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**CREDIT NUMBER 4229-IN**

# **Project Agreement**

**(Karnataka Health System Development and Reform Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**STATE OF KARNATAKA**

**Dated October 16, 2006**

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**CREDIT NUMBER 4229 -IN**

**PROJECT AGREEMENT**

AGREEMENT, dated October 16, 2006, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and STATE OF KARNATAKA (Karnataka).

WHEREAS (A) 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 ninety six million five hundred thousand Special Drawing Rights (SDR 96,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Karnataka agrees to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS Karnataka, 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 in the General Conditions (as so defined) have the respective meanings therein set forth.

**ARTICLE II**

**Execution of the Project**

Section 2.01. (a) Karnataka declares its 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, environmental and public 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 Karnataka shall otherwise agree, Karnataka shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) Except as the Association may otherwise agree, Karnataka shall, in accordance with arrangements and procedures satisfactory to the Association, make available to the DOHFW, the Districts and the PRIs, proceeds of the Credit made available to Karnataka by the Borrower, as well as additional funds from Karnataka's own resources required for effective and timely implementation of the Project.

(d) Without limitation or restriction upon any of its other obligations under the Project Agreement, for the purpose of implementation of its relevant activities under the Project, Karnataka shall: (i) rely upon existing arrangements with each District and PRI, including the Panchayat Raj Act of 1993, which are satisfactory to the Association; and (ii) cause each District and PRI to carry out its respective activities under the Project in accordance with such arrangements, and the provisions of this Agreement.

Section 2.02. (a) 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, as such provisions shall be further elaborated in the Procurement Plan.

(b) Karnataka shall update the Procurement Plan in accordance with guidelines acceptable to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 2.03. (a) Karnataka shall carry out, or cause to be carried 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.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Karnataka 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 Karnataka, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with Karnataka on the said plan.

Section 2.04. (a) Karnataka 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) Karnataka 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 Karnataka of its obligations under this Agreement.

### **ARTICLE III**

#### **Financial Covenants**

Section 3.01. (a) Karnataka shall maintain a financial management system, including records and accounts and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to activities under Parts A.1, B and C, and relevant activities under Part A.2 of the Project of the department or agencies of Karnataka responsible for the carrying out of activities under Parts A.1, B and C and relevant activities under Part A.2 of the Project or any part thereof.

(b) Karnataka shall:

- (i) have the records, accounts and the financial statements referred to in paragraph (a) of this Section for each Fiscal Year audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such Fiscal Year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year as so audited; and (B) an opinion on such financial statements, records and accounts and report of such audit, including the report on Procurement Audit to be carried out by Karnataka in accordance with paragraph 5(c) of Schedule 2 to this Agreement, by the 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 as the Association may reasonably request from time to time concerning such records, accounts and financial statements as well as the audit thereof.

Section 3.02. (a) Karnataka shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association which:

- (i) sets forth sources and applications of funds for the Project, both cumulatively and for the period covered by said report, showing separately the funds provided under the Credit and explains the variances between the actual and planned sources and uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by the said report; and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by the said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than sixty (60) days from the end of first calendar quarter after the Effective Date and shall cover the period from October 1, 2005 through the end of such first calendar quarter; thereafter each Financial Monitoring Report shall be furnished to the Association not later than sixty (60) days after each calendar quarter and shall cover such calendar quarter.

#### **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 Karnataka 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 Karnataka 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For Karnataka

The Chief Secretary to the Government  
Government of Karnataka  
Karnataka

Facsimile

91-80-22252913

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 Karnataka may be taken or executed by its Chief Secretary or by such other person or persons as Karnataka shall designate in writing, and Karnataka 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/ Rachid Benmessaoud  
Acting Regional Vice President  
South Asia

STATE OF KARNATAKA

By

/s/ Usha Ganesh  
Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

D. (1) All procurement under the Project shall be carried out in accordance with the provisions of this Schedule with the objective of shifting the responsibility of procurement implementation to Indian institutions, including procurement support agencies (PSAs), provided, however, that PSAs shall not be utilized until such time the Association agrees to their use. The Association shall consider shifting such responsibility based on the outcome of the reviews referred to in paragraph 3.2 of Schedule 2 to this Agreement, and progress made in implementing the HSPRAP as revised pursuant to said paragraph 3.2.

