THE GLOBAL FOOD CRISIS RESPONSE PROGRAM

PROJECT PAPER

ON A

PROPOSED ADDITIONAL FINANCING GRANT

TO THE

KYRGYZ REPUBLIC

IN THE AMOUNT OF SDR 3.7 MILLION
(US$6.0 MILLION EQUIVALENT)

FOR A

HEALTH AND SOCIAL PROTECTION PROJECT

May 27, 2008

Human Development Sector Unit
Central Asia Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective April 30, 2008)

Currency Unit = Kyrgyzstan Som (KGS)
36.43 Som = US$1.00
US$1.62976 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APW  Annual Programs of Work
CAS  Country Assistance Strategy
CFAA Country Financial Accountability Assessment
CFP  Country Financial Parameters
CQ   Selection Based on Consultants’ Qualification
FMR  Financial Monitoring Report
GDP  Gross Domestic Product
GNI  Gross National Income
HIF  Health Insurance Fund
IAS  International Accounting Standards
IBRD International Bank for Reconstruction and Development
ICB  International Competitive Bidding
IDA  International Development Association
IMR  Infant Mortality Rate
KGS  Kyrgyzstan Som
LCS  Least Cost Selection
MCH  Maternal and Child Health
MDG  Millennium Development Goals
M&E  Monitoring and Evaluation
MMR  Maternal Mortality Rate
MOEF Ministry of Economy and Finance
MOH  Ministry of Finance
MLSD Ministry of Labor and Development
NBKR National Bank of the Kyrgyz Republic

Vice President: Shigeo Katsu
Country Director: Annette Dixon
Sector Director: Tamar Manuelyan Atinc
Task Leader: Peyvand Khaleghian
**PROJECT PAPER DATA SHEET**

**Date:** May 27, 2008  
**Team Leader:** Peyvand Khaleghian  
**Country:** Kyrgyz Republic  
**Project Name:** Additional Financing for the Health and Social Protection Project  
**Project ID:** P112142  
**Borrower:** Kyrgyz Republic  
**Responsible agency:** Ministry of Health and Ministry of Labor and Social Development

| Revised estimated disbursements (Bank FY/US$m) |  
|-----------------------------------------------|---|---|---|---|---|---|
| FY   | 2007 | 2008 | 2009 | 2010 | 2011 |
| Annual | 2.0 | 4.00 | 6.00 | 6.00 | 3.00 |
| Cumulative | 2.0 | 6.00 | 12.00 | 18.00 | 21.00 |

**Current closing date:** 06/30/2011  
**Sector Director/Manager:** Tamar Manuelyan, Atinc/Kathy Lindert  
**Country Director:** Annette Dixon  
**Environmental Category:** C - not required  
**Revised closing date [if applicable]:** NA

**Does the scaled-up project require any exceptions from Bank policies?**  
○ Yes  
X No

**Have these been approved by Bank management?**  
○ Yes  
○ No

**Is approval for any policy exception sought from the Board?**  
○ Yes  
X No

**Revised project development objectives/outcomes [If applicable]**

The original project development objectives will be amended to include two additional specific objectives (objectives [d] and [e] below) under the proposed additional financing. The revised objectives will be to improve health status in the Kyrgyz Republic: (a) by improving access, financial protection, efficiency, equity and fiduciary performance in the Kyrgyz health sector; (b) to ensure sufficient and reliable financing for the health sector; (c) to strengthen the targeting of social benefits by developing effective administration and information management systems to improve access to social services in general; (d) protecting and improving health and nutritional status of particularly vulnerable populations in the Kyrgyz Republic in the face of food price shocks, by providing nutritional supplements and nutrition education to pregnant/lactating women and infants/young children; and (e) helping poor Kyrgyz families manage and mitigate the impact of food price shocks and protect consumption (general and food consumption) by scaling up and strengthening targeted cash transfers.

**Does the scaled-up or restructured project trigger any new safeguard policies?**  
No

**For Additional Financing**

[ ] Loan  
[ ] Credit  
[X] Grant

**For Loans/Credits/Grants:**

- Total Bank financing (US$m.): 6.00  
- Proposed terms: standard IDA Grant terms

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I. Introduction

1. This Project Paper seeks the approval of the World Bank Executive Directors to provide an additional grant in the amount of US$6 million to Kyrgyz Republic Health and Social Protection Project (P084977). The proposed additional grant will support an urgent response to the current food price crisis through additional activities not anticipated in the initial project design. Specifically, two interventions will have a positive mitigation impact to food price shocks: (i) interventions to reduce nutritional vulnerability of at-risk pregnant women and infants/young children through the provision of nutritional supplements and nutrition education; and (ii) a temporary scaling up of targeted cash transfers during the upcoming 2008/2009 winter season. The Bank is also proposing a third intervention, to support activities to enhance longer-term food supply (which will be addressed through Additional Financing for the Agricultural Investment Support Project). In addition, the Bank team is working closely with the Kyrgyz Government to develop the right policy response, including through administrative actions and policy measures, without distorting price signals and aligned with growth prospects and strategies.

2. While the proposed additional financing will be consistent with the original project development objectives for the Health and Social Protection Project, these will be amended to reflect the objectives of the Global Food Crisis Response Program. Specifically, two additional objectives will be added to the original: (a) protecting and improving health and nutritional status of particularly vulnerable populations in the Kyrgyz Republic in the face of food price shocks, by providing nutritional supplements and nutrition education to pregnant/lactating women and infants/young children; and (b) helping poor Kyrgyz families manage and mitigate the impact of food price shocks and protect consumption (general and food consumption) by scaling up and strengthening targeted cash transfers.

3. The implementation arrangements will remain the same under the proposed additional financing as in the original project. The Closing Date will also remain unchanged, June 30, 2011.

II. Background and Rationale for Additional Financing (total estimated costs US$6 million)

A. Country Context & the Global Food Crisis: Rationale for Additional Financing

4. The Kyrgyz Republic, being a small (US$500 GNI per capita in 2006) and open economy, is vulnerable to price fluctuations, including food and gas prices. Between 2006 and 2007, the Kyrgyz economy faced sharp and significant increases in consumer prices (20.1 percent), reflecting particularly the increase in food prices that make up about 46.6 percent of the official CPI. In 2007, food inflation in Kyrgyzstan was 31.5 percent -- the highest in the entire ECA region. On main food items, the price escalation has reached 62.6 percent e.g., flour and bakery products. In addition to food items, electricity, gas and other fuels price increases is up 30 percent in the Kyrgyz Republic. Specifically, fuel prices showed increases up to 36.7 percent. The current crisis had negatively affected terms of trade as the country is a net importer of both wheat and fuel. In addition, the rising food prices generated significant distributional and poverty impacts in urban and rural areas, especially among the most vulnerable.

5. Even before the advent of food price inflation, poverty was already high in the Kyrgyz Republic, with 43.1 percent of households living below the poverty line in 2005 and 11.1 percent living in extreme poverty. Poverty is also significantly higher in rural and mountainous regions. Child poverty is of particular concern, with 52 percent of those under 18 and 58 percent of those under six years of age living in poverty. Closely related, the Kyrgyz Republic reports relatively weak results for basic child health and nutrition indicators (Table 1), with high rates of under five mortality, iodine deficiency, diarrheal disease, and moderate stunting (chronic malnutrition).
6. The current food crisis threatens to aggravate these health outcomes, particularly among the poor, who have little funds available to pay for food or other pressing needs. The rapid increase of food prices severely undermines the food consumption of the population, the poor in particular. It also increases the risks of under-nutrition, caused by inadequate intake of quantity of calories and protein as well as of insufficient micronutrient intake. Food price inflation in the Kyrgyz Republic hit a record high among ECA countries, and left the population with very few options, to cope without dropping the consumption of better quality food, and limiting the consumption basket to staples which do not necessary ensure the nutrition value needed, especially by children, pregnant and lactating women.

