

CONFORMED COPY

CREDIT NUMBER 2663 IN

Project Agreement

(Andhra Pradesh First Referral Health System Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF ANDHRA PRADESH

and

ANDHRA PRADESH VAIDYA VIDHANA PARISHAD

Dated December 22, 1994

CREDIT NUMBER 2663 IN

PROJECT AGREEMENT

AGREEMENT, dated December 22, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and THE STATE OF ANDHRA PRADESH (ACTING BY ITS GOVERNOR) (the Project State) AND ANDHRA PRADESH VAIDYA VIDHANA PARISHAD (APVVP).

WHEREAS by the Development Credit Agreement of even date herewith between India, acting by its President (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 million seven hundred thousand Special Drawing Rights (SDR 90,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Project State and APVVP agree to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS the Project State and APVVP, 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 thereto, and in the General Conditions (as so defined in the Development Credit Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Project State and APVVP jointly and severally declare their respective commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall jointly and severally 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 shall otherwise agree, the Project State and APVVP 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 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. The Project State and APVVP 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 applicable to the Development Credit Agreement (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 that part of the Project carried out by each of them respectively.

Section 2.04. (a) The Project State and APVVP shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance by each of them of its respective obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) The Project State and APVVP 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 State and APVVP 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

its respective parts of the Project, of the departments or agencies responsible for carrying out the Project or any part thereof.

- (b) The Project State and APVVP 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 nine months after the end of each such year, certified copies of 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 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 State and APVVP 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 the Project State and APVVP 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 applicable to the Development Credit Agreement.

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:

Telex:

INDEVAS
Washington, D.C.

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

For the State of Andhra Pradesh

Chief Secretary to the Government
of Andhra Pradesh
Hyderabad, India

For the Andhra Pradesh Vaidya Vidhana Parishad:

The Commissioner
Andhra Pradesh Vaidya Vidhana Parishad
Hyderabad, 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 State or APVVP may be taken or executed by its Chief Secretary or the Commissioner, APVVP, respectively, or such other person or persons as the Chief Secretary or the Commissioner shall respectively designate in writing and the Project State and APVVP 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 ANDHRA PRADESH
ANDHRA PRADESH VAIDYA VIDHANA PARISHAD

By /s/ N. Vallrui

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the International Bank for Reconstruction and Development (the Bank) in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(c) In the procurement of goods in accordance with this Part A, the Project State and APVVP shall use the relevant standard bidding documents issued by the Association, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Association, the Project State and APVVP shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A(1) hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraph 2 of Part C of this Schedule, civil works shall be procured on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the Association.

2. Civil works, estimated to cost the equivalent of \$15,000 or less per contract (a) up to an aggregate of \$2,120,000 equivalent, shall be carried out by force account in accordance with procedures satisfactory to the Association; and (b) up to an aggregate of \$4,950,000 equivalent, shall be procured on the basis of quotations selected from a list of at least three contractors, in accordance with procedures satisfactory to the

Association.

3. Contracts for equipment: (i) estimated to cost \$200,000 equivalent or less but \$50,000 equivalent or more per contract, up to an aggregate amount of \$4,590,000 equivalent, shall be procured on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the Association; (ii) estimated to cost \$200,000 equivalent or less but \$50,000 equivalent or more per contract, up to an aggregate amount of \$650,000 equivalent shall be procured on the basis of quotations solicited from a list of at least three suppliers from at least two countries eligible under the Association's Guidelines on Procurement referred to above, in accordance with procedures satisfactory to the Association; and (iii) estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount of \$2,000,000 equivalent shall be procured on the basis of quotations solicited from a list of at least three suppliers, in accordance with procedures satisfactory to the Association.

4. Contracts estimated to cost less than \$200,000 equivalent but more than \$50,000 equivalent per contract for: (a) furniture up to an aggregate amount of \$1,880,000 equivalent; (b) medical laboratory supplies up to an aggregate amount of \$770,000 equivalent; (c) materials for management information systems (MIS) and information, education and communication (IEC) up to an aggregate amount of \$850,000 equivalent; (d) medicines up to an aggregate amount of \$5,830,000 equivalent; and (e) miscellaneous medical and office supplies up to an aggregate amount of \$1,620,000 equivalent, shall be procured on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the Association.