(2) For the purpose of this paragraph, the term "Procurement Support Agency" means an entity hired by Karnataka to provide procurement assistance, with Karnataka retaining the decision making at all stages of the procurement process.

E. All procurement and reviews of contracts for pharmaceuticals, medical supplies, other goods and works shall be subject to the following:

If bids are called concurrently (i.e. for bids opening at the same time and date) for several contracts for similar items in a package (IFB) and Karnataka invites cross discounts, then the basis for determining the respective thresholds for procurement procedures and reviews shall be the aggregate value of the total package (IFB). This shall be irrespective of whether bids are invited in one bidding document under one IFB or in separate bidding documents under one IFB.



Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Parts B and C of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures for Parts A.1, B and C of the Project

1. National Competitive Bidding Goods under estimated to cost less than \$500,000 equivalent per contract, and works estimated to cost less than \$10,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions agreed between the Borrower and the Association in writing from time to time.

2. Shopping Goods and works estimated to cost less than \$50,000 equivalent may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Force Account Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

C. Other Procurement Procedures for Part A.2 of the Project

1. Goods (other than medical equipment and pharmaceuticals (including medical supplies) estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$10,000,000 equivalent per contract shall be procured in accordance with the provisions of the KTPP Act.

2. Medical equipment and pharmaceuticals (including medical supplies) estimated to cost less than \$500,000 equivalent per contract shall be procured in accordance with the provisions of the KTPP Act and the Procurement Manuals.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection Except as otherwise provided in Parts B and C of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the

Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures for Parts A.1, B and C of the Project

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Service Delivery Contractors. Services to be provided by data entry operators, social workers, staff nurses, laboratory technicians etc., may be procured in accordance with the provisions of paragraph 3.21 of the Consultant Guidelines on the basis of procedures acceptable to the Association.

7. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval by the Association.

C. Other Procurement Procedures for Part A.2 of the Project

1. Services for assignments under Part A.2 of the Project estimated to cost less than \$200,000 equivalent per contract may be procured in accordance with the provisions of the KTPP Act.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to Karnataka, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and works estimated to cost the equivalent of \$1,000,000 or more; (b) each contract for services (other than consultants' services) estimated to cost the equivalent of \$1,000,000 or more; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

## **SCHEDULE 2**

### **Implementation Program**

#### Institutional Arrangements

1. For the purpose of managing the implementation of the Program and the Project, Karnataka shall:

(a) maintain throughout the period of Project implementation, a Project Governing Board (PGB) in a form and with functions satisfactory to the Association, which shall be responsible for, *inter alia*, providing overall policy guidance for the Project;

(b) maintain throughout the period of Project implementation, a Program Steering Committee (PSC), in a form and with functions, satisfactory to the Association, which shall be responsible for, *inter alia*, planning and managing activities under the Program, and supervising and monitoring Program implementation;

(c) maintain throughout the period of Project implementation, a State Project Management Unit (SPMU), in a form and with functions satisfactory to the Association, which shall be responsible for, *inter alia*, overall management, implementation, monitoring and evaluation of the activities under the Project, and facilitating co-ordination with DPMUs;

(d) cause each District to establish, and thereafter maintain throughout the period of Project implementation, a District Project Management Unit (DPMU), in a form and with functions satisfactory to the Association, which shall be responsible for, *inter alia*, overall implementation, monitoring and evaluation of Project activities within such District.

#### Project Implementation Plan

2. Karnataka shall carry out the Project in accordance with the Project Implementation Plan and, except as the Association shall otherwise agree, Karnataka shall not amend or waive any provision of the Project Implementation Plan if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

#### Health Sector Procurement Reform Action Plan

3.1. Karnataka shall, and shall cause each Project Executing Agency to:

(a) carry out the Project in accordance with the Health Sector Procurement Reform Action Plan;

(b) implement the Health Sector Procurement Reform Action Plan in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein, and in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit;

(c) refrain from taking any action which shall prevent or interfere with the implementation of the Health Sector Procurement Reform Action Plan;

(d) except as the Association shall otherwise agree, not waive, amend or abrogate the Health Sector Procurement Reform Action Plan or any provision thereof; and

(e) provide written reports to the Association on progress achieved in the implementation of the Health Sector Procurement Reform Action Plan semi-annually.