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<tr>
<th></th>
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<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
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</thead>
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<td><strong>Under 5 Mortality</strong></td>
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<tr>
<td>(per 1,000 live births)</td>
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<td>29</td>
<td>41</td>
<td>51</td>
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<td><strong>Infant Mortality Rate</strong></td>
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<tr>
<td>(per 1,000 live births)</td>
<td>56</td>
<td>26</td>
<td>36</td>
<td>45</td>
<td>38</td>
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<tr>
<td><strong>Diarrhoeal disease</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>22</td>
<td>48</td>
<td>22</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td><strong>Low birth weight</strong></td>
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<td><strong>Iodine deficiency</strong></td>
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<tr>
<td>(% households)</td>
<td>46</td>
<td>92</td>
<td>76</td>
<td>87</td>
<td>53</td>
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<tr>
<td><strong>Underweight prevalence %</strong></td>
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<tr>
<td>moderate and severe</td>
<td>17</td>
<td>4</td>
<td>3</td>
<td>11</td>
<td>5</td>
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<tr>
<td></td>
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<td><strong>Stunting prevalence %</strong></td>
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<tr>
<td>moderate and severe</td>
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<td><strong>Wasting prevalence %</strong></td>
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<tr>
<td>moderate and severe</td>
<td>7.2</td>
<td>3.8</td>
<td>3.5</td>
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</table>


7. In this context, the Kyrgyz Government is extremely concerned about the impacts of the global food crisis and has requested Bank support under the Global Food Crisis Response (GFCR) window. Specifically, two interventions will help mitigate the impact of the food price crisis on the poor and vulnerable: (i) interventions to reduce nutritional vulnerability of at-risk pregnant women and infants/young children through the provision of nutritional supplements and nutrition education; and (ii) a temporary scaling up of targeted cash transfers during the upcoming 2008/2009 winter season. A third intervention is also being proposed to support activities to enhance longer-term food supply (which will be addressed through Additional Financing for the Agricultural Investment Support Project). In addition, the Bank team is working closely with the Kyrgyz Government to develop the right policy response, including through administrative actions and policy measures, without distorting price signals and aligned with growth prospects and strategies.

8. The existing Health and Social Protection Project has committed the donors' resources to the large-scale medium-term systemic reform and to policy development and institution building while the additional financing will be able to overcome the constraints of the already made commitments and address the current extraordinary situation. While the existing project supports a strengthening of the overall health and social protection systems, it did not envisage specific measures to help protect poor
families, women and children in the advent of such an acute and persistent food price crisis. Nonetheless, Bank engagement in both health and social protection in the Kyrgyz Republic in a Sector-Wide Approach, provides a solid strategic basis and framework with which to support additional financing in order to respond to this crisis. The Bank’s response under the proposed additional financing to the Kyrgyz Government will be amply more agile building on the existing project and Government programs rather than attempting to introduce new mechanisms altogether.

B. Sector Policy and Strategy

9. The Kyrgyz Government has developed strong strategies in health and social protection:

- In health, since 2005 the Government is implementing the Manas Taalimi strategy which presents an expansion of the health goals embedded in the National Poverty Reduction Strategy. Manas Taalimi seeks to strengthen the targeting of resources and interventions at groups with worse health outcomes, including MDG outcomes. It also aims at strengthening the orientation of the health system towards preventive and primary health care and to overcome the financing and non financing constraints affecting the accessibility of health care, for the poor and vulnerable in particular. The first component of the Health and Social Protection project is providing support for all the priorities of Manas Taalimi, while the additional financing will be for focused on specific critical inputs for sustaining and improving health outcomes in the crisis situation - to prevent deterioration of nutrition of young children, pregnant and lactating women and to increase the access to basic prevention services.

- In social protection, the Government adopted the Social Protection Strategy for 2006-08, emphasizing short- and medium-term reform objectives to improve the effectiveness of the social protection system, especially for vulnerable groups, by reinforcing the targeting of benefits, stopping the proliferation of privileges, monetizing benefits, reinforcing activation programs to promote labor linkages, and expanding the scope of social services for the elderly, disabled, children and families at risk. In parallel, a longer-term vision for social reforms is currently being elaborated in the Social Development Concept 2008-2014.

10. More recently, the Government has been actively working to develop a government strategy for food security and a response to the food crisis. Specifically, the Government is adapting its social policy, including (a) mechanisms for more frequent and financially adequate indexation of the benefits of the UMB and the social allowances for people who cannot work (adults and children with disabilities, children with ICP, HIV infected children and children having AIDS, orphans, mothers of many children and elderly without pensions); (b) adoption of a food security law aimed at strengthening public policy in the area of ensuring food security, and guaranteeing the availability and affordability of basic food products to socially vulnerable groups in accordance with minimum food consumption standards.

C. Original Health and Social Protection Project

11. The Health and Social Protection Project was approved by the Bank’s Board of Executive Directors for a total grant amount of SDR10.4 million (equivalent US$15 million) on December 15, 2005 and became effective on June 8, 2006. Project performance to date has been satisfactory in relation to its development objectives and related outcomes (even exceeding expectations on some fronts, with strong Client ownership of the technical and operational aspects of the program). Implementation progress has been satisfactory. Loan covenants have been complied with. The project has disbursed 35 percent of grant funds. There have been no major changes in the original objectives, design or scope (the mid-term review of the project is currently underway).
12. **Original Project Development Objectives.** The project development objectives are to improve health status in the Kyrgyz Republic (a) by improving access, financial protection, efficiency, equity and fiduciary performance in the Kyrgyz health sector; (b) to ensure sufficient and reliable financing for the health sector; and (c) to strengthen the targeting of social benefits by developing effective administration and information management systems to improve access to social services in general.

13. **Original Project Components:** The project includes two components:

- **Component 1: Support for the Manas Taalimi Health Reform Program (US$13 million total estimated costs).** This component supports the implementation of the Manas Taalimi Health Reform Program through a Sector-Wide Approach, providing financing for an Annual Program of Work, agreed on annually by the Kyrgyz Government with the Bank and other development partners. The objective of the Manas Taalimi Program is, broadly, to "improve health status through the creation of an effective, comprehensive, and integrated delivery system of individual and public health services, and through increased responsibility of every citizen, family, society, and public administration bodies for health of each person and for society as a whole."

- **Component 2: Strengthening the Administrative System of the Ministry of Labor and Social Protection (US$2 million total estimated costs).** This component is assisting with the implementation of policy reforms and strengthening of the administrative systems of the Ministry of Labor and Social Development (MLSD) to enable the social protection and health systems to more effectively target social assistance and subsidies to poor or disadvantaged households. Specifically, the component supports (a) consolidating and restructuring cash social assistance benefits; (b) refining eligibility conditions for the consolidated benefit structure based on a more comprehensive definition of resources available; and (c) building a more efficient administrative system for implementing associated benefits.

### III. Proposed Changes

14. The Health and Social Protection Project provides an opportune mechanism for the Bank to respond in a quick and flexible manner to the Government of the Kyrgyz Republic’s request for financing in the face of the food price crisis. Specifically, with its focus on supporting the strengthening of the country’s health and social protection systems, using a Sector-Wide Approach (for the health component), the existing project provides a strong operational and strategic foundation for the proposed additional financing. Building on this foundation, the proposed additional financing will involve the following changes in the original project development objectives and design in order to adapt to the specific needs of the food crisis, including:

15. **Objectives of Additional Financing.** The original project development objectives will be amended to include two additional objectives under the proposed additional financing which will help mitigate the impact of food price shocks. These include: (a) protecting and improving health and nutritional status of particularly vulnerable populations in the Kyrgyz Republic in the face of food price shocks, by providing nutritional supplements and nutrition education to pregnant/lactating women and infants/young children; and (b) helping poor Kyrgyz families manage and mitigate the impact of food price shocks and protect consumption (general and food consumption) by scaling up and strengthening targeted cash transfers.

