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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION**

**WORLD BANK RESPONSE TO
DETAILED IMPLEMENTATION REVIEW
INDIA HEALTH SECTOR 2006-2007**

February 27, 2008

**Office of the Vice President
South Asia Region**

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ACGA	Advisory Committee on Governance and Accountability
CAS	Country Strategy
CDD	Community-driven Development
CSS	Centrally-Sponsored Schemes
DEA	Department of Economic Affairs
DFID	Department for International Development
DIR	Detailed Implementation Review
DOTS	Directly Observed Therapy – Short Course
EPW	Empowered Procurement Wing
GAAP	Governance and Accountability Action Plan
GAC	Governance and Anti-Corruption
GMP	Good Manufacturing Practices
GoI	Government of India
GoO	Government of Orissa
HD	Human Development
HDN	Human Development Network
HIV	Human Immunodeficiency Virus
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
INT	Department of Institutional Integrity
ISR	Implementation Status and Results Report
M & E	Monitoring and Evaluation
MOHFW	Ministry of Health and Family Welfare
NACO	National AIDS Control Organization
NACP3	Third National AIDS Control Project
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
OC	Operations Committee
OPCS	Operations Policy and Country Services
PSA	Procurement Support Agency
PWC	PricewaterhouseCoopers
QAG	Quality Assurance Group
RCH	Reproductive and Child Health
SAR	South Asia Region
TB	Tuberculosis
UNOPS	United Nations Office for Project Services
WHO	World Health Organization

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Overview

Introduction

The South Asia Region (SAR) has approached this Detailed Implementation Review (DIR) within the overall context of the ongoing work on the Governance and Anti-Corruption (GAC) Agenda, including the many actions which were already taken since 2005 following the first Reproductive and Child Health (RCH1) Project Investigation report from the Department of Institutional Integrity (INT) and the lessons from the Procurement Hub Review in 2006. This Overview summarizes the Region's response to the DIR and in doing that, also reports on the different angles that need to be included to tackle the fraud and corruption issues that we face in our development work. Some of the actions emphasize short term needs, such as criminal investigations and elimination of high risk procurement in our health projects. Others focus on the institutional strengthening and governance improvements, which will bring about structural change in the way we do business both in the Bank and in our client countries. The DIR revealed major weaknesses in India's own fiduciary systems that were not adequately redressed by the Bank's supervision processes. The focus of our response to the DIR is on how we can help the Government of India (GoI) strengthen those systems over the long term while enhancing the Bank's own supervision framework throughout this process. Ring-fencing Bank-financed projects is not a viable or sustainable solution and weakens the potential development impact of our engagement. As a result, we have worked together with the Ministry of Health and Family Welfare (MoHFW) to develop a Joint Action Plan to address key aspects of these systemic weaknesses in the health sector. Building on this cooperation, we intend to enhance the focus of our program-wide partnership strategy at both the federal and the state levels on supporting governance to ensure the effective delivery of decentralized public services through policy dialogue, technical assistance and operational support.

The SAR believes that the DIR has brought about an opportunity to look at the way we work in the light of a changing world, where fraud and corruption issues are at the forefront of public accountability in our development work.

The Action Plan

The Bank's response to the DIR comprises eight integrated groups of actions

A. **Actions Already Taken:** The DIR covered five health projects implemented during 1995 to 2006. During that period the Bank's approach to fraud and corruption changed significantly. Since early 2005, building on the findings of the first RCH1 report, the SAR and the Government of India (GoI) have agreed on a roadmap and **already taken a number of actions** to address the type of issues noted in the DIR. Section A summarizes the actions that have already been taken and a fuller account is provided in Annex One.

B. **Investigations:** Both GoI and the Bank (through INT) are committed to following up on the DIR with more detailed investigations – leading to legal and/or administrative actions and sanctions as appropriate. These are discussed in Section B.

C. **India Joint Health Action Plan:** A Joint Health Action Plan to address the issues raised in the DIR has been agreed between the GoI and the Bank. This is discussed in Section C and the full plan is summarized in Annex Three. The Bank-assisted health projects approved in mid-2006 were governed by a "road map" and a series of Governance and Accountability Action Plans (GAAPs). The new Joint Action Plan (based on the findings of the DIR, and the experience to date with the "road map") will guide our joint work in the health sector. The plan has four components to (i) strengthen monitoring and financial management, selection and oversight of NGOs, centralized procurement, and decentralized procurement; (ii) fix the problems observed in the five DIR projects; (iii) mitigate the risks to the nine ongoing projects in the portfolio; and (iv) review future Bank lending in the sector.

D. GAC Agenda in South Asia: The Bank’s strategy to tackle fraud and corruption in the health sector in India, is rooted in a wider set of Governance and Anti Corruption actions. The Region recently submitted to the Managing Directors its **GAC Business Plan**. This is discussed in Section D and a summary is included in Annex Four.

E. India Program-wide Response: The India Country and Management teams have developed a program-wide action plan in response to the DIR, which addresses the internal Bank issues raised in the DIR and describes how these risks will be addressed across the program. These are discussed in Section E and a summary of the Action Plan is included in Annex Five.

F. South Asia Program-wide Response: The non-India Country Directors and all of the Sector Directors in South Asia have already started thinking about the implications of the DIR for their operations, and how to put in place immediate risk mitigation measures. This is discussed in Section F.

G. OPCS/HDN Program: The DIR has raised a number of issues that go beyond the health sector in India. The SAR has identified these as systemic “business model” issues. OPCS and the HD network have reviewed the DIR and have set out an action plan to follow-up. These are discussed in Section G and set out in more detail in Annex Seven.

H. Internal Accountability Review: There will be a corporate review, by OPCS under the guidance of the Managing Directors, to determine whether any disciplinary actions are warranted as a result of the findings of the DIR. In the interim, SAR is conducting a “self assessment” to determine what further lessons can be drawn to strengthen overall performance and accountability. This is discussed in Section H.

