

CONFORMED COPY

CREDIT NUMBER 3149 IN

Project Agreement

(Maharashtra Health Systems Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF MAHARASHTRA

Dated January 14, 1999

CREDIT NUMBER 3149 IN

PROJECT AGREEMENT

AGREEMENT, dated January 14, 1999, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and STATE OF MAHARASHTRA, acting by its Governor (Maharashtra).

WHEREAS (A) the Association has received a letter dated October 17, 1998 from Maharashtra, describing a program of objectives, policies and actions to improve the primary and secondary levels of health care (the Maharashtra Health Sector Development Program) and declaring its commitment to carry out such Program;

(B) by the agreement of even date herewith between India (the Borrower) and the Association (the Development Credit Agreement), the Association has agreed to make available to the Borrower an amount in various currencies equivalent to ninety-seven million nine hundred thousand Special Drawing Rights (SDR 97,900,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Maharashtra agree to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS Maharashtra, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has 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 the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Maharashtra declares its commitment to the objectives of the Project, 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 Maharashtra shall otherwise agree, Maharashtra shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

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. Maharashtra 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.

Section 2.04. (a) Maharashtra 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 Agreement, and other matters relating to the purposes of the Credit.

(b) Maharashtra 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 Maharashtra of its obligations under this Agreement.

Section 2.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Maharashtra shall:

(a) 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 Maharashtra, a plan designed to ensure the sustainability of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with Maharashtra on said plan.

ARTICLE III

Financial Covenants

Section 3.01. (a) Maharashtra shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Maharashtra shall:

(i) have the 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 six months after the end of each such Fiscal Year, 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 and accounts 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 Maharashtra 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 (20) 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 Maharashtra 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:

248423 (MCI) or
64145 (MCI)

For Maharashtra:

Chief Secretary to the
Government of Maharashtra

Mumbai, 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 Maharashtra may be taken or executed by its Health Secretary or such other person or persons as Maharashtra shall designate in writing, and Maharashtra 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 New Delhi, India, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director, India

STATE OF MAHARASHTRA

By /s/ N. B. Patil

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

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, (i) contracts for goods (except vehicles) shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each and (ii)

contracts for vehicles shall be grouped in bid packages estimated to cost \$100,000 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. Civil Works

(a) Civil works estimated to cost \$45,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Civil works estimated to cost less than \$45,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent, may:

(i) with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines, up to an aggregate amount not to exceed \$1,400,000 equivalent;

(ii) be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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 Association, 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 complete the contract successfully; or

(iii) as a last resort, be carried out by force account in a manner satisfactory to the Association, up to an aggregate amount not to exceed \$3,500,000 equivalent.

2. Goods (Except Vehicles)

(a) Goods (except vehicles) estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$13,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods (except vehicles) estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$5,500,000 equivalent, 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.

(c) Goods (except vehicles) estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Vehicles

Vehicles estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, 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.

4. Maintenance of Buildings and Equipment

Services for maintenance of buildings and equipment, up to an aggregate amount not to exceed \$4,800,000 equivalent:

(a) shall be procured under contracts awarded in accordance with the

provisions of paragraphs 3.3 and 3.4 of the Guidelines if they are estimated to cost \$25,000 equivalent or more per contract; and

(b) may, if they are estimated to cost less than \$25,000 equivalent per contract:

(i) with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines if they meet the requirements of said paragraph; or

(ii) as a last resort, be carried out by force account in a manner satisfactory to the Association if they meet the requirements of paragraph 3.8 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 (a) each contract for civil works estimated to cost the equivalent of \$300,000 or more, (b) the first two contracts for civil works estimated to cost the equivalent of \$45,000 or more but less than the equivalent of \$300,000, (c) each contract for goods (except vehicles) estimated to cost the equivalent of \$200,000 or more, (d) the first two contracts for goods (except vehicles) estimated to cost the equivalent of \$30,000 or more but less than the equivalent of \$200,000 and (e) each contract for vehicles estimated to cost the equivalent of \$100,000 or more, 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

Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph.

The short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services provided by consultants which meet the requirements of paragraph 3.9 of the Consultant Guidelines and are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$12,700,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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.

