
GRANT NUMBER 0086-MON (SF)

GRANT AGREEMENT
(Special Operations)
(Third Health Sector Development Project)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED 13 December 2007

GAS:MON 41119

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 13 December 2007 between MONGOLIA (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement; and

(B) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

- (a) "aimag" means an administrative subdivision in Mongolia/Province;
- (b) "AGH" means Aimag General Hospital;
- (c) "Component" means each part of the Project as described in Schedule 1 to this Grant Agreement;
- (d) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;
- (e) "duureg" means an administrative subdivision in the capital city of Mongolia;
- (f) "feldshers" means a community-based health nurse;
- (g) "FGP" means a family group practice;

(h) “Goods” means equipment and materials to be financed out of the proceeds of the Grant, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(i) “HSMP” means Mongolia’s Health Sector Strategic Master Plan 2006-2015;

(j) “MOF” means the Recipient’s Ministry of Finance and any successor thereto;

(k) “MOH” means the Recipient’s Ministry of Health and any successor thereto;

(l) “MSWL” means the Recipient’s Ministry of Social Welfare and Labor and any successor thereto;

(m) “PHC” means primary health care;

(n) “PIU” means the Project Implementation Unit as described to in paragraph 2 of Schedule 4 to this Grant Agreement;

(o) “PPMS” means Project Performance Monitoring System;

(p) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;

(q) “Procurement Plan” means the procurement plan for the Project dated 11 October 2007 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(r) “Project aimag” means each of Arkhangai, Dundogov, Gobi Altai, Sukhbaatar and Tuv;

(s) “Project duureg” means each of Chingeltei and Songinokkhairkan;

(t) “Project Executing Agency” or “EA” for the purposes of, and within the meaning of, the Grant Regulations means MOH or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(u) “Project facilities” means the facilities, equipment, and materials provided under this Project;

(v) “Project Manager” means the Manager responsible for the Project management as described in paragraph 2 of Schedule 4 to this Grant Agreement;

(w) “PSC” means Project Steering Committee as described in paragraph 3 of Schedule 4 to this Grant Agreement;

(x) “SHC” means soum health center;

(y) "soum" means an administrative sub-unit of the aimag; and

(z) "Works" means construction or civil works to be financed out of the proceeds of the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of fourteen million dollars (\$14,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2013 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account/statement of expenditures, all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the Goods financed out of the proceeds of the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the PIU shall have been established in MOH, in a manner acceptable to ADB, and as described in paragraph 2 of Schedule 4 to this Grant Agreement.

Section 5.02. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance
Government Building – 2
Negdsen Undestnii Gudamj – 5/1
Ulaanbaatar – 210646
Mongolia

Facsimile Number:

(976) 51-262272.

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:


29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2407.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

MONGOLIA

By 

ULAAN CHULTEM
Minister of Finance of Mongolia

ASIAN DEVELOPMENT BANK

By 

ADRIAN RUTHENBERG
Country Director
Mongolia Resident Mission

SCHEDULE 1

Description of the Project

1. The expected impact of the Project is improved health status and quality of life of the population of Mongolia. The expected outcome is more effective PHC services and financial protection through improved health insurance.

2. The project consists of four Components as follows:

Component 1: Strengthened Health Services

This Component aims at increasing the coverage, access and utilization of health services, especially for the mothers and children, the poor and other disadvantaged groups; and strengthening the delivery of quality primary and general care through soum health facilities and FGPs by:

- (i) constructing two new FGP clinics and upgrading the equipment of 60 FGP clinics;
- (ii) analyzing and making recommendations on the legal, tax, business and social status of FGPs;
- (iii) organizing a study tour on FGPs for decision-makers;
- (iv) supporting the Department of General Practice at the Health Sciences University of Mongolia for providing education to family doctors;
- (v) providing training to local government health agency staff;
- (vi) constructing 15 new SHCs, upgrading four SHCs, establishing 20 wells at the SHC level, and providing medical equipment to about 90 SHCs and basic laboratory technology to about 100 SHCs;
- (vii) providing training for SHC doctors;
- (viii) upgrading infrastructure in three AGHs, providing equipment to five AGHs and two duureg hospitals;
- (ix) renovating and providing equipment for training facilities in five AGHs and two district hospitals;
- (x) providing medical education and clinical rotation programs for FGPs and soum doctors;
- (xi) enhancing electronic consultation and communication with hospital specialists; and
- (xii) developing incentive mechanisms for AGH and district staff to support FGPs and SHCs.

