

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4227-IN

Development Credit Agreement

(Reproductive & Child Health Project II)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 16, 2006

Public Disclosure Authorized



CREDIT NUMBER 4227-IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 16, 2006, between INDIA, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has established and is implementing its National Reproductive and Child Health Program 2004/05-2009/10 (the RCH II Program), aimed at expanding the use of essential reproductive and child health services of adequate quality through comprehensive policy measures and accompanying restructuring of the budgetary framework;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project) and which will support a subset of activities included in the RCH II Program, has requested the Association to assist in the financing of the Project;

(C) Part B.2 of the Project will be carried out by the Borrower and Parts A and B (other than Part B.2) of the Project (RCH II Project) will be carried out jointly by the Borrower and the Project States (as hereinafter defined) with the Borrower's assistance, and as part of such assistance, the Borrower will make available for the benefit of each of the Project States part of the proceeds of the Credit as provided in this Agreement;

(D) Part C of the Project will be carried out jointly by the Borrower and the Polio Project States (as hereinafter defined) with the Borrower's assistance, and as part of such assistance, the Borrower will make available for the benefit of each of the Polio Project States part of the proceeds of the Credit as provided in this Agreement;

(E) the Borrower intends to obtain from each of the Project States certain undertakings in respect of the carrying out of their respective part of the Project;

(F) the Borrower has obtained from each of the Polio Project States certain undertakings in respect of the carrying out of their respective part of the Project;

(G) by arrangements to be entered into between the United Kingdom Department for International Development (DFID) and the Borrower, DFID intends to provide a grant (the DFID Grant) to the Borrower in a principal amount of £245,000,000 (Two Hundred and Forty Five Million Pounds Sterling) to assist in financing, through a common pool, activities of the RCH II Program on the terms and conditions to be set forth in the DFID Grant;

(H) by arrangements already entered into between the United Nations Population Fund (UNFPA) and the Borrower, UNFPA intends to provide a grant (the UNFPA Grant) to the Borrower in a principal amount of \$20,000,000 (Twenty Million United States Dollars) to assist in financing, through a common pool, activities of the RCH II Program on the terms and conditions set forth in the UNFPA Grant;

(I) DFID, UNFPA and the Association (collectively referred to as the "Pooling Partners") and the Borrower intend to enter into a Memorandum of Understanding (the Pooling Partners MOU) providing for, *inter alia*, matters of technical, operational and financial co-operation amongst the Pooling Partners and the Borrower on the terms and conditions set forth in the said Memorandum; 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 Development Credit Agreement (hereinafter referred to as "this Agreement");

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 (the General Conditions), dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below, constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association."

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Annual Work Plan” or “AWP” means a Project State (as hereinafter defined) Annual Work Plan developed annually by such Project State pursuant to its SPIP (as hereinafter defined) and approved by the Ministry of Health and Family Welfare;

(b) “Consolidated Report on Audits” means the report covering the Audits referred to in Section 4.01(b) of this Agreement and the Procurement Audits referred to in paragraph 8.01(b) of Schedule 4 to this Agreement;

(c) “Development Partners” means all development partners supporting the RCH II Program, including World Health Organization (WHO), United Nations Children’s Fund (UNICEF), United Nations Population Fund (UNFPA), European Commission (EC), United States Agency for International Development (USAID), German Technical Cooperation Agency (GTZ), German Development Cooperation (KFW), the United Kingdom Department for International Development (DFID) and the Association – which have agreed in principle to move towards a program approach under the common framework of the RCH II Program;

(d) “District” means an administrative unit within a Project State (as hereinafter defined), including any successors thereto;

(e) “DOHFW” means the Borrower’s Department of Health and Family Welfare within the Ministry of Health and Family Welfare, which is responsible for oversight and implementation of the RCH II Program;

(f) “DOHFW Budget” means the DOHFW’s annual budget for activities under the RCH II Program which has been broadly categorized into two components: Parts A and B - with Part A financing salaries of core program staff in the Project States (as hereinafter defined) released through the consolidated funds of the states (Treasury), grant-in-aid to some central institutions, and other costs, and with Part B financing the approved State SPIPs (as hereinafter defined) and activities implemented by DOHFW;

(g) “Drugs and Cosmetics Act” means the Borrower’s Drugs and Cosmetics Act, 1940 (Act No.23 of 1940), as amended from time to time;

(h) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(i) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(j) "Empowered Action Group States" or "EAG States" means the following Project States: Bihar, Chhatisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Uttaranchal;

(k) "Empowered Procurement Wing" means the entity established within the MOHFW, which is responsible for the Borrower's procurement of goods, works and services for the health and family welfare sectors, and referred to in paragraph 8.03 of Schedule 4 to this Agreement;

(l) "Financial Management Manual" means the "Finance and Accounts Manual" for the RCH II Project dated April 19, 2005 prepared by the MOHFW;

(m) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(n) "Fiscal Year" or "FY" means the fiscal year of the Borrower, which commences on April 1 of a calendar year and ends on March 31 of the following calendar year;

(o) "FMG" means the Financial Management Group within the DOHFW which is responsible for overall financial management of the RCH II Program;

(p) "Governance and Accountability Action Plan" or "GAAP" means the Borrower's Plan dated July 15, 2006 setting out the arrangements agreed between the Borrower and the Association to ensure, competition and transparency, in the procurement and timely delivery of quality goods and services under the Project, as such Plan may be strengthened as necessary;

(q) "IEC" means Information, Education & Communication;

(r) "IFB" means an invitation for bid;

(s) "IMEP" means the Infection Management and Environmental Plan dated October 2004 of the MOHFW, or subsequent revisions acceptable to the Association, which, *inter alia*, identifies the key environmental and health impacts of the Project and actions to be taken, including interventions in the areas of infection management, healthcare waste management, and ensuring appropriate water and sanitation at facilities supported by the RCH II Project;

