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CONFORMED COPY

GRANT NUMBER H391 KG

Financing Agreement

(Additional Financing for Health and Social Protection Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 25, 2008

GRANT NUMBER H391 KG

FINANCING AGREEMENT

Agreement dated June 25, 2008, entered into between KYRGYZ REPUBLIC (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to three million seven hundred thousand Special Drawing Rights (SDR 3,700,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are May 15 and November 15 in each year.
- 2.05. The Payment Currency is United States Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through MoH, shall carry out Part C of the Project, and cause Part D to be carried out by MLSD, in accordance with the provisions of Article IV of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that Parts C and D of the Project are carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

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

| | |
|----------------|------------------|
| Telex: | Facsimile: |
| 245-156 NUR KH | (996-312) 661645 |

- 5.03. The Association's Address is:

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

| | | |
|-----------------------------|--------------|----------------|
| Cable: | Telex: | Facsimile: |
| INDEVAS Washington, D.C. | 248423 (MCI) | 1-202-477-6391 |

AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Tadjikan Kalimbetova

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dinara Djoldosheva

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to improve the health status of the population of the Recipient through creating an effective, comprehensive and integrated system for the delivery of individual and public health services, including increased responsibility of every citizen, family, society and public administration bodies for the health of each person and for the society as a whole; and (ii) improving and protecting the health and nutritional status of said populations against the instability of national food prices as well as assisting poor families to manage and mitigate the impact of rising food prices through scaling up and strengthening targeted cash transfers to said families and populations.

The Project consists of the Original Project and the following additional part:

Part C: Protecting Health and Nutritional Status

Support to MoH in improving the health and nutritional status of vulnerable individuals and social groups through the provision of nutritional supplements and nutritional education to pregnant and lactating women as well as through the provision of nutritional supplements to infants and young children.

Part D: Poverty Mitigation through Expanded Targeted Social Assistance

(a) Supporting MLSD to mitigate the impact of escalating food prices on poor families through the scaling up and strengthening of the Unified Monthly Benefit Program;

(b) Carrying out audits, in accordance with terms and conditions agreed upon by the Recipient and Association, pertaining to the implementation of Part D of the Project; and

(c) Provision of technical assistance to MLSD in:

(i) developing a system for identifying poor families and vulnerable social groups that are adversely affected by the instability of food prices;

(ii) promoting outreach programs and training for identifying and registering eligible poor families affected by the instability of food prices;

(iii) strengthening MLSD's capacity to oversee the Unified Monthly Benefit Program as well as to monitor the performance and

implementation of said program as a tool for mitigating the impact of price instability of food; and

- (iv) developing systems for monitoring and evaluating various impacts of food price instability.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient, through MoH, shall implement Part C of the Project, and cause Part D of the Project to be carried out by MLSD, in accordance with the provisions of the Project Operational Manual. Except as the Association shall otherwise agree, the Recipient, MoH or MLSD shall not amend or waive any provision of the Project Operational Manual, if, in the opinion of the Association, such amendment or waiver may materially or adversely affect the carrying out of the Project or the achievement of the Project objectives.

2. The Recipient, through MoH, shall: (i) take all actions, including ensuring the provision of funds, facilities, services, and other resources, necessary or appropriate for the carrying out of Part C of the Project; and (ii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

3. The Recipient, through MLSD, shall: (i) take all actions, including ensuring the provision of funds, facilities, services, and other resources, necessary or appropriate for the carrying out of Part D of the Project; and (ii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

B. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient, through MLSD, shall prepare and furnish to the Association as part of the Project Report, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for Part D of the Project covering the quarter, in form and substance satisfactory to the Association.

3. Without limitation on the provisions of Part A of this Section, the Recipient, through MoH, shall prepare and furnish to the Association as part of the Project Report for Part C of the Project, financial reports in accordance with Article IV of the Original Financing Agreement.

4. With regard to Part C of the Project, the Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Financing was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

5. With regard to Part D of the Project, the Recipient shall have its Financial Statements audited in accordance terms and conditions agreed upon by the Recipient and the Association.

6. The Recipient will have the internal control framework, the operational processes and procedures followed under its Respective Parts of the Project, 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.

Section III. Procurement

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

A. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

| Procurement Method | |
|---------------------------|---|
| (a) | Limited International Bidding |
| (b) | National Competitive Bidding , subject to the following provisions: A. <u>Registration and Licensing</u> (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. <u>Advertising</u> 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. <u>Pre-qualification</u> 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 |

Procurement Method

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

| Procurement Method |
|--|
| <p>An individual bid shall be rejected only in the following cases:</p> <ul style="list-style-type: none"> (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 on State Procurement. <p>J. State unit costs shall not be used for bidding and evaluation of bids for civil works contracts.</p> |
| <p>(c) Shopping</p> |
| <p>(d) Direct Contracting</p> |

B. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

| Procurement Method |
|--|
| (a) Quality-Based Selection |
| (b) Selection Under a Fixed Budget |
| (c) Least Cost Selection |
| (d) Selection Based on the Consultants' Qualifications |
| (e) Selection of Individual Consultants |
| (f) Single-Source Selection |

C. 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.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance 100% (inclusive of Taxes) of Eligible Expenditures.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

| Category | Amount of the Financing Allocated (Expressed in SDR) | Percentage of Expenditures to be Financed |
|---|---|--|
| (1) Provision of Nutritional Supplements and Training under Part C of the Project | 630,000 | 100% |
| (2) Provision of Targeted Cash Transfers under Part D of the Project | 2,818,000 | 100% |
| (3) Consultants Services, including Audit, under Part D of the Project | 252,000 | 100% of local expenditures and 90% of foreign expenditures |
| TOTAL AMOUNT | <u>3,700,000</u> | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2011.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
5. “MLSD” means the Ministry of Labor and Social Development of the Recipient or any legal successor thereto.
6. “MoH” means the Ministry of Health of the Recipient or any legal successor thereto.
7. “Original Financing Agreement” means the Development Grant Agreement for the Health and Social Protection Project between the Recipient and the Association, dated March 10, 2006.
8. “Original Project” means the Project described in the Original Financing Agreement.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 30, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
11. “Unified Monthly Benefit Program” means the Recipient’s program for providing cash transfer benefits to poor families with children in order to reduce and mitigate their exposure to poverty.