Component 2: Improved Health Care Financing and Health Insurance

This Component seeks to strengthen the financial management system and the health insurance system by:

- (i) developing and implementing a single purchaser model;
- (ii) organizing a study tour on single purchasing for decision-makers;
- (iii) expanding health insurance coverage and benefits;
- (iv) developing options to introduce market elements in hospital service provision in order to increase competition among hospitals;

- (v) reviewing and recommending measures to increase hospital financial autonomy through the establishment of hospital/health area boards for improved governance, efficiency and increased participation of consumers in line with the HSMP; and
- (vi) developing and conducting training for improving the efficiency of hospital finance and management.

Component 3: Improved Human Resources Development

This Component intends to strengthen human resource management sector-wide, and develop the incentives and motivation scheme for all health workers in the sector by:

- (i) developing workforce models;
- (ii) providing training to staff in the health sector and the general administration to institutionalize human resources management capacity;
- (iii) supporting study visits for AGH;
- (iv) supporting the High Level Human Resource Coordinating Committee; and
- (v) identifying incentives to improve the recruitment and retention of health workers in rural areas.

Component 4: Sector Capacity Development and Management

This Component aims at strengthening and integrating ongoing health sector reform using a sector wide approach and establishing an optimal public and private mix of health care services by:

- (i) providing capacity development for MOH in planning, coordinating and budgeting to facilitate sector-wide coordination in the medium and management in the long term;
- (ii) organizing and implementing joint annual reviews of HSMP implementation with major stakeholders;
- (iii) strengthening the HSMP Implementation Coordination Committee and its equivalent at the aimag level;
- (iv) piloting the hospital/health area boards concept to provide more autonomy to hospitals;
- (v) providing a study tour on hospital autonomy;
- (vi) developing and implementing pilot participatory mechanisms for patients and consumers;
- (vii) developing regulatory framework and mechanisms for private health operations, financing and licensing; and
- (viii) reviewing and developing public-private cooperation in the provision of health services to render them more widely available to the community and to increase access to quality treatment and diagnostic services.

3. The Project is expected to be completed by 30 June 2013.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish, immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The currency of the imprest account shall be dollars. The initial

amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$ 50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS				
(Third Health Sector Development Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Grant Account
		Category	Subcategory	
1	Works	5,148,000		
1A	Civil works		3,534,000	70 percent of total expenditure*
1B	Other investment support		1,488,000	70 percent of total expenditure*
1C	Civil works Operation and Management		126,000	48 percent of total expenditure*
2	Equipment	2,916,000		
2A	Equipment		2,884,000	100 percent of total expenditure*
2B	Equipment O&M		32,000	35 percent of total expenditure*
3	Materials/Information Education Communication /Workshops	594,000		60 percent of total expenditure*
4	Training/Fellowships	413,000		84 percent of total expenditure*
5	Vehicles	77,000		100 percent of total expenditure*
6	Consulting Services	3,377,000		100 percent of total expenditure*
7	Unallocated	1,475,000		
	Total	14,000,000		

* Exclusive of taxes and duties imposed within the territory of the Recipient.

SCHEDULE 3

Provisions on Procurement and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Recipient may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The Recipient's standard procurement procedures, are subject to the following modifications:

The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of Mongolia of 1 December 2005, effective since 1 February 2006, as amended (Amendment 1 dated 6 February 2007), with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines.

- i. Applicable Procurement Procedure

Bidding shall be conducted in accordance with the Open Bidding Procedure, as defined in Chapter Two of the Public Procurement Law of Mongolia subject to the provisions stated in paragraph ii(c) below.

ii. Participation in Bidding and Preferences

(a) Government-owned enterprises in Mongolia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the project executing agency or implementing agency.

