

CONFORMED COPY

CREDIT NUMBER 2663 IN

Development Credit Agreement

(Andhra Pradesh First Referral Health System Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 1994

CREDIT NUMBER 2663 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 22, 1994, between INDIA, acting by its President, (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the State of Andhra Pradesh (the Project State) with the assistance of the Andhra Pradesh Vaidya Vidhana Parishad (APVVP), as well as the assistance of the Borrower and, as part of such assistance, the Borrower will make available to the Project State and APVVP the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date between the Association

of one part and the Project State and APVVP of the other part;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Andhra Pradesh" means the Borrower's state of Andhra Pradesh, or any successor thereto;
- (b) "Andhra Pradesh Vaidya Vidhana Parishad" (APVVP) means the body corporate established under the Andhra Pradesh Vaidya Vidhana Parishad Act, 1986 of Andhra Pradesh (Act No: 29 of 1986), as amended to date (hereinafter referred to as "the Charter");
- (c) "area hospital" means a hospital with about 75-100 beds providing secondary or first referral level services;
- (d) "community hospital" means a hospital with about 30-50 beds providing secondary or first referral level services;
- (e) "district hospital" means a hospital with about 250-350 beds providing secondary or first referral level services;
- (f) "Policy Reform Program" means the program of reforms described in the letter dated October 21, 1994 from the Project State to the Association;
- (g) "primary level services" means preventive and limited curative health services;
- (h) "Project Agreement" means the agreement of even date herewith between the Association of the one part and the Project State and APVVP of the other part, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (i) "Scheduled Castes" refers to the population groups specified as "Scheduled Castes" pursuant to Article 341 of the Constitution of India;
- (j) "Scheduled Tribes" refers to the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;
- (k) "secondary or first level services" means clinical and diagnostic services below the tertiary level;
- (l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (m) "tertiary level services" mean specialized, highly technical services.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ninety million seven hundred thousand Special Drawing Rights (SDR 90,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15, commencing May 15, 2005 and ending November 15, 2029. Each installment to and including the installment payable on November 15, 2014 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive

years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Project State and APVVP to perform in accordance with the provisions of the Project Agreement all the respective obligations of the Project State and APVVP set forth therein, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project State and APVVP to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to the Project State in accordance with the Borrower's standard arrangements for developmental assistance to the States of India, and to APVVP under terms and conditions acceptable to the Association.

Section 3.02. 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 the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that 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 shall be carried out jointly and severally by the Project State and APVVP pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) The Project State or APVVP shall have failed to perform any of its respective obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project State or APVVP will perform its respective obligations under the Project Agreement.
- (c) The Project State shall have reduced the share of the primary and secondary levels in the total resources (plan and non-plan) allocated by it for the health sector from the level of such share prevailing in the Project State's financial year 1994-1995.

(d) APVVP shall have undertaken any activity, or undergone any corporate reorganization, which, in the reasonable opinion of the Association, materially and adversely affects the ability of APVVP to carry out the Project.

(e) The Borrower, the Project State, or any other authority shall have taken steps for the dissolution or disestablishment of APVVP.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and the concerned Project State; and

(b) the event specified in paragraph (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by the Project State and APVVP respectively and is legally binding upon each of them in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

The Secretary to the Government of India
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

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)

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.

INDIA

By /s/ N. Valluri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Heinz Vergin

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works	37,700,000	85%
(2) Equipment, vehicles, medicines, materials, furniture	17,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultant services, fellowships	6,000,000	100%
(4) Incremental salaries,	21,900,000	90% of local expenditures

incremental
operation and
maintenance costs

during the first
three years of
Project implemen-
tation; 75% during
the fourth and
fifth year of
Project implemen-
tation; and 60%
thereafter

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Unallocated	7,400,000	
	<hr/>	
TOTAL	90,700,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "incremental operation and maintenance costs" means operations and maintenance costs incurred under the Project on or after June 1, 1994; and "incremental staff salaries" means salaries in respect of posts created for the Project on or after June 1, 1994, including consulting or contractual services; and

(d) for the purposes of Category (4) of the table in paragraph 1 of this Schedule, the term "first year of Project implementation" shall mean the first twelve months following the date of effectiveness of this Agreement and references to any other year of Project implementation shall be determined accordingly.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures incurred prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 3,800,000, may be made on account of payments made for expenditures before that date but after April 1, 1994.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$300,000 equivalent; (b) goods under contracts not exceeding \$200,000 equivalent; (c) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants respectively; (d) training and fellowships; (e) works procured under force account; and (f) incremental salaries and incremental operational and maintenance costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve efficiency of allocation and use of health resources through policy and institutional development; and to improve systems performance of health care through improvements in the quality, effectiveness and coverage of health services at the secondary level to better serve the neediest sections of society.