The Action Plan

This action plan builds on the DIR's findings with respect to fraud and corruption. It also builds on other recent past work (e.g. the INT RCH1 report, the PricewaterhouseCoopers (PWC) review of the Procurement Hub, the Bank's Governance and Anti Corruption Strategy) and the actions that have resulted from that work.

A. Actions Already Taken

- **Strengthening the overall approach to and capacity to address governance and fraud and corruption:** An Advisory Committee¹ on Governance and Accountability (ACGA) in Delhi helps project teams to mitigate fraud and corruption through anti-corruption tool kits, Governance and Accountability Action Plans (GAAP) tailor made for each project, and ideas on how to incorporate Right to Information and transparency provisions in project design. Analytical work on the construction and pharmaceutical industry structures and State level Anti-corruption Plans have been completed and subsequently supported via DPLs in high risk states (e.g. Bihar, Orissa).
- **Increasing attention to Fraud and Corruption issues in the design and preparation of new projects.** GAAPs have been prepared for all new high risk operations (11 completed, 11 in progress in India), including all Health Sector Operations approved since 2005, focusing on anti-corruption risk mitigation measures.
- **Strengthening supervision processes to better address fraud and corruption issues:** The MoHFW's procurement agent (UNOPS) now publishes in its website procurement information including plans, invitation for bids, bidding documents, and contract award information. Procurement post review coverage in India increased from 36% of projects in FY05 to 100% in FY06 (1282 contracts)². Independent Procurement Reviews have been instituted. And the number of days to close a complaint has come down from 271 in 2005 to 54³ in 2007.
- **Strengthening risky aspects of procurement in the health sector.** An NGO contracting toolkit/Operations Manual was developed (in collaboration with OPCS) and an advisory committee established to oversee its implementation. UNOPS has been contracted as the procurement agency for all central health procurement, and procurement of drugs has been restricted to ICB-only⁴. A mechanism has been established to validate WHO Good Manufacturing Practices (GMP) certificates, to implement Indian GMP standards in a manner acceptable to the Bank, and to disclose the names of companies with valid certificates.
- **Hiring additional staff in SAR and implementing training programs to address, governance, fraud and corruption:** New appointments include a Senior Regional Governance Adviser, two country Governance Advisers (India and Bangladesh); two additional staff to oversee all procurement in the health sector and another to cover NGO contracting. A pharmaceutical expert has been hired and a dedicated team for strengthening monitoring and evaluation (M&E) of Bank and GoI health projects established. Over 500 SAR staff have participated in 24 anti-corruption training and learning

¹ Comprising senior Delhi based operational staff, fiduciary staff, the governance adviser and the operations adviser. Details on the India ACGA (incl. composition and GAAPs on the 11 projects approved during FY07-08) are in the Bank's intranet under "*indiaacga*".

² Not all CDD projects (which have community oversight mechanisms) were included, but will be in future. Actions are being taken to ensure that the sampling for post procurement is strengthened in future, on a risk basis.

³ Actions are being taken to further strengthen the complaint management system (see later)

⁴ All major procurement of pharmaceuticals and medical equipment and supplies has been carried out by UNOPS on behalf of all three new projects (RCHII, TBII and NACPIII). Apart from improving in terms of the time taken in the process and ensuring better quality of commodities, for the most part, UNOPS has been able to get better price in comparison to the last procurements (handled by PSA) in most of the items.

events, conducted by various internal and external speakers.⁵ A special learning event was held for the SAR Regional Management Team. Special joint events with clients have been undertaken on health sector procurement and NGO contracting.

- **Debarring firms implicated in RCH1 case:** The two firms implicated in collusion under the RCH1 case have been debarred by the Bank and Government of India has taken similar legal action against them.

B. Investigations as a Follow-up to the DIR

The DIR was not an investigation whose findings may be used for legal referrals or sanctions. Rather, the DIR sought to identify indicators of fraud and corruption that could, *inter alia*, provide a basis for remedial action by the GoI and the Bank. In order to address the specific fraudulent and corrupt actors and schemes suggested by the DIR's indicators, both the GoI and the Bank (through INT) will undertake follow-up investigations that may lead to legal and/or administrative actions and sanctions.

Indian Investigations: The GoI and Government of Orissa (GoO), at the highest levels, have indicated that they will follow-up on the DIR's findings with administrative and legal actions, including taking exemplary actions as needed. The MoHFW has begun a first-phase review to determine which cases are ready for immediate GoI legal action and which would require further investigation. Both the MoHFW and the GoO have requested further information from INT for use in their investigations. INT has supported, and will continue to support, the GoI and GoO with information and advice when requested and appropriate. INT, the GoI, and the GoO will coordinate their investigations to avoid compromising each other's investigative strategies.

INT Investigations: Over the next 12 months, INT will conduct nine high-priority investigations of firms and individuals arising from the DIR's findings. INT will begin the field work for these investigations in early April 2008 and expects to complete the most straightforward investigations in about 3-4 months. Other investigations may take 12 months or more, depending upon their complexity.

C. Joint Health Action Plan with GOI

A Joint Action plan for the Health Sector has been agreed with the GoI, which was submitted to the Bank by GoI on 18 February 2008. A summary is included in Annex Three. This will be reviewed jointly between GoI and the Bank every six months. The plan has four components to (i) strengthen monitoring and financial management, selection and oversight of NGOs, centralized procurement, and decentralized procurement; (ii) fix the problems observed in the five DIR projects; (iii) Mitigate the risks to nine ongoing projects in the portfolio (five Centrally Sponsored Schemes and four State Health Projects); and (iv) review future Bank lending in the sector.

CI. Thematic actions to address the issues raised in the DIR

The MoHFW created four thematic working groups to review the issues raised in the DIR, to take stock of recent actions already taken and to make recommendations for future actions. Many of these actions will apply to the overall GoI health program (e.g., stronger monitoring and financial control, selection of NGOs) while others will apply only to World Bank financing (e.g., use of UNOPS). The Bank's Health team in Delhi worked closely together with the MoHFW teams in developing and agreeing on a comprehensive matrix of actions for each group. These were then compiled into the Joint Action Plan. The detailed matrices will be used for operational follow-up and tracking of implementation progress.