(t) "Immunization Strengthening Project" means the Project financed under the Development Credit Agreement number 3340-IN dated May 19, 2000 between the Borrower and the Association;

(u) “JRM” means Joint Review Mission to be carried out pursuant to paragraphs 10 & 11 of Schedule 4 to this Agreement;

(v) “Letter of Undertaking” or “LOU” means the letter of commitment by a Project State and SIA (as hereinafter defined) to the Borrower confirming its participation in implementing the RCH II Program in accordance with the National Program Implementation Plan (as hereinafter defined), and referred to in paragraphs 2.01 & 2.02 of Schedule 4, and as may be supplemented by other arrangements as may be agreed between the parties to the satisfaction of the Association;

(w) “Memorandum of Understanding” or “MOU” means the Memorandum of Understanding between a Project State, SIA (as hereinafter defined) and the MOHFW (as hereinafter defined) confirming its participation in implementing the RCH II Program in accordance with the National Program Implementation Plan (as hereinafter defined), and referred to in Paragraph 2.02 of Schedule 4, and satisfactory to the Association;

(x) “Mid-term Review” means the Mid-term Review to be carried out pursuant to paragraph 11 of Schedule 4 to this Agreement;

(y) “MOHFW” means the Borrower’s Ministry of Health and Family Welfare;

(z) “National Program Coordination Committee” means the committee created within the DOHFW, chaired by the Additional Secretary, DOHFW, to provide oversight to the RCH II Program;

(aa) “National Program Implementation Plan” or “NPIP” means the “*Reproductive and Child Health II – Program Implementation Plan*”, dated July 15, 2006, acceptable to the Association, and prepared by the MOHFW for implementation of the RCH II Program and which contains, the basis of RCH II Project planning and financing norms, and which includes the GAAP, as such NPIP may be amended from time to time;

(bb) “National Rural Health Mission” or “NRHM” means the National Rural Health Mission of the Borrower;

(cc) “NHSRC” means National Health Systems Resource Center to be established by MOHFW for the purpose of providing timely and effective technical assistance;

(dd) “NID” or “National Immunization Day” means a day or days declared to be a day of national immunization by the MOHFW for polio immunization of all children under five;

(ee) “Non-Pooling Development Partners” means the Development Partners other than the Pooling Partners;

(ff) “NRHM High Focus States” means those Project States of the Borrower (as hereinafter defined) which include EAG States, the North Eastern States (Sikkim, Assam, Arunachal Pradesh, Nagaland, Manipur, Meghalaya, Tripura, and Mizoram), Himachal Pradesh and Jammu and Kashmir;

(gg) “Panchayati Raj Institutions” means the institutions constituted in the states of the Borrower pursuant to the provisions of Part IX of the Constitution of India and other laws of the Borrower and the States, as amended;

(hh) “Polio Letter of Undertaking” means a Letter of Undertaking executed and furnished by each State or Union Territory of the Borrower, which is a participant in Part A of the Immunization Strengthening Project, which Part A is set forth in Part C of Schedule 2 to this Agreement;

(ii) “Polio Project Implementation Plan” means the MOHFW’s Project Implementation Plan dated March 15, 2000 referred to in Section 1.02(i) of the Development Credit Agreement for the Immunization Strengthening Project, as updated;

(jj) “Polio Project State” means any State or Union Territory of the Borrower, including any successor or successors thereto, which participates in Part C of the Project and from which the MOHFW has obtained a Polio Letter of Undertaking (as defined hereinafter);

(kk) “Procurement Audit” means a periodic review referred to in Paragraph 8.01 of Schedule 4 to this Agreement ensuring the Procurement Guidelines for RCH II Project are followed by the Project Executing Agencies (as defined hereinafter);

(ll) “Procurement Guidelines for the RCH II Project” means the procurement guidelines dated July 14, 2006 prepared by the MOHFW for use in the procurement of goods, works and services for the RCH II;

(mm) “Procurement Plan for the RCH II Project” means the procurement plan dated July 11, 2006 prepared by the MOHFW for procurement of goods, works and services for the RCH II Project indicating the proposed methods of procurement of the contracts and their estimated value;

(nn) “Project Executing Agencies” means any agency of the Borrower responsible for implementation and execution of the Project, and includes MOHFW, the Polio Project States, the Project States (as hereinafter defined) and their respective SIAs (as hereinafter defined);

(oo) "Project State" means any State or Union Territory of the Borrower, including any successor or successors thereto, which participates in Parts A and B of the Project and from which the Borrower has obtained a Letter of Undertaking or entered into a Memorandum of Understanding;

(pp) "Report-based Disbursements" means the withdrawal of funds from the Credit Account referred to in Part A.6 of Schedule 1 to this Agreement;

(qq) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(rr) "SPIP" means State Program Implementation Plan;

(ss) "SIA" means any agency of the Project State responsible for implementation and execution of the Project, and includes State Health Societies registered under the Borrower's Societies Registration Act, 1860 (21 of 1860);

(tt) "Sub-National Immunization Day" or "Sub-NID" means a day or days declared to be a day of national immunization by the Borrower for polio immunization of all children under 5 years of age in selected States; and

(uu) "VGHP" means the Vulnerable Groups' Health Plan of the Borrower dated December 30, 2004, or subsequent revisions acceptable to the Association, which, *inter alia*, delineates, strategies to increase access to and improve use of reproductive and child healthcare services by vulnerable groups including tribal populations and urban poor.

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 Two Hundred Forty Five Million Special Drawing Rights (SDR 245,000,000).