16. **Proposed Components for Additional Financing.** The proposed additional financing envisages two components linked to the two objectives (as stated above) and to the original project components – one for health and one for social protection, as follows:
Component 1: Protecting Health and Nutritional Status (total estimated costs US$1 million). The objectives of this component will be to protect and improve health and nutritional status of vulnerable populations in the face of global food price shocks, by providing nutritional supplements and nutrition education to pregnant and lactating women, infants and young children. The focus of nutrition interventions will be on two forms of malnutrition: (a) under-nutrition, caused by inadequate intake of quantity of calories and protein; and (b) micronutrient deficiencies. Priority population groups include pregnant and lactating women, infants and young children, reflecting the fact that the group most at nutritional risk comprises pre-school age children (0-36 months of age), increased nutritional needs for women during pregnancy and lactation, and the high prevalence of child poverty.

In terms of delivery mechanisms within this framework, nutritional supplements and education could be executed effectively using the state system of maternity houses and patronage nurses. There is solid evidence that these systems work well and reach a majority of the population with few geographic or financial barriers to access although in some areas they will need to be supplemented by Village Health Communities supported by the Swiss Red Cross, which also have demonstrated strong performance. The proposed component will provide financing to cover expenses related to procurement of commodities (nutritional supplements), training, training and communications materials, and some logistical and operational support (fuel for cars, oversight of the program, etc.), as well as an external monitoring contract. These expenses could fairly easily be embedded in the existing health project under the umbrella of the Manas Taalimi Health Reform Program, and even funded through the Government’s budget systems as is the current practice under the SWAp approach (with the possible exception of commodity procurement, which could be done through UNICEF on a sole-source basis for expedited response).

Component 2: Mitigating Poverty Impacts of Shocks through Expanded Targeted Social Assistance (total estimated costs US$5 million). The objectives of this component are to help poor Kyrgyz families manage and mitigate the impact of food price shocks and protect consumption (general and food consumption) by scaling up and strengthening targeted cash transfer programs. Numerous social assistance programs are currently operated in the Kyrgyz Republic, including a mix of (a) targeted cash transfer benefits – the Unified Monthly Benefit (UMB), which targets poor families with children, and the Monthly Social Benefit (MSB), which targets specific disadvantages sub-groups of the population (disabled, orphans, elderly, etc.); and (b) a plethora of privileges, which mostly carry over from the Soviet period and which are gradually being monetized. Analytical work suggests that the UMB, which is managed by the Ministry of Labor and Social Development (MLSD), is particularly promising as a candidate for leveraging a response to the global food crisis because: (a) evidence suggests that it is fairly well-targeted, in terms of targeting accuracy (with 75 percent of benefits going to the target group of the bottom 40 percent of the population, which closely corresponds to the share of the population living in poverty); (b) cost-benefit calculations suggest that it is the most cost-effective transfer in the menu of safety net programs currently operating in the Kyrgyz Republic in terms of its ability to target resources to the poor and reduce poverty; and (c) evidence suggests that a large share of cash transfer benefits under the UMB are used by poor families mainly for purchase of food stuffs (floor, cooking oil, etc.). Nonetheless, the UMB program remains relatively small and modest in its poverty impact due to: (a) low unit values for the transfer (at US$3.5 on average per month, with the maximum monthly amount not exceeding US$5.5); (b) low overall coverage (14.6 percent of total population); and (c) low coverage of the poor (27 percent of those in the poorest two quintiles of the population).

The proposed additional financing will thus support the scaling up and strengthening of the UMB. Financed activities will include: (i) financing a topping up of unit benefits under the Government’s UMB

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program for six months spanning the 2008-09 winter; and (ii) technical assistance, including monitoring and evaluation of UMB.

- **Topping up of unit benefits.** Given financing limits, the proposed grant will finance the temporary topping up of benefits (by US$1 per month per beneficiary on top of the original average benefit amount of US$3.5 per month, which closely corresponds with the 30 percent loss of purchasing power due to food price hikes since 2005) for ten months during 2008-09 (October 2008 to July 2009), when poor families will be particularly vulnerable due to food price increases and increased energy and heating needs. Since the UMB program has operated since it was launched by a Presidential Decree in January 1995 and serves as a flagship social assistance program, there is little question about the sustainability of the program beyond the period of World Bank assistance and the immediate food crisis. Moreover, technical assistance (described below) will help strengthen the program for the longer-run.

- **Technical assistance** will include support for (i) the development of rapid assessment tools to diagnose and identify poor families and vulnerable groups disproportionately affected by the crisis (diagnosis, analysis response) in order to facilitate a strengthening and expansion of program coverage; (ii) enhanced efforts by the MLSD and local Departments of Social Protection to promote active outreach to register potentially poor families affected by the food crisis (including communications and awareness campaigns, additional registration efforts, support for documentation and expedited applications, recertification and eligibility reviews, additional training and staffing of social workers, wider use of the information collected through the so called 'social passports', etc.); (iii) technical assistance to enhance MLSD capacities to oversee the UMB program, monitor performance and implementation specifically related to the food crisis; and (iv) technical support to strengthen monitoring and evaluation systems to monitor and verify impacts.

18. **Estimated Costs of Additional Financing.** Tables 2 and 3 below present the calculation of estimated costs for the two proposed components under additional financing. These costs were estimated based on the following assumptions:

a. **For the nutritional component (1),** beneficiaries are assumed to include 143,000 pregnant/lactating women and 500,000 children under five. About 18 percent of the total additional funds are estimated to be spent on overheads, distribution and Monitoring and Evaluation. Table 2 provides an overview of cost calculations.

b. **For the scaling up of the UMB program (component 2),** an increase in the unit value is proposed to help poor families mitigate the impacts of food price hikes. The increase was calculated at an additional US$1 per month (over the original benefit amount of US$3.5 per month). The proposed grant will finance the topping up of benefits (by US$1 per month per beneficiary) for ten months during 2008-09 (October -July). Table 3 provides an overview of cost calculations.
Table 1 – Costing Estimates for Component 1: Protecting Health and Nutritional Status

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<thead>
<tr>
<th></th>
<th>unit cost (US$)</th>
<th>estimated beneficiaries</th>
<th>cost to cover 100% of target US$</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total</th>
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<td>1.3</td>
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<td>325,000</td>
<td>162,500</td>
<td>162,500</td>
<td>325,000</td>
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<td>Micronutrient supplements to children &lt;5 years</td>
<td>0.8</td>
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<td>400,000</td>
<td>200,000</td>
<td>200,000</td>
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<tr>
<td>Micronutrient for pregnant &amp; lactating women</td>
<td>0.7</td>
<td>143,000</td>
<td>100,100</td>
<td>50,050</td>
<td>50,050</td>
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<tr>
<td>Sub-total</td>
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<td></td>
<td>825,100</td>
<td>412,550</td>
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<td>825,100</td>
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<td>Overhead: storage and distribution costs and M&amp;E</td>
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<td>87,450</td>
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<td>174,900</td>
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<td>TOTAL US$</td>
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Table 2 – Costing Estimates for Component 2: Targeted Social Assistance (UMB)

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<th>Monthly Unit Benefit (US$)</th>
<th>Number of Beneficiaries</th>
<th>Monthly Cost of Program Benefits (US$)</th>
<th>IDA GRANT FINANCING</th>
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<td>Baseline Budget for UMB</td>
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<td>(current unit benefit)</td>
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<td>Increase in Unit Value by $1 per month*</td>
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<td>2% Commission to the Post Office</td>
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<td>Technical Assistance, Monitoring and Evaluation incl.</td>
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<td>$390,000</td>
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<td>TOTAL US$ mn</td>
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<td></td>
<td>$5,000,000</td>
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</tbody>
</table>

*Unit value increase of US$1 per month equal to about 1/3 of 2005 benefit level, which approximates the 30 percent loss of purchasing power since 2005