⁵ Including Central and State Information Commissioners, the Center for Good Governance (Hyderabad) and the Public Affairs Center (Bangalore). All SAR HD staff had a session of Fraud and Corruption at their 2006 retreat

- Strengthening Monitoring and Financial Management:** The DIR points to weaknesses in information on project implementation as well as in records keeping, internal control and financial audits. The GoI has mandated time-bound actions to increase the accountability of health services to the people in India and to institutionalize robust monitoring and evaluation and disclosure processes (e.g., community monitoring, web-based MIS, periodic performance assessments, annual health surveys, external evaluations etc). These are promising developments and constitute significant actions to deter many of the types of fraud and corruption identified in the DIR and to improve the monitoring of and identify lapses in implementation. These mechanisms will be applied to all Bank assisted Centrally Sponsored Schemes (CSS). The States will also agree to plans by which these monitoring mechanisms will be applied to Bank-assisted state health projects. These actions will start in June 2008 and will be progressively rolled out over the next couple of years and a complaints redressal mechanism will be instituted for all Bank-assisted health programs by March 2009. On the financial management side, the Financial Management Group supporting GoI programs in MoHFW will be enhanced to cover all Bank-assisted CSS health programs except the Third National AIDS Control Project (NACP3) where financial management and auditing arrangements are being strengthened separately. The audit requirements for Bank-assisted CSSs will be met by a single district/state audit (rather than project specific ones), and MOHFW is strengthening procedures for selecting audit firms having requisite quality, size and capacity to identify fraud and corruption.
- Strengthening Procedures for the Selection and Oversight of NGOs:** The DIR noted weaknesses in the appointment and oversight of, and in financial controls of advances made to, NGOs. Under NACP3, the National AIDS Control Organization (NACO) has tightened guidelines for the hiring of NGOs and upgraded its financial management system to better track advances and settlement of NGO accounts. After a full review of NGO performance, NACO terminated the contracts of 163 NGOs (about 25% of the total) that were found to be non-compliant. Additional actions under the NACP3 project include: the disclosure on NACO's website of names of NGOs selected, rejected, and blacklisted; establishment of an Ombudsman for overview of NGO performance complaints by June 2008; and an annual review of NGO performance, jointly with development partners. It has also been agreed to adapt best practice NGO guidelines and procedures for other projects in the health sector by September 2008.
- Strengthening Centralized Procurement:** The DIR noted a number of indicators of Fraud and Corruption in international competitive bidding (ICB) and national competitive bidding (NCB) procurement including collusion, flaws in bidding processes, poor record keeping, licensing, equipment specifications and payment terms and problems related to the role of Procurement Support Agencies. For the three Bank-assisted health projects that went to the Board in mid-2006, GoI discontinued the use of Procurement Support Agencies' (PSA) and is using UNOPS to conduct all ICB and NCB for the purchase of pharmaceuticals and medical equipment under CSSs. Since then the services of all remaining PSAs have been terminated for all Bank assisted projects. An Empowered Procurement Wing (EPW) has been established to oversee the work of the procurement agent and to build capacity, especially at the state level. The EPW will be further strengthened to better play this role. To date, Crown Agent consultants funded by DfID are providing support to EPW and assisting them in building internal capacity, as well as putting systems in place starting with the development of a Management Information System on which the fraud detection software of the MOHFW will run. Software that may be used to detect indicators of fraud and corruption has been designed and will be launched for centralized procurement in June 2008. Specialized training will be delivered, starting in June 2008 for UNOPS and EPW staff on Fraud and Corruption. An independent agency will be appointed by September 2008 to conduct an annual Procurement Audit⁶ of all ongoing Bank supported

⁶ This will look into indicators of fraud and corruption

centrally sponsored schemes in the health sector. It has also been agreed the GoI will move to E-Procurement for all Bank projects in the sector after a review of the pilots that are currently underway, although this may take a couple of years to fully implement. To improve the quality and reduce corruption in the procurement of equipment, a compendium of generic technical specifications for medical equipment has already been established and disclosed on the MOHFW website. In addition, independent pre- and post-delivery inspection will be required from September 2008 for complex equipment. For pharmaceuticals, a process has been put in place to validate WHO's certificates of Good Manufacturing Practice. The EPW will launch an Annual Quality/Quantity Review of drugs, pharmaceuticals and medical supplies from July 2008.

- Strengthening Decentralized Procurement (for both Centrally-Sponsored Schemes and State-level Projects): The DIR noted significant risks of fraud and corruption in decentralized procurement, and shopping in particular. However, it must be recognized that in a large, federal country such as India, centralized procurement can only be of limited utility. The Government's strategy therefore is to move centralized procurement, over time, to the states, recognizing the trade-off between a highly centralized procurement system which risks being unresponsive to local needs, and the difficulties of fully mitigating fraud and corruption risks at the local level. To mitigate these risks, it has been agreed that any state level procurement eligible for reimbursement by the Bank will be conducted by a certified autonomous agent, a separate unit with certified skills or a certified agent from another state. The Bank and DFID will support GoI in building state level capacity. The Bank will help to establish benchmarks that can be used to certify agencies for such procurement. As a first step the Bank will complete its review of the Tamil Nadu Medical Services Corporation by June 2008. On a project-by-project basis actions have been proposed to minimize the risks identified by the DIR. These include allowing only certified staff to undertake such procurement, making greater use of framework contracts, strengthening documentation, and complying strictly with post review targets. The community and third party monitoring activities noted above will also help to mitigate these risks. It has also been agreed that for centrally sponsored schemes, reimbursement by the Bank for district level activities will be limited to operating costs and contractual staff. To strengthen procurement under World-Bank financed health projects at both the centralized and decentralized level, it has been agreed that a comprehensive joint review of Bank procurement methods will be undertaken by June 2008 – with a view to mitigating the risks of fraud and corruption, but also clarifying guidelines and expectations. This will include a thorough review of alternatives to shopping (including rate contracts and framework contracts), measures to mitigate the risks of shopping (including changes to thresholds, clearer guidance, increased post reviews and improved complaints systems), the development of detailed guidance notes on payment terms (specially for equipment), bidding strategies to mitigate collusion, how to interpret qualification requirements, what to do if collusion is suspected, how to determine lot sizes, etc.

