Integrated Disease Surveillance Project (IDSP)
Restructuring Mission

November 5-12, 2009

Aide Memoire

I. INTRODUCTION

1. The World Bank conducted an IDSP restructuring mission between November 5-12, 2009. The World Bank health team comprised: Emanuele Capobianco (Senior Health Specialist, Task Team Leader); Maria Gracheva (Senior Operations Officer); Ashi Kohli Kathuria (Senior Nutrition Specialist); Anne Bossuyt (Operations Specialist); Arun Manuja (Senior Financial Management Officer); Devesh Sharma (Financial Management Analyst); Shanker Lal (Senior Procurement Specialist); Om Prakash (Procurement Consultant); Kishanrao Suresh (Public Health Specialist – consultant); Khalid Khan (Program Assistant); Nira Singh (Program Assistant). The World Bank animal health team comprised: Norman B. Piccioni (Lead Rural Development Specialist); Mohinder Mudahar (Consultant); Rod Kennard (FAO Consultant); Ranjan Samantaray (Senior Natural Resources Management Specialist).

2. The Bank team would like to thank Mr. D.K. Singh Director [MI] in the Department of Economic Affairs. In the Ministry of Health and Family Welfare, Dr. Shiv Lal (Special Director General, Public Health and Director, National Center for Disease Control (NCDC); Dr. A.C. Dhariwal, Additional Director and the National Project Officer for the IDSP; Mr. H.R. Joshi, Deputy Secretary. In the Ministry of Agriculture, the Department of Animal Husbandry, Dairy and Fisheries (DADF), Mr. Arvind Kaushal, Joint Secretary; Dr. A.B. Negi, Joint Commissioner (LHS); Mr. G. Subramani, Deputy Secretary; Dr. P. Dandapat, Assistant Commissioner; and Mr. Praveen Kumar Rohilla (Procurement consultant). The Bank team also wants to thank the representatives of selected project states, other Government representatives, and the World Health Organization officials for their contributions.

3. The objective of the mission was to finalize the IDSP restructuring plan with MOHFW and DADF, by reaching agreement on revised project development objectives, structure of components, components' descriptions, implementation timetable, project budget, and revised results framework.

4. The following annexes are included in the Aide Memoire:

- Annex A: Draft Revised Results Framework
- Annex B: Fiduciary Assessments (Financial management and procurement)
- Annex C: Draft Budget estimates for the restructured project

II. BACKGROUND ON IDSP RESTRUCTURING

5. The project has been under implementation since October 2004 and despite early implementation delays, it has made progress in a number of critical areas as evidenced by the recent success to contain the H1N1 pandemic in India. The project has disbursed roughly 30 percent of the total credit with additional 15 percent committed (yet unspent). In mid-2007, the project was restructured to respond to the Avian Flu outbreaks by including another project component focusing specifically on strengthening the health and animal health capacity of the GOI. The current project closing date is March 31, 2010.

6. Status of project implementation by original project components is as follows:

Component 1: Establish and Operate a Central-level Disease Surveillance Unit: The project established a Central Surveillance Unit (CSU), which is staffed by a team of five dedicated senior staff from NICD with expertise in the areas of epidemiology, training, microbiology and entomology, supported by consultants (seven epidemiologists, two microbiologists, one IT specialist, one procurement specialist, one finance specialist, one data management officer and one training officer). The CSU provides strategic technical and managerial leadership for IDSP, oversight, coordination and capacity building support to states.

As a result: i) surveillance infrastructure has been established in all 35 states. This includes a nation-wide IT network functional in over 700 sites, video-conferencing facilities at 351 sites, an operational project portal for on-line data entry, analysis and e-learning, a national toll-free call center for SOS reporting; ii) a basic outbreak detection and response reporting system is functional, albeit further strengthening and quality improvements is required; iii) Recruitment for 766 positions (646 epidemiologist, 85 microbiologist, 35 entomologist) is ongoing and 239 epidemiologists, 30 microbiologists and 10 entomologists are in position; iv) Consistent improvements in data reporting, analysis and use at the national level and in some states have been noted. For example, during 2009 (up to the 44th week, i.e., November 1) 721 outbreaks were reported as compared to 553 outbreaks reported during 2008 (January – December). This is significant because it indicates the paradigm shift in the outbreak reporting environment in the country enabled by the project (from the traditional reluctance to report outbreaks to one that encourages outbreak reporting and response). The weekly outbreak report generated by the CSU is shared with all key stakeholders including the Prime Minister's Office, and the development and use of a tool to monitor the quality of outbreak investigations and weekly review of the surveillance data, including feedback to the states have been institutionalized; and v).a large population-based survey in seven states to understand the prevalence of non-communicable disease risk factors was completed.

