

Public Disclosure Authorized

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CREDIT NUMBER 3867 - IN

Project Agreement

(Rajasthan Health Systems Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF RAJASTHAN

Dated June 3, 2004

Public Disclosure Authorized

CREDIT NUMBER 3867 - IN

PROJECT AGREEMENT

AGREEMENT, dated June 3, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and STATE OF RAJASTHAN (Rajasthan).

WHEREAS (A) the Association has received a letter dated January 16, 2004 from the State of Rajasthan (Rajasthan) describing a program of actions, objectives and policies designed to improve Rajasthan's health sector policies and the health and well being of Rajasthan's population (the Program) and declaring Rajasthan's commitment to the execution of the 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 Sixty One Million Special Drawing Rights (SDR 61,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Rajasthan agrees to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS Rajasthan, 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) Rajasthan 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 Rajasthan shall otherwise agree, Rajasthan 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, Rajasthan shall in accordance with arrangements and procedures satisfactory to the Association, make available to the Project Management Unit and the District Project Management Cells the proceeds of the Credit made available to Rajasthan by the Borrower as well as additional funds from Rajasthan's own resources required for the effective and timely implementation of the Project.

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) Rajasthan 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.

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

Section 2.05. (a) Rajasthan shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project and the Program, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) Rajasthan shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project or the Program, the

accomplishment of the purposes of the Credit, or the performance by Rajasthan of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Rajasthan shall establish and thereafter 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 Project of the department or agencies of Rajasthan responsible for the carrying out of the Project or any part thereof.

(b) Rajasthan 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 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, (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, 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 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) Rajasthan 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 and Projected sources and applications of funds for

the Project for the six-month period following the period covered by said report;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and explains variances between the actual and previously forecast implementation targets; 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 said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter and shall cover the period not covered by the previous Financial Monitoring Report until the end of 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 Rajasthan 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 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 Rajasthan 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 Rajasthan

The Chief Secretary to the Government
The Government of Rajasthan
Jaipur, Rajasthan

Telephone	Facsimile
0141-2227254 (O) 0141-2561324 (R)	0141-2227114

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 Rajasthan may be taken or executed by its Chief Secretary or by such other person or persons as Rajasthan shall designate in writing, and Rajasthan 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/ Michael F. Carter
Country Director, India

STATE OF RAJASTHAN

By

/s/ G.S. Sandhu
Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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, September 1997 and January 1999 (the Guidelines); and (b) the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$17,910,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost \$30,000 equivalent or more per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

(a) Goods (other than vehicles) estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$10,620,000 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.

(b) Vehicles estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provision of paragraph 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods and works estimated to cost less than \$10,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

New construction and renovation works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,260,000 equivalent and building maintenance works estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$1,770,000 equivalent, may 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.

5. Force Account

(a) Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$30,000 equivalent or less per contract may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

(b) Works for the maintenance of buildings estimated to cost less than \$10,000 equivalent per contract may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of paragraph 3.8 of the Guidelines instead of being procured under the procedures for the procurement of small works referred to in paragraph 4 of this Schedule

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

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract for goods estimated to cost \$250,000 equivalent or more; (ii) each contract for works estimated to cost \$500,000 equivalent or more; (iii) one contract for goods and first eleven contracts for pharmaceuticals estimated to cost \$30,000 equivalent or more but less than \$250,000 equivalent; and (iv) five contracts for works estimated to cost \$30,000 equivalent or more but less than \$500,000 equivalent.

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

Consultants' services shall be procured in accordance with: (a) the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and (b) the following provisions of Section II of this Schedule.

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 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 for the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Consultant services requiring specialization may be procured under contracts awarded in accordance with the provisions of Section III of the Consultant Guidelines and the provisions of paragraphs 3.1, 3.2, 3.3 and 3.4 thereof applicable to quality-based selection consultants.

2. Selection Based on Consultants' Qualifications

Services of a consulting firm or entity for the carrying out of studies or training under the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultants Guidelines, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

4. Single Source Selection

The following services 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, namely: (i) training and workshops under the Project to be carried out by autonomous and nationally renowned institutions or entities; and (ii) surveys under the Project to be carried out by any institution or entity.