C2. Fixing the problems observed in the five DIR projects.

The DIR has been reviewed by the officials responsible for the implementation of the five projects covered by the DIR. They are following up on the specific issues raised, gathering more information and in some cases requesting more information from INT. GoI has indicated that it will be submitting to the Bank, by the end of February 2008, a detailed set of comments on each observation in the DIR. As noted in Section A above, MoHFW has committed to follow-up with investigations and legal action as appropriate. In addition, for three of the five projects, a number of actions have already been taken to rectify the implementation problems noted in the DIR, and agreements have been reached on priority actions to be taken over the next nine months. Detailed matrices for each project are available on file. For the Malaria and Tuberculosis (TB) projects, no implementation related remedial actions were deemed to be necessary over and above what is already included in the investigative, thematic and risk mitigation actions.

- Food and Drug Capacity Building Project: This is the only DIR project that is still under implementation. It has been agreed that this will close as planned in June 2008, with no new procurements to take place before then. Until then the project will focus on correcting equipment and civil works deficiencies, completing ongoing activities and making the laboratories fully functional. The Bank has already contracted consultants to perform a 100% census of all equipment and civil works under the project, based upon which GoI will enforce warranties and ensure repairs and full delivery and take legal action as needed. It is expected that this would be completed by June, 2008. MoHFW will ensure that the audits are brought up to date by April 30, 2008. Bank supervisions will include a 100% procurement post review for procurement activities undertaken since the DIR.
- Orissa State Health Project: The State Vigilance Directorate has already started investigations into the indicators in the DIR. With regard to hospitals, three of the four locked facilities have been made operational in the last five months and the last will be operational in the near future, on receipt of a transformer. Funding has been allocated for rehabilitation of hospitals. Each hospital is being visited by GoO and outstanding work identified and commissioned. It is expected that this will be completed by March 2009, and the work will be independently audited by the Bank. A full census of all equipment provided under the project will be completed by 31 March 2008, including full review and proposed action plan to deal with the five types of potentially hazardous equipment. Deficiencies in delivery and quality will be corrected by 30 September 2008. GoO has undertaken to provide the Bank with the outstanding audit for \$30m, which is now with the Auditor General. The Bank will not negotiate any new projects for Orissa until this audit is provided.
- Second National AIDS Control Project: As noted above, financial controls and oversight of NGO selection and performance have been improved under NACP3, and 163 NGOs (out of 952) have had their contracts terminated as a result of the recent performance review. Teams are already visiting the four DIR states to follow-up on the DIR findings on NGOs. A highly respected international expert has reviewed the DIR data on the HIV test kits, as well as further NACO data and processes, and has concluded that there is no evidence of a risk to public health, either as a result of allegedly faulty test kits or weaknesses in testing protocols. It has also been agreed that in future HIV test kits will be procured through “framework ICB contracts” which would allow flexible delivery, tighter oversight of procurement, better quality assurance and a limited supply of test kit types which would also further improve the reliability and effectiveness of NACO’s HIV testing strategy.

Over the coming months, the Bank will be reviewing the DIR and subsequent investigations, to determine which cases, if any, in the DIR warrant the declaration of mis-procurement in any of these projects.

C3. Mitigating the risks to nine ongoing projects in the Portfolio

The nine ongoing Bank supported projects in the health sector have been reviewed and actions have been agreed to mitigate the risks identified under the DIR.

- Centrally Sponsored Schemes: The portfolio includes five “centrally sponsored schemes”. The RCH2, TB2 and NACP3 project were brought to the Board in 2006, and already benefited from the GAAPs that were developed after the RCH1 INT report. NACP3 also already had actions built into it to address the weaknesses from NACP2 in NGO oversight and financial controls. With the thematic actions noted above, the risks associated with the DIR have been effectively mitigated in these projects. As noted above, the Food and Drug Capacity Building Project will be closed in June 2008, without any further procurement taking place. Although the Integrated Disease Surveillance Project did not have a GAAP when it was designed, many of the elements

of the GAAPs have already been applied (e.g. the PSA has been discontinued, standard technical specifications adopted, etc). In addition to the thematic actions noted above a number of additional actions have been agreed for this project, given its scope. These include a census of all equipment procured under the project, a review of the protocols for the selections and quality assurance of diagnostic kits, increased field visits for procurement and financial management field review visits and disclosure of quarterly rankings of state performance under the project.

- **State Health Projects.** The portfolio includes four state health projects. One of these, Karnataka, was brought to the Board in 2006, and was accompanied by a GAAP. The others are Tamil Nadu, Rajasthan and Uttar Pradesh/Uttarakhand. Action plans have been agreed for each of these projects to address the risks identified in the DIR. These are summarized in Annex 4.2. The project-by-project action matrices are on file. The actions to be incorporated are quite similar across the projects and include putting in place the following before June 2008: (i) a system of joint (State Govt/Bank) performance assessments, including independent reviewers as mutually agreed; (ii) a complaints redressal mechanism; (iii) an audit/review of physical assets including civil works and equipment; (iv) requirements that limit who is certified to undertake procurement using Bank funds; (v) inclusion of state representatives in agreed training with MoHFW on the detection of fraud and corruption; (vi) a review of procurement methods to try to mitigate shopping risks; and (vii) increased post procurement audits, and more rigorous follow-up of results. These actions were agreed with state project counterparts and then reviewed and agreed jointly with the MoHFW and DEA.

The thematic actions noted in these sections will go a long way towards mitigating the risks identified in the DIR, both for World Bank assisted projects and for health programs overall. However the risks of fraud and corruption cannot be fully eliminated. Bank supervision of these operations, including the greater use of post procurement reviews will be intensified⁷ to further mitigate these risks. However, just as happened in other countries where the Bank increased its focus on fraud and corruption, it is quite likely that the number of identified cases of fraud and corruption will actually rise before it falls. This in turn would require additional Bank resources to follow-up.