Component 2: Integrate and Strengthen Disease Surveillance at the State and District Levels. Progress in this component has been mixed and differences in state performance exist. A number of states are generating weekly state alerts and sharing these with NRHM, and other departments; efforts to generate similar reports at the district level have been initiated. Over 500 outbreaks have been investigated with improved efforts for laboratory confirmation and local response (approximately 25% have been confirmed). Media scanning has been initiated in some states, as well as efforts to coordinate with the media including regular press briefings during outbreaks or for public information and awareness creation. During the recent H1N1 pandemic, many states could effectively use the IDSP structure and system for contact tracing, sample collection and ensure supplies of pharmaceuticals.

Component 3: Improve Laboratory Capacity. IDSP aimed to i) upgrade laboratories at the state level; and ii) introduce a quality assurance system for assessing and improving quality of laboratory data. According to plan, the project carried out a baseline assessment of laboratories and provided equipment to laboratories in Phase 1 states. Due to limited availability of microbiologists to operate the labs and new equipment, the laboratory component was revised in 2007 and limited to strengthening 50 public health laboratories. Following concerns raised by the Bank about the quality and end use of laboratory equipment supplied to Phase 1 States, supply of lab equipment to other labs of Phase 2 and 3 states was canceled. The development of a quality assurance system could not be implemented until at a basic laboratory structure was in place.

The strengthening plan of 50 public health laboratories continued to be hampered by limited human resources available at district and central level, as well as by apprehension at state level about the necessity of laboratory confirmation during outbreak investigations. Improvements in the implementation of this component have been noted during the last year with states concentrating on basic and feasible

actions. As a result, 4 out of 9 priority states have now finalized a laboratory referral network plan. The recruitment of 85 microbiologists started but remains slow (only 35% have so far joined due to limited availability of microbiologists and due to the non-attractive remuneration package). Training material, covering internal quality assurance and biomedical waste management issues, was developed and the first training session finished successfully. Guidelines for adequate specimen transportation and collection are being finalized. Reinforced oversight by CSU to district public health labs is now initiated, but needs to be further strengthened. Although it was agreed in November 2007 to undertake an assessment of laboratory equipment provided to Phase 1 States, the consultant to carry out this assessment has yet to be identified (the request for proposal is currently being evaluated).

Component 4: Training for Disease Surveillance. The project has trained 2035 trainers, who have in turn trained health staff across the country for surveillance activities. A total of 26,065 Medical Officers, 138,772 Health Workers and 8,315 Laboratory Technicians have so far been trained. With a view to building epidemiology human capital in the country, several Field Epidemiology Training Programs (FETP) have been developed and the capacity of several institutions to deliver these has been built. For example, an induction training package for district epidemiologists has been developed and training is ongoing; a Diploma in Epidemiology with mentoring from identified medical college faculty in each state is being institutionalized; the capacity of eight key training institutes to deliver the WHO-2 weeks FETP has been built; a self-learning CD version of the FETP has been developed; and faculty development workshops for the medical college trainers is ongoing. For training of newly appointed microbiologists training content and methodology have been finalized, a first batch of microbiologists was trained; and the training for entomologists is ongoing.

Component 5: Avian Flu

Animal Health: DADF has been able to successfully contain HPAI outbreaks in several States in India since the project became effective in 2007. India has been able to declare itself free of the disease, as a result. This has been possible in large part because of the improved capacity of DADF at all levels to detect and control H5N1 outbreaks. DADF surveillance capability has been strengthened through the many workshops and training programs for vets, paravets, Rapid Response Teams, villagers and field staff. The strategic reserves of equipment and PPEs have positioned DADF to deal with future outbreaks. By providing BSL laboratory facilities, the project has also improved national diagnostic capability.