The Project consists of the following parts, subject to such modifications thereof as may be agreed upon between the Borrower and the Association from time to time:

Part A: Institutional Strengthening for Policy and Capacity Development

(1) Planning Cell: Strengthening the capacity of the Project State for policy analysis and development by establishing an adequately staffed planning cell in its Department of Health; and implementing a program of strategic policy analysis and development, inter alia, through studies, seminars and workshops; and

(2) Institutional Strengthening: Strengthening management effectiveness of, and delivery of clinical services by: (a) establishing a management and institutional structure for APVVP that will enable it to efficiently manage its resources and deliver health services including, inter alia, providing APVVP and its hospitals autonomy as provided in APVVP's Charter, enhancing capacity for monitoring and evaluation as well as improving equipment management, inter alia, by enhancing the capacity of its equipment maintenance and training center and establishing zonal workshops; (b) strengthening the management information system and the health management information system of APVVP, including medical records to facilitate systems improvement, wider access and improved data collection and utilization for policy making, problem solving and monitoring in the health sector; (c) provision of enhanced management training and fellowships for professional cadres and increasing on-going in-service training and fellowships for clinical and technical cadres at APVVP including at APVVP hospitals; (d) provision of additional staff to strengthen selected APVVP units; (e) strengthening the implementation capacity of the Andhra Pradesh Health and Medical Housing Infrastructure Development Corporation (APMHIDC); and (f) strengthening procurement capacity of APVVP and APMHIDC.

Part B: Improving Service Quality, Access and Effectiveness at District Hospitals

(1) Renovation and Extension of District Hospitals: Renovation and extension of about 17 district hospitals and upgrading about 4 area hospitals to district hospitals in selected districts to improve clinical effectiveness and quality of services for some 4,600 existing beds and to provide about 1,000 additional beds at these hospitals;

(2) Upgrading Norms and Standards: Upgrading of clinical effectiveness and quality of services at district hospitals through the adoption and application of updated norms and standards, implementation of a quality assurance program and expansion of capacity of support services; and

(3) Construction of Staff Quarters: Construction of staff quarters at district hospitals where staff accommodation is inadequate.

Part C: Improving Quality, Access and Effectiveness at Area and Community Hospitals

(1) Renovation and Extension of Area and Community Hospitals: Renovation and extension of area (49) and community (80) hospitals currently under APVVP so as to improve the clinical effectiveness and quality of services of 5,051 existing beds

and provide 3,349 new beds with improved services;

(2) Upgrading of Norms and Standards: Upgrading clinical effectiveness and quality of services at area and community hospitals through the adoption and application of updated norms and standards, implementation of a quality assurance program and expansion of capacity of support services;

(3) Improving Services at Tribal Areas: (a) Enhancement of services at 6 community hospitals and 3 area hospitals in tribal areas so as to improve the existing 270 beds and provide 290 new beds at these hospitals; (b) improving quality and effectiveness of services provided at community hospitals in tribal and remote areas including carrying out information, education and communication (IEC) activities to encourage tribal populations to make greater use of services offered by community hospitals in a manner that complements their traditional systems of medicine; and

(4) Construction of Staff Quarters: Construction of staff quarters at area and community hospitals, particularly in remote and tribal areas where current accommodation for staff is inadequate.

Part D: Improving the Referral System: Strengthening the system of referral between the primary, secondary and tertiary levels of the health care system in the Project State by establishing effective linkages between these levels, inter alia, by the provision of increased clinical and technical support by secondary hospitals to primary health centers and community hospitals; strengthening referral mechanisms between community, area and district hospitals; formulation and implementation of mechanisms to provide expanded access to secondary and higher levels of health care by making the referral system more timely, effective and user-friendly; and providing improved access for remote and tribal communities.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000.

2. Payments out of the Special Account shall be made

exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; and (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement.