19. Project Legal Documents. For the proposed additional financing grant by IDA, there will be a separate Financing Agreement (FA), in accordance with the Bank OP/BP8.00 under Emergency Operations. The FA includes a revision of the project development objective (inclusion of two additional objectives) as well as two additional project components which will support the proposed activities. Additionally, the FA provides for two expenditure categories, one for each component. The Closing Date remains June 30, 2011 as under the original project.
IV. Consistency with CAS or CPS

20. The original project and the proposed additional financing objectives and components remain consistent with the priorities of the development community in the Kyrgyz Republic delineated in the Joint Country Support Strategy (JCSS) 2007-2010. In the JCSS, the development partners have agreed to channel assistance through pooled financing arrangements, assuming the existence of a favorable policy framework in four priority areas, one of them (JCSS priority No.3) being building sustainable human and social capital through improved health and education outcomes, including access to and improving the quality of health, education and social protection services. In health, priorities for support by the JCSS partners include strengthening and integrating priority programs (e.g., maternal health, child health, etc.) to achieve better health outcomes. In social protection, the JCSS support is aimed at helping develop a more effective and simpler benefit structure for improving the presently low living standards among the poorest households, without undermining incentives for self-sufficiency; defining a more carefully differentiated set of eligibility conditions and building an administrative system for delivering benefits to eligible households. The proposed additional financing is clearly in line with these overall goals in the two sectors.

V. Appraisal of Restructured Project Activities

Technical Appraisal

21. The proposed interventions aim to provide assistance to the Government’s response to the crisis situation emerging from escalating food prices in the Kyrgyz Republic as well as support for the development of short- and medium-term strategy for dealing with this crisis. The additional financing is expected to improve the nutritional status of women and children and provide additional cash benefits to help poor families mitigate the impact of food price hikes. The proposed operation will further strengthen substantial efforts already underway to improve targeting of the poor affected by the food price crisis.

22. Rapid technical appraisal was possible due to on-going engagement with both the Ministry of Health and the Ministry of Labor and Social Development (MLSD) in the context of the existing project (ISRs provide additional details). Moreover, the technical appraisal of the UMB (operated by the MLSD) was greatly facilitated by the Bank’s on-going program of analytical and advisory activities (AAA) in the area of social protection, which provided a crucial knowledge base to draw upon during the preparation of this emergency operation (see Annex 1 for details on UMB). Likewise, the social protection AAA facilitated dialogue around the inclusion technical support to help strengthen the UMB (under Component 2). The expectation is that the combined emphasis by the original project and the proposed intervention will greatly improve Government capacity in a variety of areas including improved outreach, oversight and monitoring and evaluation of the impact of policies and the response to the food crisis. Annex 1 provides additional details.

Economic Appraisal

23. The intervention will provide numerous benefits, including: (a) protecting the nutritional and health status of vulnerable populations – notably, pregnant or lactating women, and young children under age three; and (b) helping poor households mitigate the potential adverse impacts of the food crisis. Importantly, the proposed interventions are also proven to be relatively cheap and cost effective, for example, with micronutrient supplements costing a mere US$2 per beneficiary per year and the topping-up of cash benefits to offset price inflation costing US$1 per beneficiary per month.

- For the nutrition component, international evidence suggests that investments in micronutrients and nutrition education – particularly for pregnant women and infant children - have extremely high rates
of return, with low costs and numerous benefits included. In the short run, such interventions help nourish vulnerable populations and prevent illness, also protecting households from expenditures caused by ill-health that could eventually push vulnerable households deeper into poverty. Moreover, since malnutrition results in lifetime adverse impacts there are numerous long-run benefits in cost-effective measures to avoid the onset of acute malnutrition in times of crisis, including: cognitive abilities and early childhood development, ability to learn and participate in school later in life, long-run productivity, and so forth.

- For the **social protection component**, there are also numerous benefits of helping poor households mitigate the potential adverse effects of the food crisis and a deepening of poverty, including their ability to avoid decisions which could make sense as survival strategies in the short-run but have serious adverse effects in the long-run, such as pulling children out of school for additional work and earnings potential, switching to lower quality diets, reduced spending on needed medical care, and inability to invest in productive activities.

Annex 1 presents a detailed analysis and evidence of the targeting accuracy, coverage and cost effectiveness of the UMB. The channeling of additional cash through the UMB will prevent it from becoming less adequate and meaningful for protecting the food consumption of the poor. The topping up of the UMB with US$1 per beneficiary per month will compensate for the lost purchasing power as a result of the food price increase and will preserve the share of UMB at 7 percent in the consumption of the poor. These additional funds are particularly needed in the winter months, when households face increased energy needs for heating, in addition to the food crisis.

The supplementing of the existing benefit level will also allow preserving and even slightly increasing the good cost-efficiency of the UMB program which now spends 1.6 KGS to reduce the absolute poverty gap by 1 KGS and 4.7 KGS to reduce the extreme poverty gap respectively. The topping up of the UMB might lead to 0.06 percent higher absolute reduction of the poverty gap, which means 2.06 percent in relative terms, assuming a marginal propensity to increase consumption by 25 percent without UMB transfer.

The temporary topping up of benefits will be supplemented with increased efforts to monitor and evaluate performance which will lead to attrition of some beneficiaries who are not among the poorest, and their substitution with excluded poor or new poor who will emerge following the hike of the food prices, such as: (i) ethnic minorities (mainly Dungans) who live in closed communities, have limited knowledge of the official language and do not dispose of land and (ii) poor, who fail to cope with providing all the required documents to justify eligibility due to change of place of residence, high price of travel back to the place of registration for collecting documents, delayed issuing of birth certificates for children; (iii) new poor in urban areas who can rely less on informal family and community networks for in-kind food support.

### Institutional Arrangements

24. Project implementation arrangements for the original project have worked effectively over the past two years and staff have gained substantial experience and now have strong capacity to implement the project. The proposed additional financing will take advantage of this experience. However, contrary to

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2 Additional cross-sectoral research will be done in June 2008 and later, to define how much cash per family / beneficiary will be sufficient to offset fully the cumulative effect of the price increase which has already taken place and the one expected in the winter months on the consumption of the poor, how much will be afforded by the state budget and what kind of additional measures should be taken to improve the targeting accuracy. During implementation the Bank will engage with the MLSD on how to increase the impact of the UMB on consumption without allowing work disincentives.
the original project, there will be two implementing agencies under the additional financing, the MOH and the MSLD, as follows.

25. The nutritional component (Component 1) of the Additional Financing will follow the same implementation arrangements as for the original project and the main executing agency will continue to be the Ministry of Health with overall oversight by the Inter-ministerial Coordination Committee. The cash transfers component (Component 2) of the Additional Financing will be implemented by MLSD technical and fiduciary staff.

26. The specifics of the fiduciary arrangements are outlined below for each of the implementing agencies.

Fiduciary

27. Procurement. Procurement for the additional financing will be carried out in accordance with the agreed rules and procedures applicable to the ongoing Health and Social Protection Project, and the Guidelines for Procurement under IBRD Loans and IDA Credits (dated May 2004, revised in October 2006), and the Guidelines for Selection and Employment of Consultants by World Bank Borrowers (dated May 2004, revised in October 2006), and the provisions stipulated in the Financing Agreement. More details are provided in Annex 3.

28. Financial Management. There will be two financial management arrangements for this additional financing. For Component 1 of this additional financing, it will be using FM arrangements for the existing Health and Social Protection Project (Health SWAp). For Component 2, there will be new FM arrangements as this component will be managed by the MLSD.