Human Health: The human health sub component of Highly Pathogenic Avian Influenza (AI) aims to minimize the threat posed to humans by AI infection and other zoonoses and prepare for prevention, control and response to an influenza pandemic in humans. It supports: i) strengthening and networking of reference laboratories for prompt case confirmation: and ii) re-establishing seasonal influenza surveillance system for India. While procurement issues have considerably delayed the supply of laboratory equipment, the project was able to set up a network of 10 regional labs in July 2009. Two rounds of training programs have been held for the nodal officers and the lab technicians from these labs, with the second training covering the H1N1 identification using real time PCR. The AI lab network is now used effectively for H1N1 surveillance. The surveillance of Influenza-like illness has started at 2 sites (Delhi and Ahmedabad). The project has played a crucial role in the containment of H1N1 pandemic through laboratory diagnosis and contact tracing using IDSP network. The toll free call center was effectively used to inform medical personnel and general public about H1N1 including the location of nearest diagnostic centers.

7. Challenges encountered and lessons learned during implementation:

Human Health: The project has been affected by an overly-ambitious design. It assumed that the existing human resources would be able to effectively implement the surveillance program nationwide and the existing district labs would be able to confirm etiological diagnosis of disease outbreaks. Serious human resource challenges - especially the lack of dedicated specialized human resources like epidemiologists

and microbiologists – and focus on a high number of peripheral laboratories hampered implementation. Most states and districts found it difficult to meet the agreed fiduciary requirements and the lack of dedicated financial management staff in CSU hampered CSU ability to promptly resolve fiduciary concerns. This severely impacted project's disbursement. Additionally, follow-up on fiduciary issues increasingly crowded out technical dialogue. Lastly, the CSU's effectiveness in leading and coordinating IDSP implementation across India has been hampered both by the large number of states to be supervised.

Animal Health: DADF has not been able to recruit appropriate staff for the Bird Flu Cell (BFC) for effective project coordination and management. The non-recruitment of a project coordinator and financial management specialist has been critical to this constraint. DADF and the BFC staff have also had limited experience with Bank-financed projects and therefore had limited knowledge of the Bank's financial management and procurement guidelines. DADF informed the mission that it will shortly relax the conditions for staff recruitment to the remaining BFC positions, so that a full complement is expected to be recruited by March 31, 2010. GOI has contracted UNOPS as a procurement agent and to facilitate procurement for project activities. Furthermore, the GOI team is becoming more familiar with the Bank financial management and procurement guidelines. The Bank plans to work closely with the GOI team to strengthen their FM capacity through a short-term FM consultant.

III. AGREEMENT ON IDSP RESTRUCTURING

8. During the mission, the Bank team followed on discussions held and agreements made over the last several months on proposed arrangements for IDSP restructuring, including the Avian Flu Animal Health sub-component. Main agreements on IDSP restructuring include:

- **Revision of the PDO**: Agreement was made on a revised PDO, as follows:

  "To support the GOI to strengthen the integrated disease surveillance system for epidemic-prone diseases by (i) enhancing central level monitoring and coordination functions, and (ii) improving state/district surveillance and response capacity with emphasis on selected (9) states.

  Additionally, the project will support GOI efforts to respond to flu outbreaks." The PDO for the animal health component does not change

- **Revision of Project outcome and component indicators:** Agreement was made to revise the Results Framework (RF) with a view to reducing the number of original indicators focusing on critical expected outcomes of the project. The draft revised RF is included in Annex A.

- **Rationalization of project components**. Agreement was reached to streamline the original component structure by focusing on expected outcomes of the project rather than on inputs. Instead of the original five components, the restructured project would include three components: (i) Central level surveillance preparedness and oversight; (ii) Strengthening surveillance at the state/district levels; and (iii) Flu surveillance and response. The following is a brief description of proposed components and activities.

Component 1: Central Surveillance Monitoring and Oversight

CSU Support sub-component: Under the restructured project, while the CSU will continue to support basic surveillance preparedness in all states such as supporting the IT infrastructure and analysis of weekly data, it will provide more intensive coordination and monitoring support to the nine selected states in demonstrating the operational feasibility of establishing the full range of core surveillance activities including a high quality outbreak detection and response mechanism. The project will therefore support

consultants at the CSU (epidemiologists, microbiologists, fiduciary, IT), monitoring and supervision activities such as field visits, review meetings, innovations and their possible scale-up, communication and information sharing (exposure visits, annual microbiologist conference, etc).

IT Support sub-component: This includes maintenance of the IT hardware, software and the portal (including any necessary software/portal up gradation), connectivity and VSNL satellite network, the toll-free number call center with universal access, scaling-up of the SMS based reporting after its evaluation, and the setting up of a Strategic Health Operations Center.