Section 2.02. 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, works and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be September 30, 2010 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 (60) 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 canceled; 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 semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing February 15, 2017 and ending August 15, 2041. Each installment to and including the installment payable on August 15, 2026 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 per capita Gross National Product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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, shall carry out or cause to be carried out, the Project, through the Project Executing Agencies, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and health practices and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out or cause to be carried out, the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause each Project State, and its respective SIA to carry out their respective activities under Parts A and B of the Project in accordance with a Letter of Undertaking or a Memorandum of Understanding satisfactory to the Association to be executed and furnished to the Borrower by each Project State and its respective SIA, and also in accordance with the provisions set forth in Schedule 4 to this Agreement.

(d) Without limitation or restriction upon any provisions of this Agreement, the Borrower shall cause each Polio Project State to carry out its respective activities under Part C of the Project in accordance with the provisions of its respective Polio Letter of Undertaking and the provisions set forth in Schedule 4 to this Agreement.

(e) Without limitation or restriction upon any of its obligations under this Agreement, the Borrower shall take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Project State and its respective SIA to perform all their respective obligations set forth in this Agreement and in the respective Letters of Undertaking or Memoranda of Understanding. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such performance.

(f) Without limitation or restriction upon any of its obligations under this Agreement, the Borrower shall take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Polio Project State and its respective SIA to perform all their respective obligations set forth in this Agreement and in the respective Polio Letter of Undertaking. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such performance.

(g) The Borrower shall establish and implement arrangements, satisfactory to the Association, to make available for the benefit of each Project State and its respective SIA a portion of the proceeds of the Credit for activities under Parts A and B of the Project.

(h) The Borrower shall establish and implement arrangements, satisfactory to the Association, to make available for the benefit of each Polio Project State and its respective SIA a portion of the proceeds for activities under Part C of the Project.

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 3 to this Agreement, as such provisions shall be further elaborated in the Procurement Plan.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a report on the implementation of Parts A and B of the Project in context of the continuation of the RCH II Program;

(b) 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 of the Immunization Strengthening Project or such later date as may be agreed for this purpose between the Borrower and the Association, a report on the implementation of Part C of the Project; and

(c) afford the Association a reasonable opportunity to exchange views with the Borrower on said reports.

Section 3.04. 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 by each Project State, by each Polio Project State and by the respective SIA pursuant to the terms of the applicable Letters of Undertaking.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, and shall cause Project States, Polio Project States and the SIAs to 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 departments or agencies of the Borrower, of each Project State, of each Polio Project State and of the SIAs responsible for carrying out the Project or any part thereof.

(b) The Borrower shall, and shall cause each Project State, each Polio Project State and the SIAs to:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

- (ii) upon request, furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of the Fiscal Year to which the request relates: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such 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 concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.
- (c) The Borrower shall:
 - (i) furnish to the Association no later than six (6) months after the end of each Fiscal Year a Consolidated Report on Audits containing an opinion on the statements, records and accounts and the report of the audit referred to in paragraph (b)(ii) of this Section, and the report of the procurement audit referred to in paragraph 8.01(b) of Schedule 4 to this Agreement, of such scope and in such detail as the Association shall have reasonably requested; and
 - (ii) furnish to the Association such other information concerning such Consolidated Report on Audits as the Association may from time to time reasonably request.
- (d) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.6 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:
 - (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the end of the fiscal year in which the last withdrawal from the Credit Account was made;
 - (ii) enable the Association's representatives to examine such records; and
 - (iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 4.01 above, the Borrower 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 uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than December 31, 2006, and shall cover the period from April 1, 2006, through September 30, 2006; thereafter, each FMR shall be furnished to the Association not later than ninety (90) days after each previous six (6) months, and shall cover such six (6) month period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

- (a) that a situation has arisen which shall make it improbable that the RCH II Program, or a significant part thereof, will be carried out;
- (b) that the National Program Implementation Plan shall have been amended, waived or abrogated so as to adversely affect the implementation of the Project or the achievement of the objectives of the RCH II Program;
- (c) that the Finance and Accounts Manual or the Procurement Guidelines for the RCH II Project shall have been amended, waived or abrogated so as to adversely affect the achievement of the objectives of efficiency, economy and transparency of procurement methods and procedures;
- (d) any of the provisions of any Letter of Undertaking, Memorandum of Understanding or any Polio Letter of Undertaking relevant for this Agreement, shall have

been amended, waived or abrogated so as to adversely affect the implementation of the Project or the achievement of the objectives of the Project;

(e) any Project State shall have failed to perform any of its obligations under its respective Letter of Undertaking or Memorandum of Understanding;

(f) any Polio Project State shall have failed to perform any of its obligations under its respective Polio Letter of Undertaking;

(g) the Borrower shall have waived or failed to enforce any provisions of any Letter of Undertaking, Memorandum of Understanding as it relates to the RCH II Program, the Pooling MOU or of any Polio Letter of Undertaking;

(h) the Association shall have determined that a fraudulent or corrupt activity has occurred in the carrying out of the Project ;

(i) 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 any Project State or SIA will be able to perform its obligations under any Letter of Undertaking or Memorandum of Understanding as it relates to the RCH II Program; and

(j) 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 any Polio Project State or SIA will be able to perform its obligations under its respective Polio Letter of Undertaking.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any of the events specified in paragraphs (b) through (h) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the

Ministry of Finance or successor thereto of the Borrower is each 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:

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

Cable address:	Telex:	Facsimile:
ECOFAIRS New Delhi	53-31-66175 FINE IN	91-11-2309-4075

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

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.