(b) Prospective bidders shall be permitted to request bidding documents either in person or by mail upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee for the bidding documents, and no other conditions shall be imposed on the sale of the bidding documents. The bidding documents shall be delivered, at the prospective bidders' preference, either by hand or by mail or courier, provided that the bidder is willing to pay the mail or courier delivery charges, which should be specified in the bid invitation. Each bidder shall be allowed to purchase only one set of the bidding documents for a given tender. No limitations shall be imposed on any bidder as to the number of tenders in which it may participate during a given period of time, but the bidder's qualification (financial and technical capabilities) for award of contract(s) shall be assessed on the basis of its capacity to meet the aggregated qualifying requirements for the award of contracts for which it has submitted the lowest evaluated substantially responsive bids.

(c) Interested foreign bidders from eligible countries shall be allowed to participate without being required to associate or form joint ventures with local bidders. Foreign bidders shall be eligible to participate in bidding under the same conditions as local bidders. Mongolian bidders and goods manufactured in Mongolia shall be given no preference over foreign bidders and goods manufactured outside Mongolia, either in the bidding process or in the evaluation of bids.

(d) Prior registration shall not be a requirement for any bidder to participate in bidding.

(e) Pre-qualification of contractors shall not be required, except in the case of large or complex works and with the prior written concurrence of ADB.

iii. Advertising

Invitations to bid shall be advertised in the Mongolian national language in at least one widely circulated national daily newspaper and freely accessible, nationally-known website in accordance with Section 21 of the Law. Bidding of NCB contracts estimated at \$500,000 or more for Goods and related services of \$1,000,000 or more for Works shall be advertised concurrently with the general procurement notices on ADB's website.

iv. Standard Bidding Documents

Standard bidding documents, acceptable to ADB, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand, by mail or by courier.

v. Qualification Criteria and Evaluation Criteria

(a) Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, shall be used to determine whether a bidder is qualified. The evaluation of the bidder's qualifications should be conducted separately from the technical and commercial evaluation of the bid. When post qualification is applied, the assessment of bidders' qualifications shall be carried out only after the preliminary and detailed evaluation of bids has been completed by the executing agency/implementing agency and, in doing so, the qualifications of the bidder who has submitted the lowest evaluated substantially responsive bid shall be assessed first. The evaluation of a bidder's qualifications shall only take into account the bidder's capacity and resources to perform the contract, in particular its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities and financial position. In carrying out the post-qualification assessment, the executing agency/implementing agency shall exercise reasonable judgment in requesting, in writing, from a bidder only missing factual or historical supporting information related to the bidder's qualifications and shall provide a reasonable time period (that is, a minimum of 7 days) to the bidder to provide his response.

(b) Evaluation criteria to be used in the evaluation of bids shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. All evaluation criteria so specified, shall be taken into account in bid evaluation. Merit points shall not be used in bid evaluation.

vi. Bid Opening, Evaluation and Award of Contract

(a) Bids shall be opened in public, immediately upon the stipulated deadline for submission of bids. Bidders' representatives and the project's beneficiaries from the concerned local community who choose to attend shall be allowed to attend. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded in the Bid Opening Record. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. Immediately after completion of the bid opening proceedings, a copy of the Bid Opening Record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the Bid Opening Record shall be promptly provided to all bidders who submitted bids.

(b) All bids shall not be rejected or new bids invited without ADB's prior written concurrence.

(c) No bid shall be rejected merely on the basis of a comparison with the owner's estimated cost or budget ceiling without the ADB's prior written concurrence.

(d) A bid containing material deviations from or reservations to the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or reservations once bids have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.

(e) The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and substantially responsive bid.

(f) Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and, in all such cases, the executing agency/implementing agency shall obtain ADB's approval for the extension of the bid validity period in a timely manner, and subsequently, communicate such request for extension of the validity period of the bids in writing to all bidders before the date of expiry of their bids. Bidders shall have the right to refuse to grant such an extension of the validity of their bids without forfeiting their bid securities. Bidders agreeing to extend the validity date of their bids shall also extend the validity period of their bid securities.