C4. Future World Bank lending in the Health Sector in India.

There are four projects in the Bank's lending pipeline for the health sector in India⁸. These will only be appraised by the Bank after actions have been included in their design to mitigate the risks identified in the DIR. These operations will be subject to an Operations Committee (OC) review, and will be presented to the Board only after their design is satisfactory to the OC.

The Bank together with GoI will develop an updated sector assistance strategy as input to the new Country Strategy (CAS) in mid FY09. This will shape future lending in the sector.

D. The SAR GAC Strategy and Business Plan

The SAR strategy to respond to the DIR and to tackle fraud and corruption in the health sector in India is rooted in a wider set of Governance and Anti Corruption actions. The Region has recently submitted to the Managing Directors its **GAC Business Plan**, which forms an important part of the South Asia Response to the DIR. The executive summary is included as Annex Four. While much of the rest of this action plan responds to the specific issues raised in the DIR, their success, and the mitigation of fraud and corruption more generally, will depend on progress on the broader Governance and Anti-Corruption Action Plan.

⁷ Enhanced supervision plans have been prepared for each of these projects

⁸ Vector Borne Diseases, Uttar Pradesh, Uttaranchal, and West Bengal

The SAR GAC business plan addresses poor governance and corruption as impediments to the opportunity to eliminate hard-core poverty in a generation. Governance concerns cut across all countries and sectors and reduce services for the poor. In recent years, the SAR has supported strengthening core governance (country systems for public financial management, procurement and public administration) and local governance by helping empower communities to improve service delivery and strengthen voice and demand for better governance.

The GAC implementation plan emphasizes the following dimensions: **diagnostics** – sector and institutional analysis to inform our projects and our CASs; **finding entry points** and tailoring interventions to each context to demonstrate best practice; **“smart project design”** that builds on institutional analysis, and incorporates transparency, disclosure, and demand-side elements into project design, in addition to appropriate fiduciary safeguards; **country team processes** that are effective at mainstreaming the emerging good practices, and also creating a common understanding and shared knowledge of what works.

At the country level, upcoming CAS will: (i) deepen their engagement with governance stakeholders to take stock of the country’s critical governance and anti-corruption impediments to achieving development goals; (ii) identify the further diagnostic work needed to enhance the Bank’s knowledge; and (iii) identify a clear strategy to support the country to address GAC issues.⁹

At project and sector level, the plan will (i) mainstream the “GAC Advisory Committee” functions performed in India and Bangladesh, including advising the Country Director, supporting task teams on GAAPs and GAC related risks in Bank operations, ensuring GAC issues are properly reflected in supervision work and enter into quality review processes for project and sector work; (ii) identify a focal point for GAC issues in each sector management unit; (iii) share good practice through staff learning programs; and (iv) share demand side expertise across sectors.

At the institutional level, the Region has: (i) built capacity through a senior manager that provides leadership on strategic and operational issues across the Region, leading the Regional GAC team; and (ii) placed Governance advisors in key countries (India and Bangladesh). This team is already reviewing quality management processes to assure that governance and accountability issues are adequately covered. It has also taken stock of the Region’s approach to risk management, to ensure proactive identification of risks, timely management attention and support to task teams.

While the GAC plans are still at an early stage of implementation, it is already possible to see some intermediate results, including a ramping up of our support for public procurement reform and capacity building for key institutions of accountability, a major cross-cutting initiative to help governments address mainstreamed support for right to information in India, and systematic incorporation of social accountability mechanisms and third-party oversight in our projects. In parallel with these efforts, there are now explicit, prevention-focused governance and anticorruption actions in all new projects, with formal GAAPs for all high risk projects and intensified integrated technical and fiduciary supervision during their implementation.

E. The India Program-wide Response to the DIR

The India Program-wide Action Plan explains how the issues raised in the DIR will be addressed across the portfolio, outside the health sector, and sets out a number of internal actions that the Bank will take in the India Program. Many of these actions (see Section A) build on actions included in the GAC business plan (see Section D).

⁹ GAC issues were assessed in several recent CASs as part of CAS preparation (Bangladesh, Sri Lanka and the Maldives), and in the Indian state of Bihar.

Key new actions in the India-wide response include the following:

- Introducing a **new tool in project preparation** that specifically addresses fraud and corruption and integrates existing risks assessments, while also clarifying accountabilities during project implementation.
- Increasing **resources for supervision** by 30%¹⁰, as well as introducing **implementation changes** – including a “smarter” risk-based approach to supervision that tailors and apportions resources to project needs, increasing field supervision, building project specific complaint mechanisms and 3rd party monitoring, and establishing a dedicated unit to support random site visits and supervision reviews of major programs.
- **Different information sources will be used to flag risks**, including government audits, our own procurement, financial and physical reviews and third party monitoring.
- Supervision will be structured around the **project's supply chain** and the project's most vulnerable moments ranging from setting of specifications, to product delivery, and utilization of equipment by end users.
- The India Management Team will reflect the lessons of the DIR in its **FY09 business plan and country strategy**. All new projects going to the Board will be explicitly screened for mitigation of the risks identified in the DIR. The number of new projects and AAA activities will be reduced. At the same time the management team will review the risks and benefits of different sectors and ways of working in India (including the geographic scope of our operations). This will be reflected in a new CAS which would be presented to the Board in mid-FY09.
- The new strategy will **build on the existing emphasis on governance and anti-corruption activities** in India, building on initiatives like the Right to Information Act and the emphasis on improving governance in the 11th Five-Year National Development Plan (2007-2012).
- Implementing this strategy will require an upgrading of **staff skills** and a change in skills mix. Training on detection of fraud and corruption will be done as a priority, along with training in other areas of governance. In addition, the number of **fiduciary staff, safeguard and legal staff** on the India program will be increased.