INDIA

By

/s/ Madhusudan Prasad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Rachid Benmessaoud
Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A: General

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 percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works and services under Eligible RCH II Project Activities:		29% of Eligible RCH II Project Expenditures in Fiscal Year 2005/06, 31% in Fiscal Year 2006/07, 32% in Fiscal Year 2007/08, and 36% in Fiscal Year 2008/09 or any other percentage that the Association may establish from time to time in consultation with the Borrower.
(a) pharmaceuticals and medical supplies	55,000,000	
(b) other goods, works and services	131,000,000	
(2) Polio Eradication Activities	27,000,000	90%
(3) Consultant services under Part B.2 of the Project (Procurement Agent)	7,000,000	100%
(4) Unallocated	<u>25,000,000</u>	
TOTAL	<u>245,000,000</u>	

2. For the purposes of this Schedule 1, the following terms have the following meanings:

(a) the term "Eligible RCH II Project Activities" means the activities in Part B of DOHFW Budget set out under Parts A and B of Schedule 2 to this Agreement (other than Part B.2) to be financed under the Project for Fiscal Year 2005-06 to Fiscal Year 2008-09; and

(b) the term "Eligible RCH II Project Expenditures" means the aggregate of expenditures in a fiscal year for Eligible RCH II Project Activities under Category (1) incurred by the Borrower and in Eligible Project States (as hereinafter defined) under the RCH II Project in accordance with the provisions of this Agreement, excluding the expenditures for:

- (i) transaction costs relating to sterilization;
- (ii) medical termination of pregnancies; and
- (iii) vaccines for routine immunization programs; and

(c) the term "Eligible Project State" means a State or Union Territory of the Borrower that: (i) has entered into an LOU or MOU with the MOHFW and such LOU or MOU has not been suspended or terminated; (ii) has an SPIP and Annual Work Plan approved by the MOHFW in a manner satisfactory to the Association; and (iii) from 2007 onward, has provided documentary evidence satisfactory to the Borrower and the Association, indicating achievement of agreed core indicator milestones as detailed in the SPIP and Annual Work Plan approved by the MOHFW;

(d) the term "polio eradication activities" means expenditures under Part C of the Project as set forth in Schedule 2 to this Agreement incurred for polio vaccine, training, orientation, honoraria, consultant services, IEC material and services and mobility support; and

(e) the term "other goods" includes laboratory consumables.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals in an amount not exceeding the equivalent of SDR 68,000,000 may be made on account of payments made for expenditures in respect of Categories (1) and (2) before that date and incurred after April 1, 2005.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures for pharmaceuticals and medical supplies under Category 1(a) other than those procured by a procurement agent or a UN agency (as referred to in paragraph 4 of Part A of Section 1 of Schedule 3 to this Agreement) through International Competitive Bidding procedures, Limited International Bidding procedures, or UN Agencies as set forth in Parts B, C.1 and C.3 of Section I of Schedule 3 to this Agreement unless the Borrower has: (A) established arrangements satisfactory to the Association for addressing concerns relating to Schedule M of the Rules issued

under the Drugs and Cosmetics Act; and (B) strengthened the GAAP in accordance with paragraph 3.04(b) of Schedule 4 to this Agreement.

5. With respect to expenditures under Category (2), the Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) expenditures for goods under contracts costing less than \$1,000,000 equivalent each; (b) services under contracts not exceeding \$200,000 equivalent each for employment of firms and \$50,000 equivalent for employment of individual consultants, respectively; and (c) training and orientation, all under such terms and conditions as the Association shall specify by notice to the Borrower.

6. Notwithstanding the provisions of the foregoing Paragraphs, and except as the Association may otherwise agree, withdrawals in respect of Eligible RCH II Project Expenditures under Category 1 shall be made on an annual basis in accordance with the following provisions:

(a) with respect to Eligible RCH II Project Expenditures for fiscal Year 2005-2006, the Borrower may request withdrawals from the Credit Account to be made on the basis of the Consolidated Report on Audits for such fiscal year submitted by the Borrower pursuant to Section 4.01(c) of this Agreement and any other reports as the Association shall specify by notice to the Borrower. Except as the Association may otherwise agree, such request shall be made no later than December 31, 2006;

(b) with respect to Eligible RCH II Project Expenditures for fiscal year 2006/07 to fiscal year 2008/09, the Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report covering the relevant Fiscal Year and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursement). Except as the Association may otherwise agree, such request in respect of a Fiscal Year shall be made no later than July 31 of the following Fiscal Year;

(c) beginning FY 2006-07, no withdrawals shall be made from the proceeds of the Credit for a Fiscal Year unless the Consolidated Report on Audits for the previous Fiscal Year has been submitted by the Borrower pursuant to Section 4.01(c) of this Agreement; and

(d) any amount disbursed by the Association to the Borrower in accordance with the above provisions shall be adjusted for actual levels of Eligible RCH II Project Expenditures confirmed by the Consolidated Report on Audits to be submitted by the Borrower pursuant to Section 4.01(c) of this Agreement or by other reports or information submitted by the Borrower pursuant to the Association's request, such adjustment to be made from the next disbursement, provided, however, that the Association may at any time request refunds of amounts not confirmed by such Consolidated Report on Audits, other reports or information, and upon such request, the

Borrower shall immediately refund such amount. Any such refunds made to the Association shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

7. The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or loan. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Part B: Special Account

1. The Borrower may open and maintain a special deposit account, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made in accordance with the provisions of the Annex to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.6 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

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

accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

**Annex
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under Eligible Categories in Schedule 1 to this Agreement.

2. Withdrawals to be deposited into the Special Account shall be made as follows: upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.6 of this Schedule 1 applicable to such withdrawal application and any adjustments to be carried out pursuant to Part A.6(d) of this Schedule 1, is required to be deposited in order to finance Eligible Expenditures during the Fiscal Year prior to the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's continuing Program for Reproductive and Child Health (the RCH II Program) that aims to achieve the reduction in maternal mortality and child mortality.

The Project consists of the following activities subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Improving Delivery of Essential RCH II Program Activities

1. RCH II Program Activities at the MOFHW consisting, of the following:
 - (i) procurement of drugs and equipment for the RCH II Program and subsequent distribution to the states and territories during the project;
 - (ii) procurement of and distribution of inputs other than vaccines for the routine immunization program;
 - (iii) leading a sustained effort to expand and improve Behavior Change Communication (BCC) activities;
 - (iv) providing nationwide training to improve specialized as well as comprehensive skills and knowledge of RCH service providers;
 - (v) providing advice and technical support aimed at promoting public-private partnerships within the States and Union Territories in support of RCH II Program activities; and
 - (vi) developing and implementing overall policy with respect to pilot projects under the RCH II Program.