(g) In the case of contracts of more than 18 months' duration, the bidding documents and the resultant contract shall provide for price adjustment, based on a formula acceptable to ADB, which shall be disclosed to the bidders in the bidding documents.

(h) If a bidder that submitted the lowest evaluated bid refuses to accept the arithmetical corrections made by the executing agency/implementing agency during the evaluation of its bid, its bid shall be disqualified and its bid security shall be forfeited.

(i) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

(j) There shall be no post-bidding negotiations with the lowest evaluated bidder or any other bidder. No bidder shall be required, as a condition for the award of contract, to change his bid price or otherwise materially alter his bid after it has been submitted.

(k) A bidder declared ineligible by ADB, based on a determination by ADB that the bidder has engaged in corrupt, fraudulent, collusive or coercive practices in competing for or in executing an ADB-financed contract, shall be ineligible to be awarded an ADB-financed contract during the period of time determined by ADB.

vii. Inspections of Accounts and Records

Bidding documents and contracts under national competitive bidding procedures financed by ADB shall include a provision requiring suppliers and contractors to permit ADB to inspect their accounts and records relating to the bid submission and the performance of the contract by the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by ADB, if so required by ADB.

viii. Complaints by Bidders and Handling of Complaints

Bidders' complaints shall be handled in accordance with the procedures set out in Chapter Seven of the Public Procurement Law of Mongolia.

ix. Disclosure of Decisions on Contract Awards

At the same time that notification on award of contract is given to the successful bidder, the results of the bid evaluation shall be published in a local newspaper or well-known freely accessible website identifying the bid and lot numbers and providing information on (i) name of each bidder who submitted a bid, (ii) bid prices as read out at bid opening, (iii) name of bidders whose bids were rejected and the reasons for their rejection, (iv) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. The procuring entity/executing agency/implementing agency shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids were not selected.

x. ADB Member Country Restrictions

Bidders must be nationals of member countries of ADB, and offered Goods and Works must be produced in and supplied from member countries of ADB.

C. Selection of Consulting Services

7. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.

8. The Recipient shall apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Individual Consultant Selection for the PIU staff and for selected international consultants (information and communication technology; health planning and management; monitoring and evaluation) and national consultants (legal expert; web designer; information and communication technology; health planning and management; gender and development; monitoring and evaluation).

D. Industrial or Intellectual Property Rights

9. (a) The Recipient shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

10. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

F. ADB's Review of Procurement Decisions

11. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

SCHEDULE 4

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency

1. MOH shall be the EA and shall be responsible for overall coordination of the Project.

Project Implementation Unit

2. The PIU shall be headed by a qualified project manager selected on a competitive basis and shall include a planning and human resources officer, an administration and finance officer, a civil works and procurement officer, a secretary, and a driver. The PIU shall be responsible for Project coordination and day-to-day implementation of Project activities, including construction supervision; procurement of equipment and materials; disbursement; provision of support for the selection of consultants; engagement and management of consultants; supervision and monitoring of the work program and Project performance; and reporting on progress, including the preparation of the quarterly and annual Project monitoring and progress reports.

Project Steering Committee

3. A PSC has been established to provide strategic orientation and overall guidance on Project implementation. The PSC shall be chaired by the state secretary of MOH and composed of officials from MOH, MSWL, MOF, State Social Insurance General Office, Health Sciences University of Mongolia, Ulaanbaatar city, representatives of Project aimags/ duuregs and the Mongolian Association of Family Doctors. The PSC will serve as a mechanism for private sector participation in the Project. The PSC shall meet at least every three months or more if necessary, and shall submit the minutes of the meeting in English to ADB for information.