These actions represent a different way of doing business, one which places a much greater emphasis on Governance and Anti-corruption activities and on improving government effectiveness. However even these actions will not eliminate fraud and corruption from Bank-financed projects. Significant residual risks will remain and, again, it is likely that as a result of these actions, the reported level of fraud and corruption in the portfolio may indeed rise in the short term.

¹⁰ This would mean an increase of about \$2m per annum. The “average” supervision budget per project would increase from about \$100k per project to about \$130k - across a portfolio of about 75 projects, and will be adjusted according to the project riskiness.

F. Other Countries and Sectors in South Asia

The India Health DIR raises important issues which would have implications for other sectors and other countries in South Asia. All of the Country Directors and Sector Directors in South Asia have reviewed the DIR and have submitted initial reactions to and proposals to start to address the implications of the DIR in their operations, and to start to put in place immediate risk mitigation measures. These will be reviewed and updated in the coming months, building on the more in depth work that has been done in the Health Sector and on the India-wide program. It is expected that by the end of FY08, each country and sector will have a fully elaborated plan, which integrates their updated GAC business plan with their proposed response to the DIR. For the rest of FY08, all projects going to the Board will be expected to demonstrate to management, using a standard template, how the generic risks identified in the DIR have been addressed in that project.

G. Broader OPCS and HD Issues

The DIR has raised a number of issues that go beyond the health sector in India. OPCS and the HD network have reviewed the DIR and have set out an action plan to follow-up, based on input from the SAR. This is set out in more detail in Annex Seven, but will be reviewed after the completion of the review of this India DIR Action Plan. This work will include addressing the following at the Corporate level:

- OPCS will review and provide guidance on the extent to which the process proposals included in the various SAR action plans noted above should be mainstreamed into overall **Bank processes**. As a first step this would mean dissemination across the Bank of the synthesized lessons from the DIR, both through the Quality Directors and the HD Directors, and eventually may result in more formalized guidance for staff on appraisal and supervision. In parallel, HDN will do a similar exercise for the health sector itself.
- OPCS will clarify **Field Supervision Standards** and expectations for staff as a result of the DIR, in particular in cases with a large number of widely dispersed implementing sites. Good practices will also be shared for further mainstreaming of 3rd party audits, complaints mechanisms and risk based sample supervision. This would include the issue of contract management, and the clear assignment of supervision responsibilities, as well as clear guidance on the norms for staff resources to be allocated for supervision purposes.
- There are a number of **procurement policy issues** that need to be reviewed and clear updated guidance given to staff. For example, the actions proposed to be taken by SAR and GoI will mitigate some of the risks associated with decentralized procurement and oversight of NGO contracts – however risks will remain. Given the development benefits from decentralized decision making, what level of risk is acceptable to the institution, what mitigation actions are expected and what changes in policy may be required in this regard? In particular, in the light of the DIR, what further guidance can be given on the use of shopping, the increased use of “framework” and “rate” contracts, and appropriate post procurement review standards? OPCS and HDN will also systematically review the Bank’s policies and bidding documentation with respect to pharmaceutical and medical equipment procurement, and issue revised guidelines to staff as appropriate.
- OPCS and INT will provide further guidance to staff on how to deal consistently with procurement decisions, when there may be **indicators or suspicions of fraud and corruption**, but before an investigation can be completed.
- The DIRs have shown weaknesses in the **audit function**, and standard terms of reference are being developed for audits that would go beyond financial statements to include procurement, performance and technical aspects. Staff would be advised on the circumstances that would merit a wider annual audit of this type.

- OPCS, INT and the Learning Board will expand and deliver (together with the Regions) enhanced Fraud and Corruption **Training and Skills Development** for all Operational staff, and specialist training for fiduciary staff.
- The DIR has questioned the **methodology for project evaluation**, in Implementation Status and Results (ISRs), Implementation Completion and Results Reports (ICRs), but also by the Quality Assurance Group (QAG) and the Independent Evaluation Group (IEG). In particular there is a need for clarity on how to account for fraud and corruption in such evaluations, and for clear guidance on how problems (or indicators of fraud and corruption) should be built into the overall ratings of projects¹¹, and in the risk rating of projects at the entry stage. This will require close work between OPCS, QAG and IEG and would result in guidance notes for staff. Work is already under way in the context of the GAC with respect to assessing supply chain risks.

H. Accountability

There will be a corporate review, by OPCS under the guidance of the Managing Directors, to determine whether any disciplinary actions are warranted as a result of the findings of the DIR. The DIR found no indicators of Bank staff involvement in fraud and/or corruption. It did however identify weaknesses in Bank supervision. The review will determine whether any of these weaknesses extend to negligence on the part of Bank staff and whether any administrative actions are warranted as a result. This review will be done in a way that assesses performance against the relevant Bank standards at the time and will accord staff full due process.

In the interim SAR is conducting a “self assessment” to determine what further lessons can be drawn to strengthen overall performance and accountability in the Region.

I. Conclusion

This Action Plan summarizes the Bank-wide response to the India Health DIR. Management proposes to report to the Board on progress in implementing this plan by March 2009.

¹¹ The DIR has questioned the evaluation methodology used. In spite of the indicators of fraud and corruption and the weaknesses noted by the DIR in implementation, the four projects that have been evaluated all were given satisfactory or moderately satisfactory ratings by IEG due to the strong health sector outcomes they obtained (eg huge increase in TB DOTS coverage, reductions in maternal mortality in Orissa, increased use of condoms and high risk services in NACP). The supervision of the Orissa project was rated as satisfactory and highly satisfactory in the two reviews that QAG did of supervision.