5. Contracts estimated to cost \$50,000 equivalent or less per contract for: (a) furniture up to an aggregate amount of \$630,000 equivalent; (b) medical laboratory supplies up to an aggregate amount of \$770,000 equivalent; (c) materials for management information systems (MIS) and information, education and communication (IEC) up to an aggregate amount of \$280,000 equivalent; (d) medicines up to an aggregate amount of \$1,460,000 equivalent; (e) miscellaneous medical and office supplies up to an aggregate amount of \$2,430,000 equivalent; and (f) contracts for the purchase of vehicles, up to an aggregate amount of \$100,000 equivalent, may be procured under quotations solicited from a list of at least three suppliers, in accordance with procedures satisfactory to the Association.

6. Maintenance of medical and other equipment and vehicles, and other items, each estimated to cost \$25,000 equivalent per contract, may be procured by force account, or on the basis of quotations from at least three suppliers of such services, in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost more than \$300,000 equivalent and goods estimated to cost more than \$200,000 equivalent, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

1. In order to assist the Project State and APVVP in carrying out the Project, each of them shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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, the Project State and APVVP shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Project State and APVVP shall use other standard forms agreed with the Association.

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

Reform Program

1. (a) The Project State shall carry out the Reform Program.

(b) Without prejudice to the generality of sub-paragraph (a) of this paragraph, the Project State shall, pursuant to the Reform Program:

(i) ensure that the share of the primary and

secondary levels in the total resources (plan and non-plan) allocated by the Project State for the health sector shall be increased each year until (and including) the Project State's financial year 2000;

- (ii) make available to APVVP, resources required to ensure adequate staff, supplies of drugs and essential medical materials as well as maintenance of equipment and buildings at APVVP hospitals in accordance with norms for clinical and diagnostic equipment and staffing acceptable to the Association;
- (iii) implement service improvements and user-charges in district and area hospitals in accordance with a program and time schedule acceptable to the Association including: (a) permitting such hospitals to retain for their own use (except to meet salary costs) a third, or more, of user-charges collected by such hospitals; and (b) ensuring that at least 20% of the total number of beds in APVVP district and area hospitals are paying beds;
- (iv) implement a program acceptable to the Association for strengthening the management effectiveness of APVVP including providing APVVP adequate authority to select, employ and transfer APVVP staff; and
- (v) carry out by December 31, 1995 a review of the policy framework for private provision of health services in the Project State; and thereafter discuss with the Association recommendations arising from such review.

Strategic Planning Cell

2. The Project State shall, by June 30, 1995, establish in its Department of Health, Medical and Family Welfare, a strategic planning cell with staff, resources and terms of reference acceptable to the Association.

Staffing

3. The Project State and APVVP shall cause APHHMIDC to appoint by June 30, 1995, key additional headquarters staff required under the Project.

Staffing and Technical Norms

4. APVVP shall adopt and implement, in accordance with a time schedule acceptable to the Association, staffing and technical norms acceptable to the Association, adequate to ensure that required quality of services is achieved and maintained by APVVP hospitals.

Resources

5. Without prejudice to the generality of any other provision of this Agreement, the Project State shall: (a) ensure that resources allocated to APVVP to carry out the Project shall be fully additional to the resources allocated to APVVP during the financial year 1994-1995; and (b) provide APVVP adequate resources on a timely basis to meet its requirements for recurrent expenditures under APVVP's annual plans.

Strengthening the Referral System

6. The Project State and APVVP shall strengthen the referral system between primary, secondary and tertiary levels of health

care, inter alia, by undertaking the following actions by July 1, 1995 in a manner satisfactory to the Association: (a) establishing District Referral Committees in 23 districts in the Project State; (b) issuing appropriate administrative directives to hospitals to strengthen management of the referral system; (c) implementing appropriate referral protocols; (d) implementing appropriate clinical management protocols; and (e) establishing an appropriate incentive system including preferential fees for patients who use the referral system.

Tribal Peoples

7. The Project State and APVVP shall implement the Project in any tribal area (as designated by the Project State in accordance with applicable laws), in accordance with procedures and delivery strategies set out in the Association's policies governing implementation of Association-assisted Projects affecting tribal peoples.

Monitoring and Review

8. Without limitation to the generality of any other provision of this Agreement, the Project State and APVVP shall:

- (i) review annually with the Association progress in Project implementation over the preceding twelve months;
 - (ii) discuss with IDA by April 30 of each year, annual work plans and availability of adequate resources for the next twelve months;
 - (iii) carry out, no later than July 1, 1997, or such later date as the Association shall establish, along with the Association, a mid-term review of progress in Project implementation, including a management review of APVVP with terms of reference acceptable to the Association; and
 - (iv) duly take into account the comments offered by the Association during such review, in the course of further implementation of the Project.
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