2. RCH II Program Activities to expand and improve RCH services within the Project States consisting of the following:
 - (i) the provision of family planning services that cater to the unmet demand for temporary and permanent methods of contraception;
 - (ii) the provision of services for safe motherhood, including: expanded skilled care at birth by attendants with midwifery training; basic and emergency obstetric services in cooperation with State Departments of Health; and improved post-partum and post-abortion care;

- (iii) the provision of services for improved child survival, especially newborn care;
- (iv) initiatives for promoting the health and development of adolescents (10-19 years of age), including the provision of health care and counseling services;
- (v) the expansion and improvement of RCH services in urban areas including partnership with the private sector;
- (vi) the implementation of the state Vulnerable Groups Reproductive and Child Health Plans;
- (vii) the implementation of new and improved IEC activities focused on behavior change communications to increase demand for essential RCH services and to improve RCH-related home care; and
- (viii) other innovative and developmental activities within the Project States aimed at improving and expanding RCH services, and included in approved SPIPs.

Part B: Project Management, Monitoring and Evaluation (M&E) and Technical Assistance

1. RCH II Program Activities at the DOHFW, MOHFW consisting, of the following:

- (i) creating a National Program Coordination Committee within MOHFW to provide RCH II Program oversight;
- (ii) strengthening of existing and newly created program management and monitoring structures within the MOHFW to better assist NRHM High Focus States to plan and implement the RCH II Program;
- (iii) provision of ex-ante appraisal and ex-post evaluation of the SPIPs;
- (iv) strengthening of Monitoring and Evaluation (M&E) systems; and
- (v) provision of technical assistance to the states during implementation of the RCH II Program.

2. Engaging the services of a procurement agent(s) for carrying out procurement of pharmaceuticals, medical supplies, other goods, works and services required for Parts A and B of the Project.

Part C: Polio Eradication

Provision of polio vaccines and support for social mobilization for NIDs, Sub-NIDs and related activities to sustain the Borrower's eradication efforts and achieve its polio eradication goal by 2007.

* * *

The Project is expected to be completed by March 31, 2010.

SCHEDULE 3

Procurement

Section I: Procurement of Pharmaceuticals, Medical Supplies, Other Goods, Works and Services under Parts A & B of the Project

Part A: General

1. All pharmaceuticals, medical supplies, other goods, works and services (other than those provided in accordance with the applicable provisions of the Procurement Guidelines for the RCH-II Project pursuant to this Schedule) 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 World Bank Procurement Guidelines), and with the provisions of this Schedule.

2. All consultants’ services (other than those provided in accordance with the applicable provisions of the Procurement Guidelines for the RCH-II Project pursuant to this Schedule) 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.

3. The capitalized terms used below to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the World Bank Procurement Guidelines, or Consultant Guidelines, or the Procurement Guidelines for the RCH II Project, as the case may be.

4. (a) 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 3.04 of Schedule 4 to this Agreement, and progress made in implementing the GAAP as revised pursuant to said paragraph 3.04.

(b) Except as the Association shall otherwise agree, until such time the Association has agreed to the use of Indian Institutions, including PSAs, as referred to in paragraph (a) above, the procurement of all pharmaceuticals, medical supplies, other goods, works and services utilizing the following procedures under this Schedule shall be carried out by a qualified procurement agent(s) engaged by the Borrower in accordance with the Consultant Guidelines, and/or by a UN Agency engaged by the Borrower by negotiation with such Agency:

- (i) international Competitive Bidding and Limited International Bidding procedures;
- (ii) national Competitive Bidding procedures for contracts estimated to cost the equivalent of more than \$200,000 per contract;
- (iii) quality and Cost Based Selection procedures for contracts estimated to cost the equivalent of more than \$200,000 per contract; and
- (iv) individual Consultants Selection procedures for contracts estimated to cost the equivalent of more than \$50,000 per contract.

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

5. 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 the Borrower 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.

Part B: International Competitive Bidding Procedures

Except as otherwise provided in Part C of this Section, all contracts for: (a) pharmaceuticals, medical supplies and other goods estimated to cost the equivalent of \$1.0 million or more per contract; and (b) works estimated to cost the equivalent of \$2.0 million or more per contract, shall be procured in accordance with the International Competitive Bidding (ICB) provisions of the World Bank Procurement Guidelines. The provisions of paragraphs 2.55 and 2.56 of the World Bank Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procedures

1. Limited International Bidding. Pharmaceuticals, medical supplies and other goods, which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding in accordance with the World Bank Procurement Guidelines.
2. National Competitive Bidding. Pharmaceuticals, medical supplies, and other goods estimated to cost the equivalent of less than \$1,000,000 per contract and works estimated to cost the equivalent of less than \$2,000,000 per contract may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the World Bank Procurement Guidelines and other provisions as agreed with the Borrower.
3. Procurement from UN Agencies. With the prior approval of the Association, pharmaceuticals and medical supplies, regardless of cost, may be procured directly from UN Agencies in accordance with the provisions of paragraphs 3.1 and 3.9 of the World Bank Procurement Guidelines.
4. Pharmaceuticals, medical supplies and other goods estimated to cost the equivalent of less than \$200,000 per contract, and works estimated to cost the equivalent of less than \$200,000 per contract, shall be procured under contracts awarded in accordance with paragraph (b)IV(B) of the Procurement Guidelines for the RCH II Project (Open Tender/National Competitive Bidding (NCB) Method).
5. Pharmaceuticals, medical supplies and other goods estimated to cost the equivalent of less than \$200,000 per contract, as an exception may be procured in accordance with the provisions of paragraph (b)IV(C) of the Procurement Guidelines for the RCH II Project (Limited Tender Method).
6. Pharmaceuticals, medical supplies and other goods estimated to cost the equivalent of \$50,000 or less per contract and works estimated to cost the equivalent of \$50,000 or less per contract may be procured under contracts awarded in accordance with the provisions of paragraph (b)IV(D) of the Procurement Guidelines for the RCH II Project (Shopping).
7. Pharmaceuticals, medical supplies and other goods estimated to cost the equivalent of less than \$10,000 per contract may be made without inviting tenders/quotation in accordance with the provisions of paragraph (b)IV(E) of the Procurement Guidelines for the RCH II Project (Single Tender/Direct Contracting).
8. Works estimated to cost the equivalent of \$20,000 or less per contract may be carried out in accordance with the provisions of paragraph (b)IV(E) of the Procurement Guidelines for the RCH II Project (Single Tender/Direct Contracting).