Training sub-component: The CSU will be responsible for the training of trainers, e.g., training of Epidemiologists/Microbiologists as master trainers, Field Epidemiology training of District Surveillance officers, developing E-learning modules and expanding their use, developing training manuals and guidelines.

Component 2: Improving State/district Surveillance and Response Capacity

The component will focus on improving surveillance preparedness in 9 states only. These states were selected using agreed criteria (provision of trained staff dedicated to IDSP, establishment of surveillance mechanisms, reporting coverage and effective outbreak response).

Training sub-component**:** The restructured IDSP proposal has made provision for training of hospital based doctors and support staff involved in surveillance given the priority for hospitals based surveillance. The other trainings include field epidemiology (FETP) training of district surveillance officers, induction training of professional staff recently recruited and data managers and data entry operators. The orientation of community volunteers (village leaders, youths, women's group etc) identified under community based surveillance, their periodical refresher meets have also been budgeted for one block in each state.

Human Resources sub-component: GOI has sanctioned large number of posts such as data managers and data entry operators since the beginning of the project and epidemiologists, microbiologists and entomologists since a year. Support for the salary of the staff is proposed in view of the value added to demonstrate the impact of disease surveillance in project area and with the understanding that funding beyond 2012 will be supported by GOI under budgetary provision in twelfth five year plan (2012-2017). The operational costs for local travel, office expenses to cover telephone and broadband bills etc have also be provided for. Additional surveillance support charges include incentive payments for ASHA and medical college staff for outbreak investigations to complement the state/district health system efforts.

Laboratory sub-component: Emphasis will be made on demonstrating success in the nine selected states by (i) supporting 17 district level public health laboratories, and (ii) building up a referral network through partnering with existing and functioning laboratories, using output based agreements. This sub-component will finance costs of consumables and kits, collection and transportation of samples from 225 districts to reference laboratories, and the cost of reimbursing laboratory services of referral labs.

Component 3: Flu Surveillance and Response

Human health: This subcomponent will finance AI Lab Network, routine flu surveillance in sentinel hospitals. In addition, the project includes a line item for vaccines, diagnostic kits, reagents and anti viral drugs, in the event of flu outbreaks.

Animal Health: The Bank fielded a restructuring mission in July 2009. This sub-component of the proposed Component 3 was restructured and agreed with DADF. The cost tables were revised to reflect this. During the November 2009 mission, the cost tables were further refined. However, the cost of

BSL4 laboratory still remains unresolved and the overall design of the component depends on the resolution of this issue by December 31, 2009, including a submission of a detailed implementation plan for the sub-component and detailed costs.

Other proposed changes:

- **Revision of cost estimates**. The draft budget for all project activities under the restructured project was prepared and agreed on for the Human Health part of the project. This is attached as Annex C. The budget for the Animal Health part of the project is in the process of being finalized. In order to be included in as part of the restructured project, the design of this sub-component needs to be available by December 31, 2009. Please replace this with the following: the status and cost for BSL4 lab needs to be resolved by December 31, 2009.

- **Revision of allocations and credit financing % for expenditure categories**. Agreement was reached that the Bank credit will reimburse 100% of expenditures incurred for all expenditures. Once the overall budget for the restructured project is available (dependent on the resolution of the Animal Health budget), the new revised credit expenditure allocations will be prepared.

- Disbursements under the restructured project would be made on the basis of **audited financial statements**.

- **October 2006 Procurement Guidelines** will be applicable.

- **Revision of the project procurement plan.** A draft procurement plan has been under preparation and will need to be finalized by January 15, 2009.

- **An extension of the project Closing Date** until March 31, 2012. Agreement was reached that the restructured project will require an extension of 2 years from the current Closing Date.

IV. KEY NEXT STEPS TO COMPLETE IDSP RESTRUCTURING

9. The Bank and GOI agreed on key next steps to complete IDSP restructuring, as summarized in the table below.

KEY NEXT STEPS FOR IDSP RESTRUCTURING			
	Action	**Responsibility**	**By When**
1	Finalize the arrangements with the Procurement Agent (viz. identifying the contracts to be handled by PA and forwarding the indents)	MOHFW/CSU	November 30, 2009
2	Submit satisfactory response to the pending audit issues for 2007-08 for the states of Maharashtra and Chhattisgarh	MOHFW/CSU	December 31, 2009
3	Submit Audit reports for all states and CSU satisfactory to the Bank for 2008-2009	MOHFW/CSU	December 31, 2009
4	Submit all outstanding FMRs to the Bank	MOHFW/CSU	December 31, 2009