3.2. Karnataka agrees that the HSPRAP may be amended from time to time as agreed between the Association and Karnataka, provided, further, that Karnataka agrees to further strengthen the HSPRAP, as necessary, based on the risks identified and the recommendations of: (a) the reviews carried out by the Borrower on: (i) procurement capacity and development work; and (ii) the quality and quantity of pharmaceuticals and medical goods; and (b) the detailed review of the selected health sector projects carried out by the Association, such strengthening to include any recommendation relating to enhancements in document management and record keeping, to a standard deemed appropriate for Association-financed projects.

#### Financial Commitment

4. Karnataka shall, throughout the period of Project implementation, maintain its financial commitment in real terms to the level of Fiscal Year 2003-2004 in Health and Family Welfare.

#### Particular Arrangements for Part A.2 of the Project

5. Karnataka shall:

(a) make available to the PRIs a part of the proceeds of the Credit made available to Karnataka and withdrawn under Category 1 of Schedule 1 to the Development Credit Agreement, in accordance with arrangements satisfactory to the Association;

(b) carry out and cause each PRI to carry out relevant activities under Part A.2 of the Project with due diligence and efficiency and in conformity with appropriate health practices and to provide funds, facilities, services and other resources required therefore;

(c) carry out a Procurement Audit, which shall be a part of the financial audit of Karnataka referred to in Section 3.01(b)(ii) of this Agreement, under terms of reference satisfactory to the Association and in respect of goods, works and services procured for the purposes of carrying out Part A.2 of the Project;

(d) cause each ZP to maintain a financial management system, including records and accounts and prepare financial statements in a format acceptable to the Association, adequate to reflect with sound accounting practices the operations, resources and expenditures related to relevant activities under Part A.2 of the Project of the department or agencies of such ZP responsible for carrying out relevant activities under Part A.2 of the Project;

(e) cause each ZP to have the records, accounts and financial statements referred to in sub-paragraph (d) above for each Fiscal Year audited, in accordance with consistently applied accounting standards acceptable to the Association, by the CAG, or, in exceptional circumstances, by such independent auditors acceptable to the Association;

(f) cause each ZP to furnish to Karnataka, and upon request to the Association, as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year, (A) certified copies of the financial statements referred to in paragraph (e) above for each Fiscal Year as so audited and (B) an opinion on such financial statements, records and accounts and report of such audit by the said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(g) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year, a Consolidated Report on Audits of the ZPs containing an opinion on the statements, records and accounts and the report of the audits referred to in subparagraph (f) above, of such scope and in such detail, as the Association shall have requested;

(h) furnish to the Association such other information concerning records and accounts referred to in sub-paragraph (e) above and the audit thereof as the Association shall from time to time reasonably request;

(i) cause the TPs and GPs, as the case may be, to maintain records and accounts in accordance with the Karnataka Panchayat Raj Act;

(j) cause each PRI to procure goods, works and services required for carrying out relevant activities under Part A.2 of the Project and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 1 to this Agreement;

(k) cause each PRI to carry out the relevant activities under Part A.2 of the Project in accordance with the PIP, the EMP, the Financial Management Manual and the Vulnerable Communities Health Plan;

(l) cause each PRI to inform Karnataka and the Association promptly of any condition which interferes or threatens to interfere with the progress of carrying out relevant activities under Part A.2 of the Project or the accomplishment of the purposes of the Credit under the Development Credit Agreement; and

(m) at the request of the Association or the Borrower, cause each PRI to exchange views with the Association or the Borrower, as the case may be, with regard to the progress of carrying out relevant activities under Part A.2 of the Project and furnish all such information related thereto as the Association or the Borrower may request.

Service Improvement Challenge Fund (SICF)

6. For the purpose of carrying out activities under Part B.1(a) of the Project, Karnataka shall:

(a) establish and operate a Service Improvement Challenge Fund (SICF) in accordance with a framework satisfactory to the Association to support innovative programs in health service delivery referred to in Part B.1(a) of the Project through the preparation and implementation of SICF Subprojects;

(b) select and approve SICF Subprojects during Phase I, Phase II and Phase III that: (I) are prepared by the Districts in accordance with arrangements and procedures satisfactory to the Association; (II) are eligible for financing from the proceeds of the Credit in accordance with the provisions of paragraph 7 of this Schedule; and (III) meet the following eligibility criteria:

- (i) SICF Subprojects are technically and financially sound and are designed to increase coverage and quality of primary care services in a cost-effective manner;
- (ii) SICF Subprojects give adequate priority to underserved areas and vulnerable groups;
- (iii) SICF Subprojects have been prepared after due consultation with all stakeholders;
- (iv) SICF Subprojects provide an implementation plan for carrying out of activities under such Subprojects and commitment to the objectives of such Subprojects; and
- (v) SICF Subprojects provide a monitoring framework, which allows rigorous assessment of the progress achieved on the ground as a result of the carrying out of such SICF Subprojects.