5. Service Delivery Contractors

Services estimated to cost less than \$20,000 equivalent per contract may be procured in accordance with the provisions of paragraph 3.19 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review in accordance with the provisions of paragraph 1 of Appendix 1 of 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.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

1. Rajasthan shall carry out the Project in accordance with the Project Implementation Plan and, except as the Association shall otherwise agree, Rajasthan 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.
2. For the purpose of managing the implementation of the Project, Rajasthan shall:
 - (a) establish an institutional structure consisting of (i) a Strategic Planning Cell at the State level, (ii) a State Empowered Committee at the State level, (iii) a Project Steering Committee at the State level, (iv) a Project Management Unit at the State level, (v) Project Coordination and monitoring committees at the District level, and (vi) District Project Management Cells at the District level, all with composition, powers, functions, and resources satisfactory to the Association;
 - (b) no later than 30 days after the Effective Date, make these institutions fully functional and operational including the completion of recruitment of all required personnel, all in a manner satisfactory to the Association; and
 - (c) maintain these institutions with composition, powers, functions, and resources satisfactory to the Association.
3. Rajasthan shall implement the Health Care Waste Management Action 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.
4. Rajasthan shall implement the Tribal Development 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.
5. Rajasthan shall employ qualified consultants to complete not later than March 31, 2008 an independent impact evaluation report with respect to the implementation of the Health Care Waste Management Action Plan and the Tribal Development Plan, and the outcomes thereof, all in accordance with terms of reference satisfactory to the Association.
6. Rajasthan shall: (a) no later than 30 days after the Effective Date appoint in accordance with terms of reference satisfactory to the Association (i) a financial advisor and chief accounts officer, and (ii) a finance manager, both having qualification and

experience satisfactory to the Association; and (b) ensure that these positions remain filled throughout the implementation of the Project.

7. Rajasthan shall starting from FY 2004-05 and until FY 2008-09: (a) make non-plan budget allocations for the health and family welfare sector in each annual budget in a manner so as to maintain such allocation at least at the level obtained in FY 1997-98; (b) increase the non-plan expenditures in each fiscal year for the primary and secondary levels of health care within the total resources allocated to the health and family welfare sector in the manner set out in (a) above; (c) within the budgetary framework as set out in (a) above, ensure that adequate allocations are established and maintained for drugs, essential supplies and maintenance of equipment and buildings at primary and secondary level health care facilities in accordance with norms set out in the Project Implementation Plan; and (d) ensure full utilization of the resources allocated in accordance with (a) and (c) above.

8. In order to improve access to health care among the poor population, Rajasthan shall: (a) carry out assessments of the current functioning of Medical Relief Societies and Below-the-Poverty-Line Medical Card Schemes, as well as for the design of community-based health insurance schemes; (b) based on such assessments prepare no later than October 31, 2006 action plans containing a package of interventions to strengthen access and provide financial protection to the poor including a timetable for implementation satisfactory to the Association; and (c) implement such action plans in a manner satisfactory to the Association.

9. (a) Rajasthan shall, no later than September 30, 2004, develop and implementation thereafter (i) clinical norms focusing on staffing, equipment and drug management for district and sub-divisional hospitals, (ii) guidelines to improve the quality of services at government health facilities including monitoring indicators, and (iii) a referral mechanism defining the norms of service and improving the linkages among different tiers of the health care delivery system, all in a manner of satisfactory to the Association

(b) To ensure the continuous provision of quality services in the hospitals up-graded or renovated under the Project, Rajasthan shall take all action necessary to bring into operation, no later than six months after the upgrading or renovation of a hospital, the clinical norms, the quality improvement guidelines, and the referral mechanism developed pursuant to Clause (a) of this paragraph.

10. Rajasthan shall: (i) no later than December 31, 2004 bring into operation a computerized financial management system at the PMU, satisfactory to the Association, which can adequately record the resources of, and expenditures incurred or made under, the Project; and (ii) thereafter maintain and operate such computerized financial management system in a manner and condition satisfactory to the Association.

11. Rajasthan shall ensure that no civil works shall be carried out under the Project that will require the acquisition of land in any form and that may result in the involuntary resettlement of people.

12. Rajasthan shall: (a) by March 31, 2005 complete under terms of reference satisfactory to the Association an assessment of the role of the private sector in delivering health services and strategies for monitoring such services; (b) by September 30, 2005 design different models of public-private collaboration satisfactory to the Association; and (c) implement such models in accordance with arrangements and timetable satisfactory to the Association.

13. Rajasthan shall by December 31, 2005, design a regulatory framework, satisfactory to the Association, for improving the quality of health services provided by the private sector.

14. Rajasthan shall review with the Association by April 30 of each Fiscal Year during the implementation of the Project the progress made to date on implementing the Project and shall furnish to the Association by such date an annual plan covering the range of activities to be undertaken under the Project during that Fiscal Year satisfactory to the Association. Thereafter, Rajasthan shall implement such annual plan in a manner satisfactory to the Association.

15. Rajasthan 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 October 31, 2006 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 said report and setting out the measures recommended to ensure the efficient carrying out the Project and the achievement of the objective thereof during the period following such date; and

(c) Review with the Association by January 31, 2007, 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.