

CONFORMED COPY

CREDIT NUMBER 2833 IN

Project Agreement

(Second State Health Systems Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF KARNATAKA
STATE OF PUNJAB
STATE OF WEST BENGAL
and
PUNJAB HEALTH SYSTEMS CORPORATION

Dated April 18, 1996

CREDIT NUMBER 2833 IN

PROJECT AGREEMENT

AGREEMENT, dated April 18, 1996, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and THE STATE OF KARNATAKA, THE STATE OF PUNJAB, THE STATE OF WEST BENGAL, acting by their respective Governors (the Project States) and PUNJAB HEALTH SYSTEMS CORPORATION (PHSC).

WHEREAS (A) the Association has received a letter dated February 13, 1996, February 15, 1996 and February 8, 1996 from the State of Karnataka, the State of Punjab and the State of West Bengal respectively (collectively the Project States), each such letter describing a program of objectives, policies and actions to improve the primary and first referral levels of health care (hereinafter referred to as the Karnataka Health Sector Development Program, the Punjab Health Sector Development Program and the West Bengal Health Sector Development Program, respectively) and declaring the respective Project State's commitment to carry out its Health Sector Development Program;

WHEREAS (B) by the Development Credit Agreement of even date herewith between India, acting by its President (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies

equivalent to two hundred thirty five million five hundred thousand Special Drawing Rights (SDR 235,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Project States and PHSC agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS the Project States and PHSC, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Project States and PHSC declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Project States and PHSC shall otherwise agree, the Project States and PHSC shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) Without limitation upon the provision of paragraph (a) of this Section, Punjab shall promptly make available the proceeds of the Credit received from the Borrower to PHSC as part of its grant contribution in accordance with the provisions of the Ordinance.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) The Project States and PHSC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and the Project.

(b) For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Project States and PHSC shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association

and the Project States and PHSC, a plan designed to ensure the sustainability of the Project;

- (ii) afford the Association a reasonable opportunity to exchange views with the Project States and PHSC on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 2.04. (a) The Project States and PHSC shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this and other matters relating to the purposes of the Credit.

(b) The Project States and PHSC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by each of them of its respective obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Project States and PHSC shall each maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations, resources and expenditures in respect of activities related to their respective parts of the Project, of the departments or agencies responsible for carrying out the Project or any part thereof.

(b) The Project States and PHSC shall:

- (i) have records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of the Project States and PHSC thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Project States and PHSC of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:
For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For the State of Karnataka:

Chief Secretary to the
Government of Karnataka
Bangalore, India

For the State of Punjab:

Secretary to the
Government of Punjab
Department of Health
Chandigarh, India

For the State of West Bengal:

Chief Secretary to the
Government of West Bengal
Calcutta, India

For Punjab Health Systems Corporation:

Managing Director
Punjab Health Systems Corporation
Chandigarh, India

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed,

under this Agreement on behalf of the Project States or PHSC, may be taken or executed by the Chief Secretary in the case of Karnataka and West Bengal, or the Secretary, Department of Health in the case of Punjab or the Managing Director in the case of PHSC or such other person or persons as the respective Chief Secretary, the Secretary, Department of Health, or the Managing Director shall designate in writing, and the Project States and PHSC shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Heinz Vergin

Acting Regional Vice President
South Asia

STATE OF KARNATAKA
STATE OF PUNJAB
STATE OF WEST BENGAL
PUNJAB HEALTH SYSTEMS CORPORATION

By /s/ N. Valluri

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: General

Goods and works 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 Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and Paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent

or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Except as provided in paragraphs 2 and 3 hereof, civil works may be procured under contracts awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.
2. Civil works estimated to cost the equivalent of \$45,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$18,000,000, may be procured: (i) under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract; or (ii) through direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines, and in accordance with procedures acceptable to the Association; or (iii) with the Association's prior agreement, under force account procedures in accordance with the provisions of paragraph 3.8 of the Guidelines, provided, however, that civil works procured under such procedures shall not in the aggregate exceed \$10,000,000.
3. Except as provided in paragraph 4 hereof, equipment estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$12,700,000, may be procured under contracts awarded on the basis of national competitive bidding procedures, in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.
4. Equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount not to exceed the equivalent of: (i) \$4,200,000, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines; and (ii) \$12,700,000, may 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.
5. Vehicles estimated to cost not more than the equivalent of \$300,000 in the aggregate may 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.
6. Except as provided in paragraph 7 hereof, medical laboratory supplies estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of: (i) \$2,700,000, may be procured under contracts awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, and (ii) \$400,000 may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.
7. Medical laboratory supplies estimated to cost less than

the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$2,300,000 may 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.

8. Except as provided in paragraphs 9 and 10 hereof, medicines, furniture, Management Information System/Information, Education and Communication (MIS/IEC) materials and supplies shall be procured under contracts awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

9. Medicines estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000 may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

10. Medicines, furniture, MIS/IEC materials and other supplies estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$3,700,000, \$2,800,000, \$1,700,000 and \$11,100,000 respectively, may 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.

11. Except as provided in paragraph 12 hereof, maintenance of buildings and vehicles and equipment may be carried out 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.

12. Maintenance of buildings, and vehicles and equipment which meet the requirements of paragraphs 3.7 and 3.8 of the Guidelines and costing in the aggregate less than the equivalent of \$3,100,000 in the case of buildings and \$7,000,000 in the case of vehicles and equipment, may be carried out either: (i) through direct contracting; or (ii) force account, in accordance with the provisions of said paragraphs 3.7 and 3.8 respectively, of the Guidelines, and in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods or civil works estimated to cost more than the equivalent of \$200,000 or \$300,000 respectively, the procedures set forth in paragraphs 2 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: Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

1. Each Project State shall:

(a) ensure that within the allocations for the health sector in each Fiscal Year during the implementation of the Project the share of resources for Primary and Secondary Levels of Health Services shall be increased in each such Fiscal Year until FY 02; and

(b) allocate in each Fiscal Year during the implementation of the Project adequate resources for drugs, essential supplies, and maintenance of equipment and buildings at facilities providing First Referral Level Health Services in accordance with norms agreed to with the Association.

2. Each Project State shall maintain its Strategic Planning Cell with adequate staff, resources and terms of reference acceptable to the Association.

3. Each Project State and PHSC shall levy user-charges in district and sub-divisional hospitals in accordance with a program and time schedule acceptable to the Association, such program to focus, inter alia, on: (a) permitting the revenues collected from user-charges to be retained at the hospital level; (b) implementing user charges in a phased manner after improvements in the quality of basic services and infrastructure development have been completed; (c) developing and applying criteria for exempting the poor from user charges; and (d) strengthening appropriate management and collection arrangements for maintaining existing user charges, including the establishment and maintenance of District Health Committees in Karnataka and West Bengal for collecting such charges.

4. Punjab and PHSC shall, as the case may be, take all such measures as may be necessary or required: (i) to enable PHSC to carry out its part of the Project; and (ii) to ensure that

PHSC undertakes health care activities at the secondary level in accordance with service delivery norms acceptable to the Association, and in carrying out other health care activities shall ensure that its ability to perform its obligations under this Agreement as determined, inter alia, from a review of the progress achieved in implementing the annual work plans and in meeting the development and performance indicators referred to in paragraph 9 hereof is not adversely affected.

5. For purposes of enhancing the quality of health care services under the Project, each Project State and PHSC shall: (i) maintain the key headquarters personnel appointed for purposes of implementing the Project; (ii) appoint and thereafter maintain key additional personnel with adequate qualification and experience in accordance with a schedule of appointment agreed with the Association; (iii) adopt, no later than six months after completion of the physical improvements in any hospital under the Project, and thereafter implement, staffing and technical norms acceptable to the Association; and (iv) provide on an annual basis adequate funds, satisfactory to the Association, for the maintenance of previously existing equipment in health care facilities supported under the Project.