29. For component 1, the same FM arrangements that are used for Health SWAp will be used. The original project is being implemented using SWAp mechanism and the country’s public finance management systems, and ring-fenced procurement arrangements. Funds from the joint financiers flow through designated accounts and pooled into the budget and then released to the health sector through the Treasury system. Implementation of the fiduciary mitigation and capacity building measures has been slow, but progressive, but financial management supervision has been conducted at regular intervals in response to the high financial management risk of the project. The latest financial management supervision has just been completed, as part of the Mid Term Review. Based on this the financial management rating has been upgraded to marginally satisfactory, following implementation of several fiduciary risk and capacity building measures. Additional measures are being implemented, and monitored closely by the Bank, to ensure adequate financial management arrangements manageable risk.

30. Funds under Component 1 of the proposed additional financing will be disbursed into a separate designated account, and these funds will flow through the Treasury system, in line with the arrangements agreed under the original project. However, the funds will be earmarked for complete release to the MOH. Funds under additional financing will be requested separately through monthly budgetary requests and will not be tied to the quarterly tranches agreed under the main project. MOH will submit Withdrawal Applications, through MOF, based on Financial Monitoring Reports (FMRs). Further details on disbursements are provided in the Disbursement Letter. Budgetary releases will also be made separately by the MOH that will initiate separate withdrawal applications to be approved by the Ministry of Finance before being submitted to the World Bank. Expenditures under Component 1 of the additional financing will be reported by the Ministry of Health as part of the quarterly reports (FMRs) that are currently submitted to the World Bank within 60 days after the end of the quarter. Similar arrangements for program financial audit and operational review will be followed as for the original project.
31. For Component 2, as this will be new FM arrangements, assessment of the financial management arrangements of the MLSD has been undertaken and confirmed to be satisfactory for the additional financial financing. The ministry has an automated accounting system that generates regular financial reports submitted to the Ministry of Finance and other government agencies. The MLSD has a strong team of internal audit staff that regularly conducts internal audit reviews of the ministry’s operations, including activities under the UMB.

32. Funds under Component 2 of additional financing will flow into a separate designated account and into the Treasury system for onward transfer to the MLSD, based on the monthly budgetary requests submitted to the Ministry of Finance (MOF). The MLSD will submit withdrawal applications, through the MOF, based on interim un-audited Financing Reports (IFRs) and reports evidencing actual and certified disbursements\(^3\) to the beneficiaries in the previous month(s). The first withdrawal application will be for the initial advance of US$1.5 million calculated to cover three months advance based on current number of beneficiaries, i.e., 450,800 plus a portion of technical assistance for monitoring and evaluation. The reports will be based on existing formats, but modified to show the number of beneficiaries and amounts actually paid. Further details are provided in the Disbursement Letter.

33. The MLSD will release the additional financing through the Treasury system as currently designed for the UMB. The funds will flow to the Oblast Centers for Social Services for onward transfer to the rayon Post Offices and ultimately to the UMB beneficiaries that live close to a rayon Post Office. If the recipients, however, live in villages far away from the rayon Post Offices, the UMB funds are transferred to yet another level, the local post offices. This arrangement has been used over the past several years to channel funds to beneficiaries under the current UMB, and has been subject to regular audit by the internal audit department and monitored by the oblast centers for social services on a monthly basis.

34. Detailed discussion of the financial management arrangements are in Annex 2. Overall, the financial management arrangements of the project are acceptable to the Bank. The overall financial management risk for the project is high due to the nature of operation, but adequate mitigation measures are in place to ensure the risk level is manageable.

Environmental and Social

35. The Additional Financing will invest in nutritional supplements and education targeted to mothers and children as well as the financing of targeted cash transfers. No safeguard policies are envisaged to be triggered; therefore, an Environmental Category “C” rating has been established by our Regional Safeguards Unit for this additional financing.

VI. Expected Outcomes

36. The proposed components for additional financing are consistent with the original project development objectives and expected outcomes. The original project development objectives (PDOs) focus on improving health status, ensuring sufficient and reliable financing in the health sector, and strengthening the targeting of social benefits. The proposed additional financing will be entirely consistent with these PDOs, but with a more specific focus on mitigating the impact of food price shocks on health and nutritional status, by providing nutritional supplements and nutrition education, and on poverty and consumption by scaling up and strengthening targeted cash transfers.

\(^3\) Certified by the Internal Audit Unit
37. Progress towards the additional two development objectives (and corresponding components) supported by the additional financing will be monitored with the following new indicators. The baselines and targets for these indicators will be established by July 1, 2008:

- For additional financing under the **health component:**
  
  - % of pregnant women and mothers who received a micronutrients before their infant reached 8 weeks of age (baseline = 50.8% average of 8 regions for vitamin A supplements)
  - % of children < 5 years who received micronutrient supplements (baseline = 76.6% average of boys/girls for vitamin A supplements)

- For additional financing under the **social assistance component:**
  
  - Maintain or increase in total coverage of the UMB program (baseline = 14.6%)
  - % increase in the unit value of the transfer under the UMB program (30% target from $3.5 per month, reflecting price inflation since 2005)
  - % of benefits of the expanded UMB program going to families in the poorest two quintiles (baseline = 80%; aim to do no worse than that already strong performance)
  - Turnaround time for registering families for potential eligibility under the UMB program (# days)
  - Maintain or increase total spending on the UMB as a share of the poverty gap (baseline %)

VII. **Benefits and Risks**

38. The benefits of the project will be to (a) protect and improve health and nutritional status of particularly vulnerable populations in the Kyrgyz Republic in the face of food price shocks, by providing nutritional supplements and nutrition education to pregnant/lactating women and infants/young children; and (b) help poor Kyrgyz families manage and mitigate the impact of food price shocks and protect consumption (general and food consumption) by scaling up and strengthening targeted cash transfers. Protecting health and nutritional status has numerous long-run benefits, including productivity, ability to learn, reduced costs of health problems later in life, etc. Helping households mitigate the poverty effects of the food crisis also helps them avoid having to take on further risks or behaviors that have long-run consequences, such as increased child labor, reduced food consumption, reduced use of health care and medicines, withdrawing children from school, reduced investments for future productivity, etc.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Risks – Component 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited institutional capacity in Ministry of Health to coordinate distribution of nutrition supplements and education</td>
<td>M</td>
<td>Existing health project strengthening institutional capacity</td>
</tr>
<tr>
<td>Potential beneficiaries (at risk women and children) are not correctly identified (target population) for supplements or lack access to health care workers</td>
<td>L</td>
<td>Patronage nurses, maternity houses, and village health communities have extensive reach in Kyrgyz and have demonstrated performance. Moreover, there is a certain degree of self-targeting via the existing system of maternal and patronage care. Training to reinforce their abilities to identify and monitor at-risk women and children for nutritional risks and to ensure proper delivery and administration of supplements and nutrition education</td>
</tr>
</tbody>
</table>
Risk Nutrition education program does not lead to behavioral change

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>UNICEF involvement in design of materials using formal behaviour communication change models; emphasis on breastfeeding rather than change of dietary habits</td>
<td></td>
</tr>
</tbody>
</table>