KEY NEXT STEPS FOR IDSP RESTRUCTURING			
	Action	**Responsibility**	**By When**
5	Finalize the budget for the Animal Health sub-component	DADF/Bank	December 31, 2009
6	Provide project expenditure summary table including breakdown by components and expenditure categories	MOHFW/CSU	December 31, 2009
7	Strengthen the FM cell at the CSU and in DADF (per agreements made)	MOHFW/CSU/DADF	December 31, 2009
8	Finalize the restructuring documents	Bank	January 15, 2010
9	IDSP restructuring effective (upon GOI signature)	GOI	February 15, 2010

V. NEXT IMPLEMENTATION SUPERVISION MISSION

A meeting between DEA and the Bank was held on December 14, 2009 to check progress on the above steps. The next implementation supervision mission will be conducted from January 27 to February 5, 2010.

Annex A: Revised Results Framework (draft to be finalized)

Original Indicators (from PAD)	Revised or New Indicators (in Project Paper)	Proposed Changes	Revised Target & means of verification (MV)
1.Number and % of districts providing monthly surveillance reports on time **Base line:** 93/606 districts as of 10/26/2004	% of districts providing surveillance reports timely and consistently # **BL:** (30/9/09) 25% of Priority state districts	This indicator is revised to add: a) "Priority States", because the project finances and will monitor only CSU and 9 Priority States b) Desegregated data for varieties of P and L reporting units c) consistently and regular reporting	70 % of the districts@ in priority states, MV: Weekly data analysis report by CSU based on data entry on portal / Excel sheets shared
2.Number and % responses to disease-specific triggers assessed to be adequate **Baseline**: Not Available (NA) as of 10/24/2004	3. % of responses to disease specific outbreaks assessed to be adequate as measured by 3 essential criteria ^ **BL:** (30/9/09) over all 45% of outbreaks Range : T& K-66, UK, WB, M=50%, P=0	Revised to include use of an assessment tool, mandating assessment of every outbreak response in priority states by CSU.	At least 75% outbreaks in each of the 9 states MV: Monthly outbreak investigation analysis by CSU
3. Avian Flu **Baseline**: NIL as of 10/24/2004	**Avian Flu Human component** i. AF (H5N1 &H1N1) diagnostic labs established in 10 site across the country ii) Routine surveillance for flue initiated in 10 hospitals **BL:** (30/9/09) i)7/10 of labs functional	Original target of Lab establishment for testing H5N1 included H1N1due to recent Pandemic and impending continued threat	i) All 10 Labs functional & testing ii) At least 2 district facilities per state establish routine surveillance and send samples for testing

Notes: # = ***Timely and consistently****= Within one week after the last date of every reporting week for at least 40 weeks* ***(80% of week at any given time)*** *each year and should have desegregated collated forms of P {i. PHCs, ii Other Govt. Hospitals and iii) Private hospitals separately}, L (PHC labs, district Public Health lab and referral laboratories) and S reporting units.*

^= *The three essential criteria of outbreak investigations are i) Timeliness of investigation i.e. within in 48 hours of first case information (FIR) ii) % of outbreak where in adequate human samples were sent for laboratory confirmation early in the outbreak (first 3-4 days) and iii) % of out breaks having final investigation report with recommendations*

@ = A district with a minimum of 80% of reporting from SC (S) & PHC (P & L) and a minimum of 50% reporting from hospitals with OPD surveillance, laboratory confirmation of at least 70 % of outbreaks and at least 50% district and referral laboratories reporting.