Sections in Report	Annexes to Board Document	Working file (Management Review)
1 Actions Already Taken	1. Summary of Actions Already Taken	
2 Investigations		2. INT Investigation Plan (Confidential file only)
3 Health Action Plan	3.1. Summary of Joint Action Plan; 3.2 Summary of State Action Plan mitigation measures	3.1 Four Thematic Matrices (plus summaries); 3.2 Three DIR Project Remedial Action Matrices (plus summaries) 3.3 Nine Risk Mitigation Matrices (plus summaries)
4 GAC Context	4. Executive Summary of SAR GAC Business Plan	4. Full SAR GAC Business Plan
5 India Systemic Plan	5.1 One page cover note; 5.2 One page summary of action program; 5.3 Five page summary of actions; 5.4 One page on GAAPs	5.1 Procurement and Financial Management Drill Down Action Plans; 5.2 India GAC Action Plan
6 SAR Overall Actions (Non-India)		6.1 Full Package of Submissions by Country and Sector Directors, all countries and sectors; 6.2 GAC Business Plan Annexes for all countries and Sectors
7 OPCS/HD Actions	7.1 Two/three page OPCS/HD action matrix	7.1 SAR's specific details of issues to be addressed

Joint Action Plan for Health Sector Government of India World Bank

This note summarizes a joint action plan for World Bank assisted projects in the Health Sector in India. It sets out an indicative set of actions that both parties have agreed to take to strengthen the governance and accountability of the projects in this portfolio.

GoI has undertaken a number of actions in the last few years to strengthen the portfolio. These are set out in Annex I. This action plan builds on these actions and includes a number of actions to which the government had already committed itself previously. This Joint Action Plan addresses issues of systemic corrections which GOI has been doing it for last so many years.

The actions agreed build, as far as possible, on the Government of India's own systems and plans and attempts to use these actions to strengthen the performance of the World Bank assisted portfolio. This is particularly important in the areas of monitoring and financial management where the WB assisted projects will benefit from the arrangements that have already been put in place, and/or planned by GoI.

This action plan has been developed in partnership between GoI and WB. It highlights a number of priority actions that have been jointly agreed. Many of these actions will require both GoI and WB to work together. The plan will be reviewed and adapted as needed every six months.

**Executive Summary
Key Agreements Reached
and
Priority Future Actions**

- 1 Investigations and Prosecutions**
- MOHFW/Govt.. of Orissa will complete its internal review of DIR and initiate appropriate action Mar 2008
 - INT will provide support, data etc to GoI/ Govt. of Orissa processes if requested ongoing
- 2 Thematic Actions Across the Health Portfolio**
- a Strengthening Monitoring Evaluation, Financial Management**
- Apply monitoring and public disclosure mechanisms developed by GoI (e.g. community monitoring, web based MIS, periodic performance assessments, annual health surveys, 3rd party evaluations etc) to WB assisted CSS and use feedback from these instruments in developing annual work-programs From Jun 2008
 - States to agree on plan by which GoI's monitoring mechanisms stated above can be applied to WB assisted state health projects Sep 2008
 - Establish complaints redressal mechanism for all WB assisted CSS health programs Mar 2009
 - Enhance capacity of Financial Management Group to cover all World Bank assisted CSS health programs Jul 2008
 - Audit for Bank assisted CSS to be met by district/state audits, where MOHFW is strengthening procedures for selecting audit firms having requisite quality and size Sep 2008
- b Strengthening procedures for the appointment and oversight of NGOs**
- Disclose NGOs selected, rejected, blacklisted on website; and Establish Ombudsman for overview of NGO performance and any complaints. Jun 2008
 - Review of NGO performance by NACO and development partners Annual
 - Expand and adapt best practice NGO guidelines and procedures for other projects Sep 2008
- c Strengthening central procurement in Centrally Sponsored Schemes (CSS)**
- Strengthen EPW to oversee procurement agents and build capacity. Jun 2008
 - Complete assessment of EPW performance/progress and agree future plans Dec 2008
 - Install Fraud and Corruption detectors for UNOPS procurement, train UNOPS and EPW staff on F&C, roll-out thereafter based on agreed plan Jun 2008
 - Move to E-Procurement for WB assisted projects after review of pilots Jun 2010
 - Appoint agency for Procurement Audit of all ongoing WB supported CSS Sep 2008
 - Initiate independent pre- and post-delivery inspection for complex equipment Sep 2008
 - Launch Annual Quality/Quantity Review of drugs, pharmaceuticals, med. supplies Jul 2008
 - Joint review of methods/terms of WB procurement¹² (inc rate contracts, shopping framework contracts, equipment delivery, IT service contracts etc) and development of guidance notes on payment terms, collusion, qualification requirements, lot sizes etc Jun 2008
- d Strengthen decentralized procurement in CSS**
- Complete review and possible certification of TNMSC Jun 2008
 - Agree timeline for capacity building and accreditation in a few states. States may use certified autonomous body, separate unit with certified skills, agent from another state. Start Jun 2008
 - Decentralize procurement to states as soon as certified agent has been established. asap
 - Reimbursement by WB of district level CSS activities will be limited to operating costs and contractual staff Ongoing

¹² Applies to both central and decentralized procurement. Will also include learning from emerging good Indian practices for world bank projects (eg disclosure of bidder ownership details in bidding documents)