9. Works estimated to cost the equivalent of \$15,000 or less per contract may be carried out by Panchayati Raj Institutions in accordance with the provisions of paragraph (b) IV(F) of the Procurement Guidelines for the RCH II Project.

Part D: Employment of Service Providers

1. Services estimated to cost the equivalent of more than \$200,000 shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines (Quality and Cost Based Selection). The shortlist of consultants for services estimated to cost the equivalent of less than \$500,000 per contract may comprise entirely of national consultants.

2. 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.

3. Services estimated to cost less than the equivalent of \$200,000 per contract, may be procured under contracts awarded in accordance with the provisions of paragraph (c) of the Procurement Guidelines for the RCH II Project.

4. Services of individuals estimated to cost the equivalent of \$50,000 or less per contract, and Single Source selection of firms estimated to cost the equivalent of \$20,000 or less per contract may be procured in accordance with the provisions of paragraph (c) of the Procurement Guidelines for the RCH II Project.

Section II: Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to prior review by the Association in accordance with paragraph 2 of Appendix I to the Procurement Guidelines or the Consultant Guidelines, as the case maybe: (a) each contract for pharmaceuticals, medical supplies, other goods, and works estimated to cost the equivalent of more than \$1.0 million; (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of more than \$200,000; and (c) each contract for consultants' services provided by individuals estimated to cost the equivalent of more than \$50,000. All other contracts shall be subject to post review by the Association in accordance with paragraph 5 of Appendix 1 to the World Bank Procurement Guidelines or the Consultant Guidelines, as the case may be.

Section III: Update of Procurement Plan

The Borrower shall through MOHFW: (a) review and update annually its Procurement Plan including prior review thresholds, if necessary or required, and in a manner satisfactory to reflect the actual Project implementation needs and institutional capacity; and (b) furnish such update to the Association not later than 12 (twelve) months after the date of the preceding Procurement Plan, for the Association's approval.

Section IV: Procurement Procedures for Polio Eradication Activities under Part C of the Project

(a) Oral polio vaccines may be procured from United Nations Children's Fund (UNICEF) in accordance with the provisions of paragraph 3.9 of the Procurement Guidelines.

(b) Contracts for polio eradication activities costing \$10,000 equivalent or less per contract may be procured in accordance with the provisions of paragraph (b)IV (E) of the Procurement Guidelines for the RCH II Project.

Section V: Misprocurement

1. Pharmaceuticals, medical supplies, other goods and works which have not been procured in accordance with the agreed provisions in this Schedule 3 and as further elaborated in the Procurement Plan, shall be treated as misprocurement and the expenditure incurred on such procurement shall not be eligible for financing from the proceeds of the Credit. Misprocurement also may be declared if the Association concludes that any "no objection" provided was issued on the basis of incomplete, inaccurate, or misleading information furnished by the Borrower or the terms and conditions of the contract had been modified. The Association may, in addition, exercise other remedies provided for under this Agreement.

2. If the Association shall have determined at any time that any amount out of the proceeds of the Credit shall have been used to make payment for any expenditure under a contract which the Association determines, in consultation with the Borrower, that fraudulent or corrupt practices were engaged in by a representative of the Borrower or a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, the Borrower shall, upon request by the Association refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

SCHEDULE 4

Implementation Program

A. Implementation Program for Parts A and B of the Project

1. The Borrower shall:

(a) cause MOHFW to oversee the implementation of the RCH II Program pursuant to the LOUs and MOUs entered between the MOHFW and the Project States and SIAs;

(b) cause MOHFW to establish the NHSRC by February 28, 2007 and maintain the NHSRC throughout the period of Program Implementation;

(c) cause MOHFW to strengthen and maintain existing and newly created program management and monitoring structures;

(d) cause MOHFW to maintain the FMG headed by a Director (Finance) and supported by at least three qualified financial consultants throughout the period of Project Implementation;

(e) cause MOHFW to ensure that the Project Executing Agencies at the state and district level maintain financial management staff in the EAG States at the State and District level, as per qualifications specified in the Financial Management Manual dated May 2, 2005 issued by MOHFW;

(f) cause MOHFW to ensure that the Project Executing Agencies, including those at the State and District level, remain functionally operational in a satisfactory manner throughout the Project Implementation;

(g) cause MOHFW to ensure that the National Program Coordination Committee meets diligently, whenever necessary, to, *inter alia*, appraise timely submission of SPIPS and AWP for approval by the Secretary, MOHFW, ensure adherence to the financial norms envisaged in the RCH II Program, maintain consistency with the overall objectives of the RCH II Program and the Project, ensure cost effectiveness of all proposed interventions at various levels and co-ordinate the activities of various Project Executing Agencies;

