Mr. Alexander Kvitashvili  
Director  
Curatio International Foundation  
80 Irakli Abashidze Street,  
Tbilisi, 380062,  
Georgia

Re: GEORGIA: Japan Social Development Fund Grant for the Community Based Health Insurance Project - Grant Number TF 051330

Dear Sir:

I am writing on behalf of the International Development Association (IDA) to indicate IDA’s agreement, as administrator of grant funds provided by Japan under the Japan Social Development Fund, to make a grant in an amount not exceeding four hundred seventy-seven thousand four hundred U.S. dollars (US$477,400) (the Grant) to the Curatio International Foundation (the Recipient) for the benefit of Georgia.

The Grant is made in response to the Recipient’s request for financial assistance for the Community Based Health Insurance Project (the Project) described in paragraph 1 of the Annex to this Letter Agreement and on the terms and conditions set forth in the said Annex. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said Project and on the said terms and conditions.

Please note that it is the IDA’s policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.
Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective following its countersignature and the date of effectiveness of the Letter Agreement of even date between IDA and Georgia.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Peter Nicholas  
Acting Country Director for Georgia  
South Caucasus Country Unit  
Europe and Central Asia Region

AGREED:

CURATIO INTERNATIONAL FOUNDATION

By : /s/ Alexander Kvitashvili  
    Authorized Representative  
Title : President, Curatio International Foundation  
Date : September 25, 2003
Objectives, Terms, and Conditions of the Grant

1. Objectives and Description of the Project

1.1 The objective of the Project is to test the feasibility and effectiveness of community-based health insurance (CBHI) schemes to be implemented by the selected communities in Georgia. More specifically, the Project aims to: (i) through increased community participation improve access to health services and financial protection for poor and vulnerable groups; (ii) replicate seven pilot (CBHI) schemes implemented in Western Georgia to at least thirty-six (36) other communities in Eastern and Western Georgia; and (iii) create linkages between the micro schemes (micro-insurance) thereby increasing the size of the risk pool and generating economics of scale with regard to management of the insurance schemes. The Grant will complement the Development Credit Agreement (Credit Number 3702 GE) (Primary Health Care Development Project) between Georgia and IDA dated November 8, 2002, and facilitate the implementation of the Primary Health Care Development Project.

1.2 The Project consists of the following Parts, each of which includes the following activities:

**Part A: Finalization of the Design of Community-based Health Insurance**

Provision of technical assistance and stakeholder workshop to finalize the design of the CBHI schemes based on: (i) the results of the 2001 evaluation of the seven existing pilot CBHI schemes; (ii) the changes in Georgia’s Government financing for rural and high mountain regions; (iii) the selection criteria for CBHI to be defined using the results of the 2001 evaluation; (iv) the results of an assessment of epidemiological profile of participants in the selected communities and demand side issues such as ability and willingness to pay; and (v) the latest international research on the organization and management of CBHI especially micro-insurance and reinsurance. The estimated cost of these Activities is US$57,450 equivalent.

**Part B: Support the development of CBHI**

Establishing CBHI in targeted communities, building the capacity of the communities to plan, implement and manage CBHI schemes, and establishing of a network to link various schemes, where possible. The sub-components of this component are: (i) identification of institutional and organizational arrangements for CBHI in the particular community; (ii) provision of training, workshops and seminars for the community members, selected to be CBHI managers, in business development, financial management, basic principles of the community based health insurance and financing, and in monitoring; (iii) ongoing technical assistance to selected communities and community members, selected to be CBHI managers, in CBHI scheme management and network development; and (iv) provision of training and workshops, computer software and hardware for managing the network. The estimated cost of these Activities is US$290,100 equivalent.
Part C: Monitoring and Evaluation

Monitoring of inputs/outputs and outcomes (defined under the performance indicators) on a regular basis, carrying out of a quantitative and qualitative baseline and final household survey in intervention and non-intervention communities, routine monitoring of Project inputs and outputs and sustainability assessments. The estimated cost of these Activities is US$62,130 equivalent.

Part D: Audit of Grant Activities and Operating Costs

 Provision of financing for the audit of Grant Activities and operating costs for the Project implementation by the Recipient. The estimated cost of this Activity is US$67,720 equivalent.

2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Project with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Project and the use of the proceeds of the Grant as IDA shall reasonably request; (d) from time to time exchange views with IDA’s representatives on the progress and results of the Project; and (e) take all necessary measures required to enable IDA to visit the territory of Georgia for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Project a report, in form and substance satisfactory to IDA, on the results and impact of the Project.

2.2. The Recipient shall: (a) carry out the Activities in close cooperation with the Ministry of Labor, Health and Social Affairs (MoLHSA) of Georgia; (b) prepare, under terms of reference satisfactory to IDA, and furnish to IDA and MoLHSA of Georgia quarterly progress reports to be submitted not later than December 31, March 31, June 30 and September 30 of each year for the preceding three (3) months in an appropriate format satisfactory to IDA; and (c) for the life of the Grant, to continue to participate in technical working groups on health care financing and primary health care within MoLHSA of Georgia.