- 3 Actions to Fix problems observed in five DIR projects¹³**
- Orissa¹⁴:**
- Submit outstanding Audit report: (no new negotiations for Orissa projects till received) asap
 - Complete rehabilitation of hospitals on rolling basis (10 by Mar 2008) Mar 2009
 - Survey/Census of equipment (Mar 2008) followed by repair/replacement Sep 2008
 - DFID/WB support for health and general public sector governance ongoing
- Food and Drug:**
- Census of equipment and remaining works (Mar 2008) and repair Sep 2008
- NACP:**
- Further strengthen HIV test strategy Mar 2008
- 4 Applying Risk Mitigation Measures to Ongoing WB portfolio of 9 projects**
- WB supported for Centrally Sponsored Schemes**
- Close the Food and Drug Project. No new procurement to be undertaken. Ensure delivery of equipment, completion of civil works already procured. Jun 2008
 - MoHFW to decide whether it wishes to use savings generated from the closure of the F&D project (~\$25m) eg for Polio or an emergency procurement & monitoring capacity building Feb 2008
 - RCH: Review project as planned at mid term review in June. Finalize interim agreement on scope of proposed amendment to be processed now. Feb 2008
 - NACP3: Use Framework ICB for test kits. Further actions to mitigate shopping risk will be clarified as part of the joint review of procurement methods (see section 2c above) Jun 2008
 - TB: Fully covered by thematic risk mitigation measures noted above. No new action required to be taken.
 - IDSP: Disclose quarterly state rankings, Increase FM/Proc state visits, Equipment census (Sept 2008), expert group to review selection and QA for diagnostic kits (June 2008)
- WB supported State Level Projects¹⁵**
- Joint review meeting (MoHFW, DEA, WB, States) to confirm proposed risk mitigation measures in ongoing state health projects Feb 2008
- 5 Future WB assistance to the Health Sector in India**
- Joint review (MoHFW, DEA, WB, States) of three proposed state projects (UP, UK, WB) including risk mitigation measures in response to the DIR at appraisal
 - GOI and WB to review strategy for WB support to Health Sector Sep 2008
- 6 WB specific actions**
- WB to review the extent to which the VBD project addresses the risks in the DIR during appraisal
 - Increased WB Implementation support for Health Sector: including more detailed and more frequent site visits and technical assistance to support the implementation of action plan Ongoing
 - Training of WB staff in detection of fraud and corruption Jun 2008
- 7 Monitoring and Review of this Action Plan**
- GOI and WB will review progress on the action plan once every six months. June/Dec
 - Communications: BK Prasad (MOHFW), G Ramana (WB) Ongoing

¹³ Key actions in sections 3 and 4 are those that are not already covered under the thematic actions

¹⁴ Follow-up is the responsibility of the Government of Orissa

¹⁵ Rajasthan, Tamil Nadu, Karnataka, Uttarakhand, Uttar Pradesh

**Some key actions already undertaken by Government of India
to strengthen the Portfolio.**

- (a) Shifted the procurement responsibility from Procurement Support Agencies – which were not handling procurement on a turn-key basis – to the UNOPS for Bank supported operations.
- (b) Set up an Empowered Procurement wing (EPW) to provide oversight to the procurement handled by Procurement Agents (PA). Developed procurement policies and standards for the health sector; and working on state procurement capacity building.
- (c) Introduced measures to improve the competition, transparency and quality through the Governance and Accountability Action Plan (GAAP) agreed for all health projects approved by the Bank since 2006 onwards.
- (d) Prepared a compendium of technical specifications for medical equipment which is disclosed on the MOHFW website.
- (e) The GOI has mandated several time bound action to enhance accountability of the health services to the people and institutionalize robust monitoring and evaluation systems to assess program process and impact
- (f) Created the Financial Management Group (FMG) at the MOHFW, supported finance staff at State and District levels, developed detailed project specific financial management manuals.
- (g) Strengthened TOR for audit at State and District levels to improve the audit quality.
- (h) Undertaken the following actions under the NACP-III:
 - Tightened the financial control and upgraded the computerized accounting system
 - Developed detailed guidelines and operational manuals for procurement of NGOs and Public Private partnerships (PPPs.)
 - Improved monitoring of NGO performance and supervision by SACS by introducing quarterly review by NACO.
 - Introduced evaluation of NGO performance by Committee having one external evaluator; and terminated contracts of about 25% NGOs which were non-complaint with the guidelines.
- (i) Pre-award validation/certification of WHO GMP made mandatory in all cases.

**Joint Action Plan for Health Sector
Government of India
World Bank**

Ongoing State Sector Projects

21 February 2008

This note summarizes key actions agreed between State government project representatives and World Bank task teams to improve the performance and mitigate risks in World Bank assisted state health projects going forward, as part of the GOI-World Bank joint action plan for World Bank assisted projects in the Health Sector in India.

Summary of Proposed Priority Future Actions for State Sector Projects

- 1 Uttar Pradesh State Health Systems Project (project extension requested)**
 - Implement strengthened procurement plan for remaining higher and lower value works and equipment March 08
 - PMU team to inspect quality and use of works and equipment in all project facilities April 08
 - TOR of internal auditors to be amended to include physical verifications and use checklist and results to be reviewed at quarterly meetings with Bank Initiate March 08
 - Complaint database established and grievance redressal officer appointed March 08
- 2 Uttarakhand State Health Systems Development Project (project extension requested)**
 - Detailed review with Bank of remaining procurements. Major procurement work to be done by experienced PMU Staff. Initiate March 08
 - PMU team to visit all facilities renovated, to review quality and use of works and equipment. April 08
 - Revision of TORs for internal auditors to include asset quality and use checklist
 - Complaint database and grievance redressal officer. May 08
- 3 Rajasthan State Health Systems Development Project**
 - Procurement staff positions filled and training provided in procurement methods and fraud detection March 08
 - Checklists developed for internal and external reviews of works and equipment March 08
 - Joint performance/facility review June 08
 - Complaint redressal mechanism in place June 08
 - Explore social audit mechanisms Sept 08
- 4 Tamil Nadu State Health Systems Development Project**
 - Procurement post review by PMU consultant March 08
 - Standard check lists for works and equipment quality and use March 08
 - Review and revise NGO contracting and operational guidelines April 08
 - Joint performance/facility review June 08
 - Complaint redressal mechanism in place April 08
- 5 Karnataka Health System Development and Reform Project**
 - Web-based system will be introduced to monitor all contracts. Similar to the web-based monitoring tools for civil works have already been developed by the Karnataka State Police Housing Corporation Limited. KHS DRP Dec 08
 - The Manuals and Standard Bidding Documents for drugs and equipment in line with the Karnataka Transparency in Public Procurement Act (KTPP) drafted in Spring-Summer 2007 to be fully rolled out. June 08
 - Nodal Officers from SPMU and DPMUs, in charge of districts will submit reports on status of equipment installation after sample physical verification, every quarter. Laptops and cameras will be provided to them to monitor civil works, stores and equipment supply, installation and utilization. Aug 08
 - E-procurement to be introduced March 09