Project Risks – Component 2

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of funding to meet full incremental financing needs for scaling up of program</td>
<td>S</td>
<td>The program has received government financing since its inception in 1995; however additional government or other-donor financing may be needed to cover the costs of expanding coverage and/or sustaining the increase in unit transfers beyond the project period.</td>
</tr>
<tr>
<td>Potential lack of sustainability of the UMB program beyond the period of World Bank assistance and/or the food crisis</td>
<td>L</td>
<td>Since the UMB program has operated since it was launched by a Presidential Decree in January 1995, and serves as a flagship social assistance program, there is little question about the sustainability of the program beyond the period of World Bank assistance and the immediate food crisis. Moreover, technical assistance (described below) will help strengthen the program for the longer-run.</td>
</tr>
<tr>
<td>Poor families – and in particular those affected by the food crisis (transient poor) – may not be correctly identified and targeted by the UMB</td>
<td>M/L</td>
<td>UMB program has already developed fairly strong targeted mechanisms. TA to strengthen methodology and mechanisms for identification of the poor households, including the transient poor, train social workers to identify potentially poor families for screening and registration, simplify the required documents, ensure that documents are issued without fees, expand community-based and geographic targeting to prioritize potentially poor communities / areas for registration and outreach.</td>
</tr>
<tr>
<td>Overall financial management risk. This is continuation of SWAp operation for Component 1, while UMB under Component 2 will be disbursed based on “outputs.”</td>
<td>H</td>
<td>Mitigation measures to include continuing capacity-building measures, annual financial and operational audits, intense World Bank supervision, including procurement reviews, appropriate control procedures for Component 2, and independent procurement audits.</td>
</tr>
<tr>
<td>The potential impact of program financing (including the incremental financing of the topped-up benefits) could be reduced because of (a) leakage of resources to non-poor and (b) to fraud and error.</td>
<td>M</td>
<td>Important to note that, internationally, all transfer programs suffer to some degree from leakages, fraud and errors. Minimize leakage, errors and fraud through oversight and controls mechanisms for detection – cross-checks, audits, quality control reviews, case-by-case investigations, hotlines, putting in writing the reasons for denial of the application for UMB. Training of social workers to assess and verify eligibility. etc. – and remedies</td>
</tr>
</tbody>
</table>

VIII. Financial Terms and Conditions for the Additional Financing

39. The additional financing will be made available on standard IDA Grant terms to the Kyrgyz Republic. The additional financing does not involve any exceptions to Bank policy.
Annex 1: The Unified Monthly Benefit (UMB)

Origins, Eligibility Criteria, Unit Benefits

The UMB was introduced by Presidential Decree in January 1995, and represents the main safety net and poverty reduction program in Kyrgyz Republic. The program provides cash transfers to poor families with children with targeting determined both by means-testing categorical criteria (see Box A1 below for specific eligibility criteria and the calculation of unit benefits). The amount of cash transfers paid out on a monthly basis varies depending on household income (as compared with the Guaranteed Minimum Consumption Level) and household composition. It is calculated as the gap between the average monthly per capita income and an income threshold called the Guaranteed Minimum Consumption Level (GMCL). Thus the UMB is a variable benefit ensuring all households with eligible household members an income no less than a defined minimum social standard. Monthly transfers have averaged about US$3.5 per beneficiary per month.

Evidence of Targeting, Cost Effectiveness

Targeting Accuracy. Evidence suggests that the UMB program performs well with respect to targeting accuracy. Specifically, 75% of all benefits paid out accrued to the poorest two quintiles of the population (which closely approximates the poverty headcount of 43%) in 2005 (Table A1). In fact, the UMB outperforms all other social protection programs in Kyrgyz, in terms of its ability to accurately target the poorest quintiles of the population (Figure A1). Targeting accuracy of the UMB also compares favorably with other countries (Figure A2).

Coverage. The distribution of beneficiaries across quintiles also reflects strong targeting. Errors of exclusion are high, however, reflecting a small overall budget and low overall coverage. Specifically, given the existing budget envelope, the program is only able to cover 26% of those in the poorest quintile and 24% of those in the second poorest quintile. Stronger outreach (and increased budgets) could help reduce errors of exclusion.

Cost Effectiveness. The UMB is also the most cost-effective social protection program in Kyrgyz Republic in terms of its costs-per-benefit, where benefits are measured by the % reduction in the poverty gap due to the program. Specifically, the UMB only costs 1.6 KGS to reduce the poverty gap by 1 KGS, as compared with a cost of 7.6 KGS for “Other Social Benefits,” 6.3 KGS for Privileges, 3.3 for Pensions, and 3.0 for the MSB cash transfer.

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5 Specifically, benefits are calculated as the reduction of the poverty gap: difference between the counterfactual and the observed poverty gap.
The amount of UMB due to each household with eligible beneficiaries is arrived at as follows:

\[
UMB = (GMCL - (\text{Htot} / \text{Nh})) \times \text{Nel},
\]

where:

- \(GMCL\) = Guaranteed Minimum Consumption Level
- \(\text{Htot}\) = Total household income per month
- \(\text{Nh}\) = Number of persons in the household
- \(\text{Nel}\) = Number of eligible members of the household

**Categorical eligibility criteria**

According to the Law on State Benefits, the following household members are eligible for the variable UMB:

- Children under 16 years (and pupils still in general educational institutions until graduation, however, maximum until the age of 18)
- Pupils of primary vocational schools and students of secondary and higher vocational educational institutions (professional colleges) up to the age of 21
- People with disabilities

**Means Testing and the Calculation of Total Household Income**

Only households whose per capita income is less than the Guaranteed Minimum Consumption Level are eligible for the Program. To calculate per capita income, family income is divided by the number of family members. Total household income includes net income by all household members from all sources, cash as well as in-kind. Hence it includes income from among others; employment, bonuses, patented private commercial activities, leases, income from assets and deposits, crops (estimated by productivity coefficients), pensions, private transfers, scholarships and inheritance. Income from livestock however is not included and neither are unemployment benefits, the MSB (see below) or single transfers such as funeral allowances or childbirth benefits.

**Guaranteed Minimum Consumption Level**

The GMCL is a cash social standard established by the GoK in 1998 and adjusted annually.

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7 Excluded are students studying per correspondence, during evenings or on a contractual basis
8 According to Article 3 this includes children under sixteen, persons with disabilities confirmed by a social expert commission and people of pension age (without pension)
9 The coefficients differs by regions and also reflects the type of land (arable or irrigated)
10 Provision on guaranteed minimum consumption level, approved by regulation #231 of the Government of the Kyrgyz Republic on April 29, 1998
Table A1. Targeting performance of the Unified Monthly Benefit, percentages, 2005

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Quintile I</th>
<th>Quintile II</th>
<th>Quintile III</th>
<th>Quintile IV</th>
<th>Quintile V</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest 40% of Pop (approximates poverty headcount of 43%)</td>
<td>25.9</td>
<td>23.7</td>
<td>17.3</td>
<td>5.4</td>
<td>0.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Coverage</td>
<td>35.6</td>
<td>32.3</td>
<td>23.7</td>
<td>7.4</td>
<td>1.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Distribution of beneficiaries</td>
<td>34.9</td>
<td>40.3</td>
<td>18.0</td>
<td>5.7</td>
<td>1.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Distribution of benefits</td>
<td>7.2</td>
<td>5.4</td>
<td>4.3</td>
<td>2.1</td>
<td>1.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Note: Quintiles based on annual per capita consumption before all social transfers assuming a marginal propensity to increase consumption of 25%. * not significant at the 10% level.
Source: Own calculations based on KIIHS 2005.

Figure A1 – Targeting Accuracy of Social Programs in the Kyrgyz Republic

Figure A1: Distributional Incidence of Social Protection Programs

- UMB
- MSB
- Pensions
- Other Benefits
- Scholarships
- Utility and housing benefits

% of total benefits accruing to each quintile

Poorest Q1, Q2, Q3, Q4, Richest Q5
Program Implementation: Applications, Eligibility Screening and Registration

The relative success of the program is the result of both good design and good implementation:11

- The design of the program is relatively simple and transparent, and similarly applied throughout the country. Central financing was instrumental in distributing more funds to poorer areas (geographic targeting element), while central monitoring and control has helped contain overspending by local administrations in rural areas.

- The implementation of the program is conducive to low administrative costs (estimated at 9.3% of total costs). Implementation arrangements are described below.

Application Procedures for the UMB. Inclusion into the UMB program begins with an application of the potential beneficiary. The application for UMB is handed to the Department of Social Protection of the residence: in Bishkek city it is the corresponding rayon DSP and in other cities and settlements it is city or rayon DSP and in rural areas it is aiyl okmotu. There is no other way to be included into the program other than through this application. One of the most important conditions of issuing the UMB is the existence of a residence permit. If the citizen is registered in one rayon (city), but actually lives in another place of this city or rayon, UMB is issued at the place of registration. At the same time, the

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certificate from rayon DSP at the residence is required that he/she has not applied for UMB. Availability of the residence seal in the passport is one of the major requirements for the UMB application.