6. For purposes of carrying out Part B.3 of the Project as set forth in Schedule 2 to the Development Credit Agreement, each Project State and PHSC shall, no later than December 31, 1996: (i) issue appropriate directives to hospitals to strengthen the management of the referral mechanism between the Primary, Secondary, and Tertiary Level Health Services; (ii) establish and thereafter maintain and implement appropriate referral protocols and clinical management protocols; and (iii) establish and thereafter maintain and implement an appropriate incentive system for patients who use the system.

7. Karnataka and West Bengal shall maintain the District Health Committees with such staff, resources, powers, functions and responsibilities so as to enable them to facilitate, inter alia, the functioning of the referral mechanism, the collection and distribution of user charges, maintenance of equipment, waste management, training of technical staff, quality assurance, surveillance of communicable diseases and the monitoring and supervision of their respective activities to be carried out under the Project.

8. Each Project State shall take all such measures as may be necessary or required in order to provide, and thereafter maintain, authority to DOHFW in the case of Karnataka and West Bengal and to PHSC in the case of Punjab for managing the activities to be carried out by them under the Project, including construction and maintenance activities.

9. Each Project State and PHSC shall:

(a) by April 30 of each year during the implementation of the Project beginning with April 30, 1997:

(i) provide to the Association an annual work plan, acceptable to the Association, setting forth the respective activities under the Project to be carried out during the prevailing Fiscal Year including the budgetary allocations to be made available for such purpose, as well as the performance benchmarks and development objectives to be achieved and drawn from the overall framework agreed to be achieved under the Project including, inter alia, hospital activity indicators, hospital efficiency indicators, and quality, access and effectiveness indicators to be measured in accordance with methodology satisfactory to the Association; and

(ii) review with the Association the progress achieved in implementing the Project under the annual work plan for the previous Fiscal Year and the interim plan referred to in sub-paragraph (c) below of this paragraph (9) with special reference to the achievement of the performance benchmarks and development objectives incorporated therein;

(b) implement each annual work plan in a manner satisfactory to the Association, with the goal, inter alia, of meeting the performance benchmarks and the development objectives set forth therein; and

(c) implement the Project until the formulation of the first annual work plan in accordance with an interim plan agreed with the Association.

10. Each Project State shall ensure that: (i) its respective incremental budgetary allocations under the Project for the Primary, and First Referral Level Health Services for each Fiscal Year during the implementation of the Project shall be fully additional to the allocations made in FY 95; and (ii) the budgetary allocations for the annual work plans and the interim plan referred to in paragraph 9 hereof are made available on a timely basis sufficient to meet the resource requirements under such plans.

11. Karnataka and West Bengal shall implement the Project in tribal areas (as designated by each such Project State) and West Bengal shall implement the Project in the Sunderbans Area in accordance with the principles, objectives and policies of the Tribal and Backward Area Development Strategy with emphasis on: (a) strengthening linkages between Primary, and Secondary Level Health Services; (b) providing an incentive package to doctors and other medical staff to work in the tribal areas of Karnataka and in the Sunderbans Area of West Bengal; (c) increasing the appropriate utilization of the medical system by the Scheduled Tribe population; (d) reducing the cost to Scheduled Tribes of utilizing such system in Karnataka; and (e) increasing the number of beds at sub-divisional and community hospitals.

12. PHSC shall carry out Part A.2 (ix) of the Project in accordance with procedures and arrangements satisfactory to the Association.

13. The Project States and PHSC shall, with the participation of the Borrower and the Association: (a) jointly carry out by June 30, 1999 a mid-term review of the Project, including on management aspects and financial sustainability, under terms of reference satisfactory to the Association; and (b) carry out the recommendations of such review in a manner satisfactory to the Association.