Project aimags and duuregs

4. The Project aimags shall establish aimag supervisory groups, chaired by the governor's office and composed of representatives of the health department, AGHs, and SHCs. The Project duuregs shall establish duuregs supervisory groups, chaired by the governor's office and composed of the district health alliance, district general hospital, Ulaanbaatar city health department and FGPs'. The supervisory groups shall be responsible for approving the annual Project budget and activity plan, and reviewing and advising on Project implementation progress. The supervisory groups shall meet on a quarterly basis.

Office Space

5. The Recipient shall provide adequate office space for the implementation of the Project in Ulaanbaatar and Project aimags.

Budgetary Allocations

6. The Recipient shall ensure that, throughout implementation of the Project, adequate budgetary allocations for the required counterpart funds are made, approved, and released in a timely manner to ensure efficient implementation of the Project.

Operation and Maintenance

7. The Recipient shall ensure that necessary budgetary allocations are provided to meet the recurrent costs under the Project for the operation and maintenance of the Project facilities both during and after Project completion.

FGPs

8. Within 12 months of the Effective Date, the Recipient shall have prepared a draft funding plan for incentives for FGPs to allow additional (bonus) funding for achieving quality, performance and service targets. FGP performance contracts shall be amended to reflect improvement targets and processes and shall be developed collaboratively with FGPs, MOF, local health departments and local Recipient offices.

9. Within 18 months of the Effective Date, the Recipient shall have provided a plan, based on research and analysis, acceptable to ADB, detailing the major legal issues to be addressed in the health sector to clarify and resolve the optimal legal framework for the operations of FGPs. The plan shall outline the necessary laws, orders and amendments that will need to be introduced to improve FGPs' legal, tax, business and social status, including FGPs role as a gatekeeper, the referral arrangements, and the financial requirements.

10. Within 18 months of the Effective Date, the Recipient shall have established a risk adjusted capitation process for FGPs set at levels sufficient to ensure adequate remuneration for doctors and nurses, as well as incentives to build up the FGP practice. The institutionalized risk adjusted capitation process shall be developed and agreed in consultation with MOF and the Mongolian Association of Family Doctors and reviewed and updated regularly on a yearly basis.

Incentive Package Mechanism

11. Within 12 months of the Effective Date, the Recipient shall have prepared a draft plan with identified incentive funding and salary packages, time frames and other required resources to encourage staff transfers to areas of staff shortage in aimags. The incentive package mechanism shall be a long term commitment instituted in appropriate ministries, including MOH and MSWL and reviewed annually, and reported in connection with Project progress reviews.

Training for Rural Staff

12. Within 18 months of the Effective Date, the Recipient shall have researched, identified, established and supported additional training places for rural staff including nurses and feldshers. At least 20 funded places in medical/nursing schools per year and per staff group shall be provided for students, with additional incentives, as appropriate. Guaranteed positions shall be available for new graduates, and training schemes advertised and promoted in aimags to encourage young students to apply.

SHC

13. Within nine months of the Effective Date, the Recipient shall have established a process to review SHC organization and have developed a plan within one year of the Effective Date, acceptable to ADB, for the long term structure, extent and reorganization of SHCs and the rural health sector. The aim for SHCs shall be to move towards centers of primary care with a mainly ambulatory and outreach focus.

Project Facilities Plan

14. Within six months of the Effective Date, the Recipient shall have provided a civil works and equipment plan acceptable to ADB. The plan shall have (i) outlined the number and location of new facilities to be renovated under the Project; and (ii) developed a master plan to upgrade the health facilities under the Project. Provision of civil works and equipment shall be prioritized for the improvement of PHC services.

Civil Works

15. The Recipient shall cause MOH to ensure that all civil works contractors (i) do not employ child labor for construction and maintenance activities; (ii) encourage employment of the local poor who meet the job and efficiency requirements for construction and maintenance of Project infrastructures, particularly women; (iii) do not differentiate wages between men and women particularly for work of equal value; and (iv) provide timely payment of wages on at least a monthly basis and safe working conditions to all workers. All civil works contracts shall include specific clauses on these undertakings, and compliance shall be strictly monitored by MOH during Project implementation.