To obtain the UMB, from the moment of handing in the application up to grant of the benefit, the applicant visits the local DSP or social worker of aýl okmotu 3 times. As a rule, during the first visit the citizen has a consultation and receives the list of necessary documents, which should be collected and submitted for obtaining the benefit. The second visit is usually connected with opening the applicant’s case, review of the submitted documents and filling in the form and if all necessary documents are submitted then the benefit will be imposed from the first day of the month of the application. If the necessary documents are submitted after the expiration of the month of application, then the benefit is granted from the first of the month of submission of the necessary documents. The practice shows that as a rule the third visit is needed for submission of missing documents.

For citizens who live without registration at the rented apartments and registered in the other region, UMB is granted at the place of residence on the basis of quarter committee certificate confirmed by 2 neighbors. In Bishkek city, the certificate on temporary registration from local authorities of internal affairs is required with further control of each 2 months. At the same time, the certificate that the family does not receive UMB is required from rayon DSP of the place of registration.

In the rural areas, citizens apply to aýl okmotu at the place of residence; the average distance between village and aýl okmotu is 3-5 km. There is no need for them to go to the rayon to hand in the application.

The difference in the procedures of application between cities and villages lies in the list of documents that should be submitted to the social worker. There is no the difference between country oblasts. In general, the application rules are the same throughout the country.

**Verifying eligibility.** The interview with the applicant is conducted by the specialist of the unit of the state benefits in the rayon DSP or the social worker in aýl okmotu. As a rule, specialists of rayon (urban) DSP have higher or specialized secondary degree, the experience of work in the social sphere and they can conduct an interview and explain the reasons for the refusal.

During the first interview and preliminary establishment of legal competence, a social worker familiarizes the applicant with the requirements for issuing the UMB: the applicant must provide to the social protection authorities the required documents. A social worker shows the applicant which documents are needed depending on the situation of each applicant. For each applicant, the case (folder) is opened to keep copies of the documents certified by the social worker and originals of certificates.

The control of the reliability of the certificates for UMB is proved by the seal and authorized signature of the responsible person and must be implemented by the heads of the enterprise and organizations that issue certificates regardless of the form of ownership. Nevertheless, a social worker is responsible for identification of legal competence. The applicant does not run a risk for provision of false information and documents. The only risk is that he/she will have to return the sum of the obtained benefit. No other punitive measures exist.

**Application’s Refusal and Appeals.** In accordance with MLSD data, the application for UMB to local services of social protection in 80% cases are finished by approval of the benefit and the other 20% of applicants are refused. 85% of those who are refused (or 16.2% of applicants) find out about refusal to be included in the program during the interview with the social workers, i.e. before registration of the documents. The main reason for refusal is that per capita income is higher than the program threshold (GMLC). The lack of all necessary documents is another reason for potential refusal. The remaining 3.8% of applicants (or 15% of refusals) are dismissed because of results during additional examinations –
visits to houses or places of work of applicants. In accordance with MLSD data, social workers perform home- or work-place visits (checks) for about 38% of the applicants.

**Program Implementation: Payments to Beneficiaries**

Once UMB is approved, the cash benefit is paid monthly through the post office. It is a lump sum payment for all eligible beneficiaries in each family. The benefit is assigned for 12 months and changes if the circumstances of the family have changed (number of members, income, etc.) or when the Guaranteed Minimum Consumption Level (administrative poverty line) is changed. Since each family has assigned benefit and number of eligible beneficiaries, it is not difficult to find out whether the benefit level has been increased by US$1 (comparing across months with and without the top-up), especially assuming that each beneficiary will get equal top up of US$1 per beneficiary per month.
Annex 2: Financial Management and Disbursement Arrangements

There will be two financial management arrangements for this additional financing. For Component 1 of this additional financing, it will be using FM arrangements for the existing Health and Social Protection Project (Health SWAp). For Component 2, there will be new FM arrangements as this component will be managed by the Ministry of Labor and Social Development.

FM Arrangements for Health SWAp

The Health SWAp was approved by the Board of the World Bank on December 15, 2005. The project is a five year sector program, based on the Manas Taalimi Health Reform Program jointly financed by the government and development partners to the tune of approximately US$652 million, with the donors contributing a approximately US$212 million, including US$164 million bilateral financing. The project has two main components: (i) Support for the Manas Taalimi Health Reform Program and (ii) Strengthening the Administrative Systems of the Ministry of Labor and Social Development.

Ministry of Health is the lead implementing ministry, and has implemented and continues to implement fiduciary risk mitigation and capacity building measures agreed during negotiations. These include development of a Program Operational Manual (POM), establishment of an internal audit function to strengthen internal control framework, operational review to provide additional assurance that pooled funds are being used for the intended purposes and strengthening of financial management and procurement capacity, including automation of accounting and reporting systems. Operational review, covering 2006 and 2007 is currently underway, with the report expected to be submitted before June 30, 2008, while financial audit for 2006 was conducted by the Chamber of Accounts, the Supreme Audit Institution, jointly with the National Audit Office of the United Kingdom under a twinning arrangement. Financial audit of the 2007 financial statements will be conducted by private sector auditors acceptable to the Joint Financiers. Interim financial reports, based on the reporting formats developed by the Treasury, and modified to provide additional information to the joint financiers, have been submitted regularly and on time. The reports have been reviewed and found satisfactory, and have formed the basis of release of funds by the Bank, which is the lead donor and administrator of grants provided by joint financiers except funds from the German Development Bank, KfW, that are released directly to the Recipient.

The project is being implemented using SWAp mechanism and the country's public finance management systems, and ring-fenced procurement arrangements. Funds from the joint financiers flow through designated accounts and pooled into the budget and then released to the health sector through the Treasury system. Implementation of the fiduciary mitigation and capacity building measures has been slow, but progressive, but financial management supervision has been conducted at regular intervals in response to the high financial management risk of the project. The latest financial management supervision has just been completed, as part of the Mid-Term Review. Based on this the financial management rating has been upgraded to marginally satisfactory, following implementation of several fiduciary risk and capacity building measures. Additional measures are being implemented, and monitored closely by the Bank, to ensure adequate financial management arrangements manageable risk.

Additional Financing:

Funds under Component 1 of the proposed additional financing (Protecting Health and Nutritional Status - total estimated costs of US$1 million) will be disbursed into a separate designated account, and these funds will flow through the Treasury system, in line with the arrangements agreed under the original project. However, the funds will be earmarked for complete release to the Ministry of Health (MOH). Funds under additional financing will be requested separately and will not be tied to the quarterly tranches agreed under the main project. MOH will submit Withdrawal Applications, through MOF, base on the
Financial Monitoring Reports (FMRs). Budgetary releases will also be made separately by the MOH that will initiate separate withdrawal applications to be approved by the MOF before being submitted to the World Bank. Expenditures under Component 1 of the additional financing will be reported by the MOH as part of the quarterly reports (FMRs) that are currently submitted to the World Bank within 60 days after the end of the quarter. Similar arrangements for program financial audit and operational review will be followed as for the original project. The same financial management arrangements (accounting system, reporting, auditing, disbursement) for the existing Health SWAP will be used for the Component 1 of this additional financing.

Funds under Component 2 of additional financing (Mitigating Poverty Impacts of Shocks through Expanded Targeted Social Assistance - total estimated costs of US$5 million) will flow into a separate designated account and into the Treasury system for onward transfer to the Ministry of Labor and Social Development (MLSD), based on the monthly budgetary requests submitted to the MOF. The MLSD will submit withdrawal applications, through the MOF, based on interim un-audited Financial Reports (IFRs) and reports evidencing actual and certified disbursements\(^{12}\) to the beneficiaries in the previous month(s). The first withdrawal application will be for the initial advance of US$1.5 million calculated to cover three months advance based on current number of beneficiaries, i.e., 450,800 plus a portion of technical assistance for monitoring and evaluation. The reports will be based on existing formats, but modified to show the number of beneficiaries and amounts actually paid. Further details on disbursements are provided in the Disbursement Letter.