(c) cause the Districts to implement the approved SICF Subprojects in Phase I, Phase II and Phase III, all in a manner satisfactory to the Association and in accordance with the PIP, the EMP, the Financial Management Manual and the Vulnerable Communities Health Plan;

(d) cause the goods, works and services required for approved SICF Subprojects and to be financed out of the proceeds of the Credit to be procured in accordance with the provisions of Schedule 1 to this Agreement,

(e) make available a part of the proceeds of the Credit for carrying out SICF Subprojects in Phase I, Phase II and Phase III in accordance with arrangements satisfactory to the Association;

(f) cause each Project Executing Agency carrying out SICF Subprojects to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition;

(g) cause each Project Executing Agency carrying out SICF Subprojects to provide to Karnataka quarterly reports, including financial reports, of such scope and in such detail, satisfactory to the Association, on the progress in carrying out the SICF Subprojects;

(h) cause each Project Executing Agency carrying out SICF Subprojects to promptly inform the Association and Karnataka of any condition which interferes or threatens to interfere with the progress of SICF Subprojects;

(i) review and monitor the performance of each Project Executing Agency with regard to the progress of carrying out activities under SICF Subprojects at such intervals and in accordance with such indicators as determined by the Association; and

(j) upon request, furnish reports to the Association, of such scope and in such detail as required by the Association, on the performance of each Project Executing Agency in carrying out activities under SICF Subprojects.

7. (a) SICF Subprojects prepared by a District shall be eligible for financing out of the proceeds of the Credit during Phase II only if: (I) such District shall have prepared and submitted to Karnataka a Service Improvement Plan (SIP), of such scope and in such detail satisfactory to the Association, which plan shall provide, *inter alia*, details of the activities under SICF Subprojects proposed to be carried out in such District during Phase II; and (II) such District shall have implemented SICF Subprojects during Phase I in a manner satisfactory to the Association; and

(b) SICF Subprojects prepared by a District shall be eligible for financing out of the proceeds of the Credit during Phase III only if: (I) such District shall have prepared and submitted to Karnataka a Phase III Service Improvement Plan, of such



scope and in such detail satisfactory to the Association, which plan shall provide, *inter alia*, details of the activities under SICF Subprojects proposed to be carried out in such District during Phase III; and (II) such District shall have implemented its respective SIP and SICF Subprojects during Phase II in a manner satisfactory to the Association.

#### Public Health Competitive Fund

8. For the purpose of carrying out activities under Part B.1 (b) of the Project, Karnataka shall:

(a) establish and operate a Public Health Competitive Fund (PHCF) in accordance with a framework satisfactory to the Association to support innovative programs for improving health status of communities referred to in Part B.1(b) of the Project;

(b) set up a Management Committee, with staffing and resources satisfactory to the Association, which shall be responsible for, *inter alia*, reviewing and approving PHCF Subprojects;

(c) ensure, and cause the Management Committee to ensure that PHCF is operated in accordance with the provisions of the Operational Manual and the provisions of this Agreement;

(d) ensure, and cause the Management Committee to ensure that a PHCF Grant is made available to a PHCF Recipient which Recipient meets the eligibility criteria set out in paragraph 9 of this Schedule for carrying out a PHCF Subproject which Subproject meets the eligibility criteria set out below:

- (i) PHCF Subproject is technically and operationally sound;
- (ii) PHCF Subproject addresses the key public health issues and the priorities laid down by the Management Committee; and
- (iii) PHCF Subproject provides for objective monitoring and evaluation systems which allow rigorous assessment of the progress achieved on the ground as a result of the carrying out of such PHCF Subproject.