Involuntary Resettlement

16. The Recipient shall ensure that construction of SHCs and FGPs are carried out on existing Recipient's land. In the event of (i) any unanticipated or unforeseen involuntary resettlement, (ii) land acquisition; and (iii) resettlement activities during Project implementation, the Recipient shall ensure that the Project is implemented in accordance with ADB's *Involuntary Resettlement Policy* (1995) and in accordance with all applicable laws and regulations in Mongolia. In the event of discrepancies between the Recipient's Laws and regulations and ADB's Policy, ADB's *Involuntary Resettlement Policy* shall prevail.

Summary Initial Environment Examination

17. Within 12 months of the Effective Date, the Recipient shall have ensured the effective implementation of the requirements for monitoring and mitigation included in the Summary Initial Environment Examination, as agreed between the Recipient and ADB.

Health Care Financing Reforms

18. Within 12 months of the Effective Date, the Recipient shall have provided a preliminary plan, acceptable to ADB, outlining the main financial reforms to be introduced in the health sector. The plan shall cover all proposed measures including the health insurance scheme, output-based budgeting, case mix, single purchaser, and performance payments and shall have detailed proposed implementation arrangements, including piloting and timeframes.

19. Within 18 months of the Effective Date, the Recipient shall have caused MOH to enter into a Memorandum of Understanding (MOU) with MOF and the MSWL containing the detailed processes and milestones for the establishment of pooling of funds and single purchaser for financing the health care. The single purchaser model's alignment with the current budget and health insurance systems shall be clarified in the MOU. The MOU shall ensure that results of the new model are carefully monitored and a contingency plan is in place if the new financing system is not successful. The Recipient shall ensure that the pooling of funds and single purchaser for financing health care is implemented on a pilot basis, acceptable to ADB within the duration of the Project.

Hospital/Health Board

20. Within 18 months of the Effective Date, the Recipient shall have provided to ADB a preliminary plan for the piloting of hospital/health boards, including an outline of their operating arrangements and responsibilities.

Private Sector

21. Within 12 months of the Effective Date, the Recipient shall have submitted to ADB a draft regulatory framework for private sector participation in health services provision, including proposed monitoring and licensing processes, authorizations for development, technology acquisition and standards for safety and quality as considered necessary. The draft shall have been prepared in consultation with private sector stakeholders and an agreed final regulatory framework shall be established within 24 months of the Effective Date.

Free Access to Health Services

22. The Recipient shall cause MOH to ensure that the poor continue to receive free access to health services at FGP level.

Gender Plan

23. The Recipient shall cause MOH to take all necessary and appropriate measures to implement the gender plan, during the Project, including steps to encourage women to participate in the planning and the implementation of the Project.

Good Governance and Anticorruption

24. The Recipient shall ensure that the Project funds are utilized effectively and efficiently to implement the Project and to achieve the Project objectives. The Recipient shall ensure that MOH (i) strictly enforces and complies with the Recipient's Anticorruption Law and ADB's *Anticorruption Policy* (1998, as amended to date) during Project implementation, and that relevant provisions of ADB's *Anticorruption Policy* are included in all bidding documents for the Project; (ii) facilitates in ADB's exercise of its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; (iii) conducts periodic inspections on the Project contractor's activities related to fund withdrawals and settlements; (iv) ensures that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants and other service providers as they relate to the Project; (v) establishes a mechanism for external monitoring of quality of civil works; and (vi)

launches a project specific website for disclosure of project activities and achievements. All external costs related to the audits and investigations shall be funded from the Grant.

Public Reporting System

25. Within 48 months of the Effective Date, the Recipient shall have established a public reporting mechanism for the community to express its level of satisfaction on the quality of the services provided by FGPs and hospitals.

PPMS

26. Within nine months of the Effective Date, the Recipient shall have caused MOH to establish a PPMS acceptable to ADB.

Mid Term Review

27. The Recipient and ADB shall jointly undertake a mid-term review of the Project on the third year of Project implementation to assess progress, issues and constraints and determine any necessary remedial action and adjustments in Project design, Project implementation schedule and/or Project implementation arrangements.