The MLSD will prepare and submit interim un-audited Financial Reports (IFRs) and submit them to the World Bank as part of the project progress monitoring and disbursement purposes. The IFRs will cover sources and uses of funds and expenditures by project components and activities with comparison between actual and budget for the reporting period and cumulatively for the project life, and opening and closing cash and bank balances; cash forecast for the next 1 month; explanatory notes as needed; and designated account activity statements. These reports will be submitted to the Bank within 45 days from the end of each quarter.

The MLSD will need to agree with the MOF that supplemental budget for the additional financing will be approved prior to the disbursement of fund. Ideally this supplemental budget should be discussed with the MOF and agreed in principle at the negotiation and recorded in the minutes of negotiation.

The MLSD will release the additional financing through the Treasury system as currently designed for the Unified Monthly Benefits (UMB) as shown in the diagram below. The funds will flow to the Oblast Centers for Social Services for onward transfer to the rayon Post Offices and ultimately to the UMB beneficiaries that live close to a rayon Post Office. If the recipients however live in villages far away from the rayon Post Offices, the UMB funds are transferred to yet another level, the local post offices. This arrangement has been used over the past several years to channel funds to beneficiaries under the current UMB, and has been subject to regular audit by the internal audit department and monitored by the oblast centers for social services on a monthly basis.

Diagram: Flow of UMB Funds.

\(^{12}\) Certified by the Internal Audit Unit
Financial Management arrangements of the MLSD

Assessment of the financial management arrangements of the MLSD has been undertaken and confirmed to be satisfactory for the additional financial financing. The ministry has an automated accounting system that generates regular financial reports submitted to the Ministry of Finance and other government agencies. The MLSD has a strong team of internal audit staff that regularly conducts internal audit reviews of the ministry’s operations, including activities under the UMB.

Due to weaknesses reported by the internal audit of the MLSD, including incidences of non-compliance with the benefit payment deadlines and non-observance of the completeness of the release of funds to the beneficiaries, more targeted review and monitoring by the internal audit will be undertaken during the six months period, including random check of selected beneficiaries to confirm that they have indeed received additional top-up benefits. Additionally, the reports submitted in support of withdrawal applications will be certified by the internal audit unit. The department of Social Protection will maintain a regularly updated database of beneficiaries that will also be subject to audit by the internal audit unit.

Based on the Bank’s review, there are appropriate controls procedures on the UMB which will ensure that additional top-up of US$1 per beneficiary will be sued for the intended purposes. The main controls are:

1. there are well defined eligibility criteria for the benefits
2. there are proper application procedures and assessment of potential beneficiaries by qualified staff
3. there is proper and updated database of eligible beneficiaries, including benefit amount and duration which is subject to audit by internal audit unit
4. the basic benefits for each beneficiaries are recorded in the database
5. the additional top-up benefit is fixed US$1 per beneficiary per month
6. the payment of top-up benefits will be made monthly, same as the UMB
7. there is baseline information of total number of beneficiaries and benefit amounts paid prior to the start of the program
8. additional checks will be done by the MLSD and the Bank before disbursements are approved, including: (a) report on actual payments and total beneficiaries for each month will be certified by internal auditors, (b) any significant movement of the total beneficiaries vis-à-vis current estimate of 450,000 beneficiaries will be investigated to ensure reasonable top-up payments are made, and (c) confirmation with treasury system that total benefits have indeed been made.

Auditing Arrangements. Component 1 will be subject to existing auditing arrangements for the whole Health SWAp. The audit will include the operational review as currently required under the main project. The audit of the Component 2 of the additional financing will be conducted (i) by independent private auditors and on terms of reference (TOR) acceptable to the Association, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

Disbursement Arrangements. Funds under Component 1 of the proposed additional financing will be disbursed into a separate designated account, and these funds will flow through the Treasury system, in line with the arrangements agreed under the original project. However, the funds will be earmarked for complete release to the Ministry of Health (MOH). Funds under additional financing will be requested separately and will not be tied to the quarterly tranches agreed under the main project. MOH will submit Withdrawal Applications, through MO, based on Financial Monitoring Reports (FMRs). Funds under Component 2 will flow into a separate designated account and into the Treasury system for onward transfer to the MLSD, based on the monthly budgetary requests submitted to the MOF. The MLSD will submit withdrawal applications, through the MOF, based on interim un-audited Financial Reports (IFRs) and reports evidencing actual and certified disbursements Certified by the Internal Audit Unit to the beneficiaries in the previous month(s). Further details on Disbursements are provided in the Disbursement Letter.

Financial Covenants. The Recipient will maintain financial management system and prepare financial statements in accordance with consistently applied accounting standards, in a manner adequate to reflect the operations, resources and expenditures related to the Project. The audit of the project and operation review will be conducted by independent auditors acceptable to the Bank, on terms of reference acceptable to the Association. The annual audited project financial statements will be submitted to the Bank within six months of the end of each fiscal year audited and also at the closing of the project.

Overall, the financial management arrangements of the project are acceptable to the Bank. The overall financial management risk for the project is high due to the nature of operation, but adequate mitigation measures are in place to ensure the risk level is manageable.
Annex 3: Procurement Arrangements

A. General

Procurement for the additional financing will be carried out in accordance with the arrangements as provided in Annex 8 to the PAD for the ongoing Health and Social Protection Project (Report No: 34079-KG, dated November 23, 2005), and the Guidelines for Procurement under IBRD Loans and IDA Credits (dated May 2004, revised in October 2006), and the Guidelines for Selection and Employment of Consultants by World Bank Borrowers (dated May 2004, revised in October 2006).

B. Procurement Plan

All the procurement activities to be financed by the additional financing will be included in the Procurement Plan for the on-going project. The Procurement Plan is being updated by the Ministry of Health and expected to be completed by May 30, 2008; and will then be submitted to the Bank for review and no-objection. The Procurement Plan will be updated annually or as required to reflect the actual project implementation needs. Any updates will be subject to the Bank’s no-objection.

C. Procurement Thresholds

The following thresholds will apply to the project:

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value Threshold (USD)</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>&gt;= 100,000</td>
<td>ICB</td>
<td>All ICB contracts</td>
</tr>
<tr>
<td></td>
<td>&lt;100,000</td>
<td>Shopping</td>
<td>Subject to ex-post review</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DC</td>
<td>All contracts</td>
</tr>
<tr>
<td>Works</td>
<td>&gt;=500,000</td>
<td>ICB</td>
<td>All ICB contracts</td>
</tr>
<tr>
<td></td>
<td>&lt;500,000</td>
<td>NCB</td>
<td>Subject to ex-post review</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DC</td>
<td>All DC contracts</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>&gt;=100,000</td>
<td>QCBS (or QBS, FBS, LCS when justified) a/</td>
<td>All TORs</td>
</tr>
<tr>
<td>(including training, study tours)</td>
<td>&lt;100,000</td>
<td>CQS</td>
<td>All contracts &gt;=$100,000</td>
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<tr>
<td></td>
<td></td>
<td>SSS</td>
<td>All SSS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IC</td>
<td>All TORs, All contracts &gt;=$50,000, All sole-source selections</td>
</tr>
</tbody>
</table>

Notes:

a/ Shortlist may compose entirely of national consultants for assignments of less than US$100,000 equivalent per contract.

ICB – International Competitive Bidding
NCB – National Competitive Bidding
DC – Direct Contracting
QCBS – Quality and Cost Based Selection
QBS – Quality Based Selection
FBS – Fixed Budget Selection
LCS – Least Cost Selection
CQS – Selection Based on Consultants’ Qualifications
SSS – Single Source Selection
IC – Individual Consultants