Component Indicators

S No	Indicator	Baseline as of 30/9/09	Target for 31/3/2012 and Source of Verification
1	**Central Surveillance Monitoring and Oversight**		
i)	% of placement & Induction Trg. of Epidemiologists /Microbiologists and Entomologists completed	40%	90% CSU Report
ii)	Number of quarterly review meetings of Priority states	Half yearly	8 meetings in 2 Years Minutes of the Meeting
iii)	Number of on site visit for supportive supervision, for states by CSU	2/state/year	4/state/year Field visit reports shared to WB monthly
iv)	Number of videoconferences held to give feedback on outbreak response assessed using the tool	NA	Once very month VC documentations
v)	Number of referral lab network & district labs established	4 Network negotiated	One networks & 1 dist lab in each of 9 states. Site visits & Reports
vi)	Number of referral and district who underwent EQAS		1 EQAS/ lab/year Site visits & Reports
vii)	% of districts with IT network for on portal data entry, videoconferencing and inter-voice connection between states & have access to toll free 1075	Portal =40% VCF =50% TFA= 25%	80% for all 3 facilities throughout the year IT logbook
2	**Improve State and District Surveillance and Response Capacity**		
viii)	% of districts IT linked to the SSU/ CSU	<50%	90% IT logbook
ix)	No of states providing feedback monthly to the districts	5/9 states	9/9
x)	% of responses to disease specific triggers assessed to be adequate by SSU	0-66%	>80% States to post assessment on portal
xi)	% of Major hospitals enrolled, doing IP , OP & Lab Surveillance , and sharing P & L forms	<20%	50% Desegregated reports by facilities on Portal
xii)	% of Blocks in which At least 1 private provider shares weekly to surveillance reports	<20%	60%
xiii)	CBS established and % villages reporting to Call Center No **1075** or nearest PHC	Nil	50% villages in Pilot blocks
xiv)	Annual Documentation of best practices & Progress Reports	60%	100%

ANNEX B: FIDUCIARY ASSESSMENT

I. FINANCIAL MANAGEMENT ISSUES

MOHFW

The project has had a track record of non-submission of completed FMRs and audit reports on time during the past years. While the FMR for 2008-09 has been submitted, this does not include the list of contracts for post procurement reviews as required. Also, the non-availability of such list of contracts issued by most of the states for 2007-08 had earlier rendered the related expenditures as ineligible. Although necessary expenditures claimed for 2008-09 have been reimbursed, the audit reports that were due for submission by 30 September 2009 as per the Financing Agreement are yet to be submitted for expenditure incurred at CSU and 25 states. Weak FM capacity, lack of oversight over the states by the CSU coupled with inclusion of all the 35 states for funding under the project have been primary reasons for under-performance of FM in the project.

Proposal for restructuring and impact on FM arrangements

Number of states and reporting

Bank financing under the restructured project will be limited to 9 selected states. The FMRs to be submitted during 2010-11 will include expenditure incurred at the CSU and the 9 states.

Financial management cell

The project director indicated that despite his best follow up, he does not manage to get the necessary financial information from the states on time. In order to ensure that adequate follow up is taken with the states and credible financial information on actual eligible expenditure incurred during a period is prepared by CSU, the following options were discussed:

(a) CSU should strengthen the financial management cell, which must include two full time financial staff/consultants with accounting background and experience in dealing with Bank projects. As salary paid to the consultants has not been competitive, it is important that at least one of these two staff is from government accounting services to provide continuity to the operations.
(b) The financial management cell of IDSP could be housed in FMG of NRHM under the overall control of Director Finance of FMG. As FMG is directly working in coordination with state NRHM in all states, the FM performance of IDSP should substantially improve under the management of Director Finance of FMG who will be responsible for providing timely financial information and audit reports to the Bank.
(c) The project could outsource the financial management function to an outside agency.

During the mission, Option (a) was chosen. It was also agreed that this would be a legal covenant in the amended legal agreement (under the restructured project).

Auditing and disbursement arrangements

For 2008-09, the project will submit by December 31, 2009, the pending audit reports for CSU and 25 states for 2008-09, a consolidated statement of audited expenditure for CSU and all SSUs, summary of audit observations along with details of follow up taken; and reconciliation of audited expenditure with the reimbursement claim submitted to the Bank for the year.

Starting 2009-10, the audit for CSU and the participating 9 states will be conducted as per the earlier agreed arrangements. However as an improvement from the existing procedure, the project shall furnish to the Association no later than six months after the end of each Fiscal year, a consolidated Report on audits containing consolidated expenditure statements and audit observations from audit reports along

with actions taken; and the disbursement will be made on the basis of consolidated audited expenditures. The financing agreement will be amended to reflect this change.

