Mr. Akylbek Japarov  
Minister of Finance  
Ministry of Finance  
Erkindik Boulevard 58  
Bishkek  
Kyrgyz Republic

Re: DFID Grant for the Health and Social Protection Project  
Grant Number TF011265

Excellency:

In response to the request for financial assistance made on behalf of Kyrgyz Republic ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by the United Kingdom of Great Britain and Northern Ireland ("Donor"), acting through the Department for International Development ("DFID") proposes to extend to the Recipient a grant in an amount not to exceed One million nine hundred thousand Pounds Sterling (£1,900,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds. Accordingly, in the event that the Donor cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Recipient shall bear the risk of such funding shortfall and the World Bank shall not have any liability whatsoever to the Recipient or to any third parties in respect of any expenditures or liabilities incurred by the Recipient or any third parties in connection with this Agreement which exceed the amount of funds made available to the World Bank by the Donor for the purposes of the Grant.

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

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to
the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 60 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Motoo Konishi
Regional Director
Central Asia

AGREED:
KYRGYZ REPUBLIC

By:

[Signature]

Authorized Representative

Name: Akybek Saparov
Title: Minister of Finance
Date: March 26, 2012

Enclosures:

✓ (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
✓ (2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 ("Standard Conditions") constitute an integral part of this Agreement.

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

   (a) "Annual Program of Work" or "APW" means the annual program of activities set included in the Program to be carried out in each Fiscal year under the Program of Work referred to under Part A of this Grant;

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

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

   (d) "Health Policy Council" means the council established by a Decree of the Recipient's Minister of Health No. 130 dated April 2, 2002 and referred to in paragraph 2.03 (b) of Article II to this Agreement;

   (e) "Inter-Ministerial Coordination Committee" means the committee established by an order No. 118 dated March 7, 2006 of the Recipient's Minister of Health and referred to in paragraph 2.03 (c) of Article II to this Agreement;

   (f) "MIHF" means the Mandatory Health Insurance Fund under the Ministry of Health of the Recipient established by a Decree of the President of the Recipient No. 326 dated November 22, 1996;

   (g) "MOF" means the Ministry of Finance of the Recipient or any legal successor thereto;

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

   (i) "MoSD" means the Ministry of Social Development of the Recipient or any legal successor thereto.
“Nutritional Supplements” means dietary preparations intended to supplement and provide an individual with vital nutrients for the human body that are not part of the individual’s daily diet; and

“POM” or “Project Operational Manual” means the manual adopted by the Recipient pursuant to paragraph 2.02 (3) of this Agreement, describing procedures for the implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient, including, inter alia, (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits and complaint mechanisms in case of misuse of the proceeds of the Grant, and monitoring and evaluation arrangements; (ii) sample formats of Annual Program of Work and annual reports; and (iii) the EMP, as the same may be amended from time to time with the agreement of the World Bank. The Recipient shall not amend, suspend, abrogate, repeal or waive any provision of the POM without prior approval of the World Bank.

Article II
Project Execution

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

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

Support to the Ministry of Health (MoH) in the implementation of the “Manas Taalimi” Program covering period 2006-2012 and its associated Program of Work to be agreed upon annually between the Recipient and the World Bank, including strengthening MoH’s institutional and fiduciary capacities.

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.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the MOH in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); (c) this Article II; (d) the EMP; and (e) the POM.
2.03. **Institutional and Other Arrangements.** (a) The Recipient, through the MoH, shall have overall leadership and coordination role for the execution of the Project, with staffing and resources adequate to enable it to effectively oversee the Project implementation. MoH shall designate its Finance Department to: (i) prepare applications for withdrawal of the Grant proceeds; (ii) maintain records and accounts related to the Project and arrange the audits thereof; and (iii) incorporate procurement activities reports into annual reports referred to in paragraph 2.03 (f) below.

(b) The Recipient, through the MoH, shall maintain until completion of the Activities, the Health Policy Council, headed by the MoH, consisting of state secretary, deputy ministers, and heads of departments, which will be responsible for coordinating of the Activities.

(c) The Recipient shall maintain the Inter-ministerial Coordination Committee consisting of representatives of MoH, MoF, MoSD which will be responsible for: (i) inter-ministerial coordination of the Project activities, including harmonization activities; and (ii) review of effective functioning of complaint mechanism in case of misuse of the DFID Additional Financing and taking follow up measures in case of serious or unresolved complaints by internal auditors and/or third party audit to ensure the independence and reliability of the system.

(d) The Recipient, through MoF, shall by October 1 each year, approve financing for the health sector in the amounts agreed at annual sector review meeting held in May of each year.

(e) The Recipient, through MoF, shall execute the approved budget for the health sector in full and in a timely manner.

(f) The Recipient, through MoH, shall by October 1 each year, furnish to the World Bank an APW for the next budget year and an updated Procurement Plan for its prior review and approval.

(g) The Recipient, through MoH, shall undertake all measures necessary to ensure that the Program shall be carried out in a manner which fosters transparency and accountability.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of six (6) months, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than three months after the Closing Date.
2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

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

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** Procurement under the project will be part and follow the same arrangements of the Kyrgyz Republic Health and Social Protection Project (SWAP). All goods, works, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and Ida Credits dated May 2004 and revised October 2006 (“Procurement Guidelines”), in the case of goods, works and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004, revised October 2006 (“Consultant Guidelines”) in the case of consultants’ services; and

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

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

(c) **Particular Methods of Procurement of Goods, Works and Non-consulting Services**
(i) Except as otherwise provided in sub-paragraph (ii) below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to the following additional provisions spelled out for the Kyrgyz Republic Health and Social Protection Project (SWAP); (B) Shopping; (C) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

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

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

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

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
Amount of the Grant Allocated (expressed in Pounds Sterling Equivalent) to be Financed

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Transfers for APWs</td>
<td>900,000</td>
<td>Such amount of Eligible Program Expenditures as will be agreed upon between the Recipient and the World Bank for respective APW.</td>
</tr>
<tr>
<td>(2) Provision of Nutritional Supplements and Training under Part C of the Project</td>
<td>1,000,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,900,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this paragraph: the term “Transfers for APWs” means the amount of the proceeds of the Grant transferred by the World Bank, through the Recipient's MoF, to MoH’s budget to cover reasonable costs of goods, works, consultants’ services, training, incremental operating costs and recurrent costs required for the implementation of respective APWs;

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

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

(b) for transfers for APWs, unless the MoH’s budget has been approved by the Recipient for the Fiscal Year covered by the respective APW;

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is March 31, 2012.

**Article IV**

**Recipient’s Representative; Addresses**

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

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

Ministry of Finance
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic
4.03. **World Bank's Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391

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