(e) enter into arrangements satisfactory to the Association, with each PHCF Recipient for providing a PHCF Grant for carrying out its respective PHCF Subproject, which arrangements shall, *inter alia*, require such PHCF Recipient to:

- (i) declare its commitment to the objectives of the Project as set forth in Schedules 2 to the Development Credit Agreement, and to that end, to undertake implementation of PHCF Subproject

with the diligence and efficiency and in conformity with appropriate administrative, financial, environmental and public health policies and provide, promptly as needed, the funds, facilities, services and other resources required therefore;

- (ii) carry out the activities under the PHCF Subproject in accordance with the PIP, the EMP, the Financial Management Manual and the Vulnerable Communities Health Plan and this Agreement;
- (iii) procure the goods, works and services required for the PHCF Subproject and to be financed out of the proceeds of PHCF Grant in accordance with the provisions of Schedule 1 to this Agreement, as the said provisions maybe further elaborated in the Procurement Plan;
- (iv) agree that the Association may from time to time inspect the goods, works and services under the PHCF Subproject including all records and documents thereto;
- (v) agree to assume and undertake the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisitions respectively) of the General Conditions in respect of the PHCF Subproject;
- (vi) maintain a financial management system, including records and accounts and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the PHCF Subproject, of the departments and agencies of the PHCF Recipient responsible for carrying out the PHCF Subproject;
- (vii) have the records, accounts and financial statements referred to in subparagraph ( vi) above of this paragraph 8 for each Fiscal Year audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (viii) furnish to Karnataka, as soon as possible, but in any case not later than six (6) months after the end of each Fiscal Year (A) certified copies of the financial statements referred to in clause (A) of the subparagraph (vii) for such Fiscal Year as so audited and (B) an opinion on such financial statements, records and

accounts and report of such audit, by the said Auditors of such scope and in such detail as Karnataka shall have requested;

- (ix) furnish to Karnataka such other information concerning such records and accounts and the audit of such financial statements, and concerning such auditors, as Karnataka may from time to time reasonably request;
- (x) agree that Karnataka may suspend or terminate its right to use the proceeds of the Credit made available as PHCF Grant upon its failure to perform any of its obligations or upon notice by the Association that it intends to exercise its remedies under Article V of the Development Credit Agreement;
- (xi) agree to promptly inform Karnataka and the Association of any conditions which interfere with the progress of its PHCF Subproject, the accomplishment of the purposes of the Credit under the Development Credit Agreement or its obligations;
- (xii) agree that it shall, from time to time, at the request of Karnataka or the Association:
  - (A) exchange views with Karnataka and with the Association (through Karnataka) with regard to the progress of carrying out activities under the PHCF Subproject, and other matters relating to the purposes of the Credit under the Development Credit Agreement; and
  - (B) furnish all such information related thereto as may reasonably be required by Karnataka or the Association; and
- (xiii) furnish quarterly reports, of such scope and in such detail as required by the Association, on the progress in carrying out activities under PHCF Subprojects.

Eligibility Criteria for PHCF Recipients

9. The eligibility criteria as referred to in paragraph 8(d) of this Schedule shall be as set out below:

- (i) PHCF Recipient shall have capacity satisfactory to the Management Committee for carrying out PHCF Subprojects;

- (ii) PHCF Recipient shall have past experience satisfactory to the Management Committee; and
- (iii) PHCF Recipient shall have established monitoring and control systems for ensuring efficiency in carrying out of PHCF Subprojects.

#### Environmental Management Plan

10. Karnataka shall implement the Environmental Management Plan in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in such Plan, and shall not amend or waive any provisions of such plan without the prior approval of the Association.

#### Vulnerable Communities Health Plan

11. Karnataka shall implement the Vulnerable Communities Health Plan in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in such Plan, and shall not amend or waive any provisions of such plan without the prior approval of the Association.

#### Land

12. Karnataka shall:

(a) ensure that any private lands needed for any work under the Project shall be provided by the owner of such land in a voluntary manner, in accordance with arrangements satisfactory to the Association;

(b) not commence any work in any locations for which clear title is not already available; and

(c) to the extent practicable, ensure that any land to be made available by the owner in a voluntary manner shall be free from any encumbrances and encroachment, and that no involuntary resettlement arises from the use of such land under the Project; except to the extent that the Association agrees in writing prior to any such proposed land use that the arrangements for involuntary resettlement, if any, are satisfactory to the Association.

#### Monitoring and Evaluation

13. Karnataka 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 no later than May and November of each Fiscal Year a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out of the Project during the period preceding the date of the said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

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