(h) cause MOHFW to procure goods, works and services for the project, and ensure that these are timely provided, and drugs, vaccine, etc. are properly stored until the end of the supply chain, and also ensure during this period, that steps will be taken to strengthen the logistics and procurement systems at the state level so that Project States can take over procurement work subsequently in a phased manner;

(i) cause MOHFW to take necessary actions to improve routine immunization coverage;

(j) cause MOHFW to establish monitoring and evaluation systems for the RCH II Program and ensure timely reports in an agreed format satisfactory to the Association for the annual review mission;

(k) share with the Pooling Partners, on an annual basis, information on releases and expenditures as available from states under Part A of the DOHFW Budget to improve the dialogue between the MOHFW and the Pooling Partners regarding the RCH II Program;

(l) make the procurement system more transparent to the bidders and more efficient by reducing the decision making time;

(m) ensure the timely provision of funds to various Project Executing Agencies; and

(n) cause the audits of various Project Executing Agencies to be conducted in a timely manner in accordance with the terms of reference set out in the Finance and Accounts Manual and in the Procurement Guidelines for the RCH II Project.

Letters of Undertaking

2.01. Except as the Association shall otherwise agree, the Borrower shall cause each Project State and SIA to provide a Letter of Undertaking or a Memorandum of Understanding which shall include, *inter alia*, the following provisions:

(a) Each Project State and/or SIA shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to that end, it shall agree to undertake its portion of the Project with due diligence and efficiency and in conformity with appropriate health and family welfare practices, and to provide, promptly as needed, the funds, facilities, services and other resources required therefor.

(b) Each Project State and/or SIA shall agree to assume all the obligations applicable or relevant to the Project States and/or SIA under this Agreement and to take all actions necessary to undertake its portion of the Project. Each Project State and/or SIA shall further agree to carry out its portion of the Project as follows:

(1) Each Project State and/or SIA shall (i) carry out activities under the Project in accordance with its SPIP agreed with the MOHFW and forming part of the NPIP; and shall (ii) carry out civil works under the Project in accordance with the technical manual (as applicable to each State or Union Territory) developed by the

MOHFW, as such manual may be revised from time to time in agreement with the Association; and

(2) Each Project State and/or SIA shall appoint key additional staff according to approved AWP's and SPIPs.

(c) Each Project State and/or SIA shall undertake to procure the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit under this Agreement in accordance with the provisions of Schedule 3 to this Agreement.

(d) Each Project State and/or SIA shall agree that the Borrower or the Association may from time to time inspect the goods, works and services under the Project including all records and documents relating thereto.

(e) Each Project State and/or SIA shall 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 acquisition, respectively) of the General Conditions in respect of its Letter of Undertaking and its portion of the Project.

(f) Each Project State and/or SIA shall agree to assume and undertake to comply or assist the Borrower in complying with the financial covenants prescribed by Article IV of this Agreement. Each Project State and/or SIA shall agree that the Borrower may suspend or terminate its right to use the proceeds of the Credit made available under this Agreement upon its failure to perform any obligations under its Letter of Undertaking or upon notice by the Association that it intends to exercise its remedies under Article V of this Agreement.

(g) Each Project State and/or SIA shall agree promptly to inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of its portion of the Project, the accomplishment of the purposes of the Credit under this Agreement, or the performance of its obligations under its Letter of Undertaking.

(h) Each Project State and/or SIA shall agree that it shall, from time to time, at the request of either the Borrower or the Association: (i) exchange views with the Borrower and/or the Association (through the Borrower) with regard to the progress of carrying out activities under its portion of the Project, its performance under its Letter of Undertaking and other matters relating to the purposes of the Credit under this Agreement; and (ii) furnish all such information related thereto as may reasonably be required by the Borrower to fulfill its supervision, monitoring and reporting obligations to the Association. Each Project State and/or SIA shall also agree to afford all reasonable opportunity for representatives of the Association to visit any part of its territory for purposes related to the Project.

(i) Each Project State shall agree to maintain its Project Executing Agencies to oversee Project activities within such Project State and to coordinate Project activities with the National Program Coordination Committee of MOHFW.

(j) Each Project State and/or SIA shall agree to establish a mechanism acceptable to the Borrower for the transfer of funds from the State level to the Project Executing Agencies at District or institutional levels. Without limitation upon the provisions of Section 4.01 of this Agreement, each Project State and/or SIA shall agree to open, establish and maintain a separate Project account in each District or institution receiving Credit proceeds, and each Project State and/or SIA shall agree to prepare monthly consolidated state expenditure reports in respect of all such Project accounts.

2.02 The Borrower shall cause each Project State and SIA that have provided Letters of Undertaking to complement it within one year's time of the Effective Date by a Memorandum of Understanding (MOUs) acceptable to the Borrower and the Association.

Manuals and Plans

3.01 Throughout the duration of the Project, the Borrower shall:

(a) maintain the National Program Implementation Plan, the Finance and Accounts Manual and the Procurement Guidelines for the RCH II Project, and implement same in a manner satisfactory to the Association;

(b) promptly inform the Association of any amendment, waiver or abrogation of any provision of the National Program Implementation Plan, the Finance and Accounts Manual or the Procurement Guidelines for the RCH II Project;

(c) refrain from taking any action which shall prevent or interfere with the implementation of the National Program Implementation Plan, the Finance and Accounts Manual or the Procurement Guidelines for the RCH II Project.

3.02. Throughout the duration of the Project the Borrower shall, and shall cause the Project States and the SIAs to:

(a) carry out the Project and the RCH II Program in accordance with the National Program Implementation Plan;

(b) implement the National Program Implementation Plan, the Finance and Accounts Manual and the Procurement Guidelines for the RCH II Project in accordance with the objectives, policies, procedures, time schedules and other provision set forth therein; and

(c) refrain from taking any action which shall prevent or interfere with the implementation of the National Program Implementation Plan, the Finance and Accounts Manual or the Procurement Guidelines for the RCH II Project.