3. Procurement

3.1. Except as IDA shall otherwise agree, procurement of the goods and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Project are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in
accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated in (in U.S. dollars equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services</td>
<td>305,100</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training/workshops</td>
<td>57,380</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods</td>
<td>47,200</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Audit</td>
<td>20,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating costs</td>
<td>47,720</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>477,400</strong></td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this paragraph, the term:

(a) “training/workshops” means expenditures incurred on account of training and workshops for finalizing the design of the CBHI, training CBHI community fund managers, and dissemination workshops to present the results of the Project; and

(b) “operating costs” means expenditures incurred on account of the Project implementation made by the Recipient and such other expenditures as may be agreed upon by IDA.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA; (ii) on account of expenditures in the territories of any country which is not a member of IDA or for goods produced in or services supplied from such territories; or (iii) for the purpose of any payment to persons or entities, or for any import of goods if such payment or import, to IDA’s knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

(b) No withdrawals shall be made from the Grant Account after June 30, 2006 or such later date that the Bank shall establish by notice to the Recipient (the Closing Date).

(c) If, in IDA’s opinion, an amount of the Grant allocated to any of the Categories in the table in paragraph 4.2 above will be insufficient to finance the expenditures under such Category, IDA may, by written notice to the Recipient, reallocate to such Category an amount of the Grant then
allocated to another Category which, in IDA’s opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Director of the Curatio International Foundation or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Project. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. IDA may require withdrawals from the Grant Account to be made on the basis of statements of expenditure under contracts for: (a) services of consulting firms costing less than US$50,000 equivalent each; (b) services of individual consultants costing less than US$25,000 equivalent each; (c) goods; (d) training/workshops; and (e) operating costs, all under such terms and conditions as IDA shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient’s request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

4.7. To facilitate the carrying out of the Project, the Recipient may open and maintain in United States dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to IDA, adequate to reflect the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) have the financial statements referred to in subparagraph (a) above for each such fiscal year or other period agreed to by IDA, audited, in accordance with consistently applied auditing standards, acceptable to IDA, by independent auditors acceptable to IDA; (ii) furnish to IDA as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by IDA, (A) certified copies of the financial statements referred to in subparagraph (a) above for such year or such other period agreed to by IDA, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to IDA; and (iii) furnish to IDA such other information concerning such records and accounts and the
audit of such financial statements, and concerning said auditors, as IDA shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) retain, until at least one year after IDA has received the audit report for or covering the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) enable IDA’s representatives to examine such records; and (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, or other period agreed to by IDA, referred to in subparagraph (b) above.

6. **Suspension and Cancellation**

6.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient have failed to comply with any of its obligations herein specified; or (b) the right of the Recipient or Georgia, or any other entity to which the International Bank for Reconstruction and Development (the IBRD) has made a loan with the guarantee of Georgia, to make withdrawals under any loan agreement with the IBRD or any development credit agreement with IDA shall have been suspended

6.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account and shall cancel any amount of the Grant remaining unwithdrawn: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to IDA, within six months after the effective date hereof, to carry out the Project.
Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section I.

Part B: Procurement Procedures

National Shopping

Goods shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by IDA of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any requests for price quotations, the proposed procurement plan for the Activities shall be furnished to IDA for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by IDA, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to the first contract for goods, the following procedures shall apply:

(i) prior to the selection of any supplier, the Recipient shall provide to IDA a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract, the Recipient shall provide to IDA a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.
3. **Post Review**

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

**Section II. Consultants’ Services**

**Part A: General**

Consultants’ services shall be procured in accordance with the provisions of Section I and Section IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers”, published by the World Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section II.

**Part B: Procedures for the Selection of Consultants**

1. **Least-cost Selection**

   Services for audit of the Grant estimated to cost less than US$20,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. **Selection Based on Consultants’ Qualifications**

   Services for epidemiological data collection, qualitative and quantitative surveys, development of CBHI schemes and monitoring of CBHI schemes, baseline and follow up surveys, data analysis under paragraph 1.2 Parts A, B and C of the Annex estimated to cost less than US$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. **Individual Consultants**

   Services of individual consultants for finalization of the design of CBHI - international and local technical assistance, other local technical assistance for supporting the development of CBHI under paragraph 1.2 Parts A, B and C of the Annex tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

**Part C: Review by IDA of the Selection of Consultants**

1. **Selection Planning**

   A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to IDA for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every four (4) months during the execution of the Project, and each such updating shall be furnished to IDA for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by IDA.
2. **Prior Review**

   (a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

   (b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US$25,000 or more, the report on the comparison of the qualifications and experience of candidates, and terms of reference and terms of employment of the consultants shall be furnished to IDA for its prior review and approval. The contract shall be awarded only after said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. **Post Review**

   With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.
Special Account

1. For the purposes of this Attachment:

   (a) the term "eligible Categories" means the Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;

   (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of paragraph 4.2 of the Annex to this Letter Agreement; and

   (c) the term "Authorized Allocation" means an amount equivalent to US$50,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.

3. After IDA has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) The Recipient shall furnish to IDA a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

   (b) (i) For replenishment of the Special Account, the Recipient shall furnish to IDA requests for deposits into the Special Account at such intervals as IDA shall specify.

   (ii) Prior to or at the time of each such request, the Recipient shall furnish to IDA the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by IDA from the Grant Account under the eligible Category(ies), and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as IDA shall reasonably request, furnish to IDA such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, IDA shall not be required to make further deposits into the Special Account:

   (a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

   (b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

   (c) if, at any time, IDA shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

   (d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If IDA shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to IDA, the Recipient shall, promptly upon notice from IDA: (A) provide such additional evidence as IDA may request; or (B) deposit into the Special Account (or, if IDA shall so request, refund to IDA) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless IDA shall otherwise agree, no further deposit by IDA into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

   (b) If IDA shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from IDA, refund to IDA such outstanding amount.