Immediate actions required to be undertaken: The key actions critical for restructuring and that are also required to be completed by the project in order to upgrade the FM status from MU are: (1) to submit list of contracts issued at central and state levels during 2008-09 for post procurement review, (2) submit a satisfactory response to the audit issues raised by the Bank for Chhattisgarh and Maharashtra for 2007-08 (3) submit the pending audit reports for CSU and 25 states for 2008-09, a consolidated statement of audited expenditure for CSU and all SSUs, summary of audit observations along with details of follow up taken; and reconciliation of audited expenditure with the reimbursement claim submitted to the Bank for the year, (4) as required under the Financing Agreement, submit the FMR for April to September 2009 for expenditure incurred under the project at central and state levels; (5) implement the finalized proposal to strengthen the FM cell at the CSU for financial management functions of the project.

Avian Flu: Human Component

In addition to the expenditure at the central level, laboratories in different states will also be incurring operating expenditure (salaries for contractual staff and revenue expenditure) in this component of the project for necessary testing and research. These labs are from government institutions except for Kasturba Medical College in Manipal. To facilitate funds flow and timely reporting it was agreed that each institute will open a separate bank account to receive the project funds, maintain cash book as per the project requirements and send SOEs along with original vouchers, purchase orders and bills every quarter to the CSU. The reimbursement claims to be submitted to the Bank will only include the actual expenditure incurred by these laboratories once the original and bills have been received by CSU. Audit of the expenditures incurred by the participating labs will be a part of the IDSP central audit carried out by the C&AG for which CSU will maintain the expenditure records.

Avian Flu: Animal Component

Financial management cell

In order to ensure that there is adequate capacity at the central level to deal with the financial management issues of the project and prepare necessary financial reports, it has again been agreed that DADF will establish a financial management cell, which will include one full time financial staff/consultant with accounting background and experience in dealing with Bank projects. This will be a covenant in the Financial Agreement.

Auditing and disbursement arrangements

The AG's audit report for the project for 2008-09 for the expenditure incurred at the central level by DADF has been recently submitted by DADF and shall be reviewed by the Bank. While the audit for 2009-10 and onwards will also be conducted by AG, in line with agreed procedures for IDSP, the project shall henceforth furnish the reimbursement claim on the basis of audited financial statements. The financing agreement will be amended to reflect this change.

Reimbursement of decentralized expenditures

DADF submitted for reimbursement incurred expenditures on sensitization and training in various states for about Rs 21 crores (USD 4.5m) at the decentralized level (at about 7000 blocks in almost all the states). DADF also submitted that it would like to seek such reimbursement during the extended phase of the project of 2 years as well.

DADF component was initially designed in early 2007 to meet the emergency needs of the AI animal health and accordingly its FM arrangements were designed to fund the expenditure incurred at the central level and 4 regional labs under the central ministry in a way that all the expenditure records will be maintained at the central level and audited by AG. However, the regional labs transferred the funds to

various states and districts for field level training and sensitization expenditures and only UCs are being received at the central level. The Bank clarified during the mission that the Bank will reimburse expenditures for 2008-09 and 2009-10 on the basis of an audit to be conducted as per Bank approved TORs by an auditor selected as per Bank's procurement procedures, in accordance with the following action plan was:

(i) For the expenditures incurred at 35 states, DADF will submit by 10 November 2009 an expenditure statement indicating the overall estimated expenditure incurred for each activity at the decentralized levels.

(ii) After review of this expenditure statement and activities, the Bank will provide by 12 November 2009, a draft indicative terms of reference for the audit to be conducted at the decentralized level which would facilitate identifying eligible or ineligible expenditures.

(iii) DADF will submit details by 30 November 2009 of the states where the expenditure has been incurred, if it has been incurred at all the districts, details of activities, period, amount the location where such records will be available to the auditors. DADF indicated that it should manage to get the records accumulated at the state headquarters of 35 states.

(iv) Based on the analysis of this information, Bank would provide DADF with the final TOR for the audit by 5 December 2009. These TOR will also include the requirement to review the acceptance of procurement procedures of the Bank, as may be applicable.

(v) Audit of such expenditures will be conducted by an independent CA firm to be hired by DADF at the central level on the TOR to be agreed with the Bank (as per point iv above); and this firm will be selected as per Bank's procurement procedures. DADF informed that it would publish the EOI notice by 30 November 2009, float the RFP by 15 December 2009, finalize the firm by 15 January 2010 and get the job completed by end February 2010. DADF also indicated that after internal discussions, it may contract UNOPS to do this procurement of firm for them.