SCHEDULE 2

Implementation Program

Project Implementation Plan

1. Maharashtra shall carry out the Project in accordance with the Project Implementation Plan. Strategic Planning Cell

2. Maharashtra shall, by June 30, 1999, strengthen the Strategic Planning Cell with

adequate powers, functions, staff and resources satisfactory to the Association and maintain such Cell during the implementation of the Project. Project Management Cell

3. Maharashtra shall complete, by June 30, 1999, the recruitment of, and thereafter maintain, personnel in the Project Management Cell with adequate skills, qualifications and experience.

4. Maharashtra shall take all such measures as may be necessary or advisable in order to provide to the Project Management Cell, and thereafter maintain, authority to manage the activities to be carried out under the Project, including civil works, construction and maintenance.

Project Governing Board and Steering Committee

5. Maharashtra shall maintain the Project Governing Board and the Steering Committee during the implementation of the Project with composition, powers, functions and resources as set forth in the Project Implementation Plan.

Allocation of Resources

6. Maharashtra shall:

(a) ensure that within the resources (plan and non-plan) allocated to the health sector in each Fiscal Year during the implementation of the Project, the share of resources for the Primary and Secondary Levels of Health Care shall be increased in each such Fiscal Year from the immediately preceding Fiscal Year through FY 2003-04; and

(b) allocate in each such Fiscal Year at district and sub-divisional hospitals and community health centers covered under the Project adequate resources for drugs in accordance with norms set forth in Chapter 5, Table 4 of the Project Implementation Plan and essential supplies and maintenance of equipment and buildings in accordance with norms set forth in Annexures I, II and III of the Project Implementation Plan.

Hospital Staffing and Technical Norms

7. Maharashtra shall adopt, within six months after completion of the renovation and extension of each hospital under the Project, and thereafter maintain and implement, staffing and technical norms for improving the quality of health care services provided at such hospital as set forth in Chapter 7 of the Project Implementation Plan.

User Charges

8. Maharashtra shall: (i) continue to implement a program for collecting user charges at district and sub-divisional hospitals, such program to focus, inter alia, on strengthening collection of existing user charges and management arrangements and implementing revised user charges in a phased manner within six months after completion of the renovation and extension of each hospital and adoption of staffing and technical norms at such hospital; and (ii) by June 30, 1999, establish a mechanism for permitting the revenues collected from user charges to be retained at the hospital level and targeting beneficiaries below the poverty line for exemption from user charges.

Referral Protocols and Guidelines

9. Maharashtra shall establish by June 30, 1999, and thereafter maintain and implement, referral protocols and guidelines satisfactory to the Association.

Tribal Strategy

10. Maharashtra shall implement the Tribal Strategy in tribal areas (as designated by Maharashtra in accordance with applicable law) in accordance with the objectives, policies, procedures, time schedule and other provisions set out therein.

Environmental Action Plan

11. Maharashtra shall implement the Environmental Action Plan in accordance with the objectives, policies, procedures, time schedule and other provisions set out therein.

Resettlement and Rehabilitation

12. Maharashtra shall ensure that no civil works which may result in the involuntary resettlement of people will be undertaken under the Project.

Annual Review and Work Plan; Budgetary Allocations

13. Maharashtra shall:

(a) by April 30 of each year during the implementation of the Project beginning with April 30, 1999:

(i) provide to the Association an annual work plan, acceptable to the Association, setting forth the 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 with special reference to the achievement of the performance benchmarks and development objectives incorporated therein; and

(b) implement each annual work plan in a manner satisfactory to the Association.

14. Maharashtra shall ensure that sufficient budgetary allocations for the annual work plans referred to in paragraph 13 of this Schedule are made available on a timely basis to meet the resource requirements under such plans.

Development of Superspecialty Hospital

15. Maharashtra shall: (i) by October 31, 1999, submit to the Association the report and the implementation plan referred to in paragraph 3(b) of Schedule 1 to the Development Credit Agreement; and (ii) thereafter implement such implementation plan in accordance with the provisions thereof.

Financial Management System

16. Maharashtra shall successfully develop by December 31, 1999, and thereafter maintain, a financial management system for the Project comprising preparation and adoption of a financial management manual, and development, installation and operation of a computerized financial management system, satisfactory to the Association.

Monitoring and Evaluation; Mid-term Review

17. Maharashtra shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by May 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to

ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 2002, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

