provide to the Association for its review, a report on the progress achieved in the carrying out of the Project during the period preceding the date of said report, as monitored pursuant to indicators and monitoring arrangements, set forth in the Project Operational Manual; and
 - (c) jointly undertake with the Association, review of the Project activities based on the report referred to in sub-paragraph (b) above.
4. The Recipient, through MoH, shall maintain until completion of the Project, the Health Policy Council, headed by the Minister of Health, consisting of state secretary, deputy ministers, and heads of departments, which will be responsible for coordinating of the Project activities.

5. The Recipient shall maintain the Inter-ministerial Coordination Committee consisting of representatives of MoH, MoEF, and MoLSP which will be responsible for: (a) inter-ministerial coordination of the Project activities, including harmonization activities; and (b) review of effective functioning of complaint mechanism in case of misuse of funds and taking follow up measures in case of serious or unresolved complaints by internal auditors and/or third party audit to ensure the independence and reliability of the system.
6. The Recipient, through MoEF, shall by October 1 each year approve financing for the health sector in the amounts agreed at annual sector review meeting held in May of each year.
7. The Recipient, through MoEF, shall execute the approved budget for the health sector in full and in a timely manner.
8. The Recipient, through MoH, shall by October 1 each year furnish to the Association an APW for the next budget year and an updated Procurement Plan for its prior review and approval.
9. The Recipient, through MoH and MHIF, shall establish by April 1, 2006, an internal audit functions, including appointment of internal audit staff with terms of reference, satisfactory to the Association.
10. The Recipient, through MoH, shall undertake all measures necessary to ensure that the Program shall be carried out in a manner which fosters transparency and accountability and, to this end, shall include appropriate measures in the Project Operational Manual.
11. The Recipient shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) following the implementation of the first APW, exchange views with the Association and undertake any corrective measures, as agreed upon by the Association, for the implementation of the Project;
 - (c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about August 15, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to

ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Association, by October 15, 2008, or such later date as the Association shall request, the report referred to in sub-paragraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Modifications to the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term “Borrower” is modified to read “Recipient”.

(b) The term “Credit” is modified to read “Grant”.

(c) The term “Credit Account” is modified to read “Grant Account”.

(d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:

(a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits

and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”