Action Plan - MOHFW

	Action Point for CSU	Timeline
1	Submit satisfactory response to the pending audit issues for 2007-08 for the states of Maharashtra and Chhattisgarh	December 31, 2009
2	Submit the list of contracts issued at central and state levels for 2008-09 for post procurement reviews	December 15, 2009
3	Submit the FMR for the period April to September 2009	December 31, 2009
4	Submit the pending audit reports for CSU and 25 states for 2008-09, a consolidated statement of audited expenditure for CSU and all SSUs, summary of audit observations along with details of follow up taken; and reconciliation of audited expenditure with the reimbursement claim submitted to the Bank for the year	December 31, 2009
5	Implement the finalized proposal to strengthen the FM cell at the CSU for financial management functions of the project.	December 31, 2009

Action Plan – DADF

	Action Point for DADF	Timeline
1	Establish a financial management cell, which will include one full time financial staff/consultant with accounting background and experience in dealing with Bank projects	December 31, 2009

II. PROCUREMENT ISSUES - MOHFW

Many problems were faced at both central level and decentralized procurement. For central level, there were considerable delays in procurement by HSCC. Even for the procurement handled by EPW, there were huge delays in installation of equipment and release of payments to the Suppliers. Award of contracts for some critical consultancy assignments have been delayed by 12-18 months because of lack of capacity (compounded by frequent change of procurement staff at CSU) and inordinate delays in internal decision making.

For a large contract for computerized surveillance system, MOHFW decided to use the service of NIC, which is not eligible to be contracted as per the Bank Guidelines. This resulted in the Bank not being able to finance this contract.

At decentralized level, there were problems such as not sharing the list of contracts to enable the Bank for conducting procurement post review, deviations in procurement procedure and indicators of collusion in a contract. This resulted in the Bank deciding to exclude district level procurement from its financing and also not financing state level procurement for one year.

Above problems have led to unsatisfactory rating on procurement for the project, which remains unchanged.

Agreements Reached during the Mission

- MOHFW will use the services of a professional Procurement Agent for centralized procurement of Goods, Consultancies and other Services under the Project for the extended period. This is likely to address the issue of capacity and delays in decision making to some extent.
- As Bank's financing will be limited to 9 states only, the procurement at state level could be better monitored by CSU. All existing measures like visit to the states by CSU staff, providing procurement guidance to the states, seeking the list of contracts along with the FMR etc. will continue. This is likely to address the problems in decentralized procurement to some extent.
- There is still substantial residual risk of delays at central level and deviations from the agreed procurement procedure at state level procurement.
- It was also agreed that the October 2006 version of the Procurement/Consultant Guidelines (along with corresponding SBD/SRFP) will be applicable to project extension period (viz. for all the contracts for which the bids or proposals are yet to be invited).

Action Plan – MOHFW

	Action Point for CSU	Timeline
1	Finalize the arrangements with the Procurement Agent (viz. identifying the contracts to be handled by PA and forwarding the indents)	November 30, 2009
2	Ensure that the states start submitting the list of contracts as part of the FMRs	Immediate
3	Critically review the internal business process for procurement related decisions and remove the bottlenecks	November 30, 2009
4	Ensure that the procurement staff at CSU as well as States are aware of the indicators of fraud and corruption as well as about the ineligible firms/individuals (those have either been debarred or suspended by the Bank)	Immediate
5	Submit the procurement plan for remaining contracts	December 15, 2009

III. PROCUREMENT ISSUES - DADF

Major Achievements

1. The procurement of 2 BSL-III prefab labs has been completed and the remaining planned laboratories are under discussion.

Challenges Faced:

2. Problems were faced in the beginning of the project mostly linked to non-compliance to the agreed procurement arrangements and indicators. As UNOPS has been hired as procurement agent by DADF, the risk of non-compliance with procurement procedures has reduced.

3. The procurement related risk is still substantial, in particular for the construction of BSL-III and BSL-IV labs. There is also the risk of under-budgeting for construction of labs, which may result in incomplete construction.

Agreements Reached during the Mission

4. DADF will extend the contract of UNOPS till the procurement/construction of labs is completed.

5. It was also agreed that the October 2006 version of the Procurement/Consultant Guidelines (along with corresponding SBD/SRFP) will be applicable to project extension period (viz. for all the contracts for which the bids or proposals are yet to be invited).

Action Plan – DADF

	Action Point for DADF	**Timeline**
1	Critically review the internal business process for procurement related decisions and remove the bottlenecks	December 31, 2009
2.	Submit the procurement plan for remaining contracts	December 31, 2009