3.03. Throughout the duration of the Project the Borrower shall:

(a) carry out the Project and the RCH II Program in accordance with the Governance and Accountability Action Plan;

(b) implement the Governance and Accountability 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 Governance and Accountability Action Plan;

(d) not waive, amend or abrogate the Governance and Accountability Action Plan or any provision thereof, except as the Association shall otherwise agree; and

(e) provide regular written reports on progress achieved in the implementation of the Governance and Accountability Action Plan to the Pooling Partners. The first such report shall be provided by December 31, 2006. Thereafter such reports shall be provided semiannually.

3.04. The Borrower shall further strengthen the GAAP, 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.

Vulnerable Groups Health Plan

4. To ensure that the tribal population and other socially deprived groups in India benefit fully from the activities under the Project, the Borrower shall, and shall cause the Project States and Project Executing Agencies to implement, in a manner satisfactory to the Association, the VGHP and the interventions targeted towards other socially deprived groups set forth therein.

Environmental Safeguard(s)

5. The Borrower shall, and shall cause the Project States and Project Executing Agencies to carry out the RCH II Program in accordance with the agreed IMEP and ensure that:

(a) the relevant manuals and guidelines are at all times consistently and satisfactorily applied; and

(b) the appraisal of SPIPs examine the implementation of environmental management measures, and outputs of such evaluations are used to improve the implementation of the RCH II Program in the subsequent years.

Financial Commitment

6. With respect to Part A of the DOHFW Budget, the Borrower shall:

(a) make adequate budget provision and maintain actual expenditure incurred in the year 2004-05 in real terms throughout the Project Implementation period; and

(b) cause the Project States to make correspondingly adequate budget provision in respect of activities financed by the Borrower under the RCH II Program.

Land

7. The Borrower shall, and shall ensure that the Project Executing Agencies shall:

(a) ensure that any private land needed for any work under the RCH II Program shall be provided by the owner of such land in a voluntary manner, through a registered deed or a memorandum of understanding or through any procedure prescribed by the relevant laws;

(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 required to be made available for renovation and/or extension of health facilities would take place on land already in the possession of the Borrower/project executing agencies, and in all cases, the Borrower would provide the Association with satisfactory evidence that the land on which any facilities are being renovated/upgraded/built shall be free from any encumbrances and encroachment, and that no involuntary resettlement arises from any use of such land under the RCH II Program.

Procurement

8. The Borrower shall provide yearly to the Association the Annual Procurement Plan, said plan to reflect, *inter alia*, a consolidation of procurement activities set out in the NPIP, SPIPs and District PIPs.

8.01. The Borrower shall carry out the following Procurement Audits and provide the results of said Audits as indicated in Section 4.01(c) of Article IV to this Agreement:

(a) Internal Procurement Audit in accordance with the provisions of Part 1, paragraph XV of the Procurement Guidelines for the RCH II Project;

(b) External Procurement Audit in accordance with the provisions of Part 1, paragraph XV of the Procurement Guidelines for the RCH II Project; and

(c) Subject to Paragraph 8.02 hereunder, post review of contracts in accordance with the provisions of Part 1, paragraph VI of the Procurement Guidelines for the RCH II Project.

8.02. Notwithstanding in the provisions of clause (c) of paragraph 8.01 above, the Association reserves the option to carry out post review of any contract awarded in accordance with Schedule 3. Such post review, however, shall be carried out in consultation with the Borrower.

8.03. The Borrower shall, throughout the period of Project implementation, cause MOHFW to maintain the Empowered Procurement Wing, under terms of reference satisfactory to the Association, which is staffed with suitably qualified staff in sufficient numbers, and provided with adequate resources, in a manner and substance satisfactory to the Association.

9. The Borrower shall:

(a) make available to the Association along with Audit Reports for the audits and post review referred to in Section 4.01(c)(i);

(b) review the Post Review Reports referred to in clause 8.01(c) and modify, if required, the terms of reference of the auditors for such post review after a period of one year, and promptly furnish a copy of the modification to the Association; and

(c) refer all cases of audit non-compliance to the relevant authorities of the Borrower and the Project States for necessary remedial action.

Performance Monitoring Indicators, Reviews and Mid-Term Review

10. The Borrower 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 RCH II Project and the achievement of the objectives thereof;

(b) starting in January 2007, furnish to the Association annually at the time of reviews referred to in Clause (c) hereinafter reports, such scope and in such detail as the Association shall reasonably request, on progress made in the carrying out of the Project during the financial year immediately preceding said reports; and

(c) without limitation to the General Conditions, review with the Association in the months of January and July of each year of Project implementation, progress made in the carrying out of the Project and the attainment of the objectives thereof, such reviews to be based on the reports referred to in sub-paragraph (b); and thereafter take, or cause to be taken, all such action as shall have been agreed upon by the Borrower and the Association during such reviews as necessary for the efficient execution of the Project and the achievement of the objectives thereof.

11. The JRM after 24 months of Project implementation shall constitute the Mid-term Review of the progress made in carrying out the Project. Such Mid-term review shall be carried out in accordance with terms of reference acceptable to the Borrower and the Association.

B. Implementation Program for Part C of the Project

Polio Project Implementation Plan

1. The Borrower shall implement Part C of the Project in accordance with its Polio Project Implementation Plan. The Borrower shall ensure that each Polio Project State carries out its activities under Part C of the Project in accordance with Polio Project Implementation Plan and its respective Polio Letter of Undertaking.

Monitoring and Evaluation and Review

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed upon with the

Association for the Immunization Strengthening Project, the carrying out of Part C of the Project;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, in each 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 the carrying out of Part C of the Project during the previous year and setting out the measures recommended to ensure the efficient carrying out of Part C of the Project and the achievement of the objectives thereof during the following year; and

(c) review with the Association, by October 31, 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 Part C of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.