

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 03/16/2012	
Country:	Mexico		
Project ID:	P116965	Appraisal	Actual
Project Name :	Influenza Prevention And Control	Project Costs (US\$M):	491.00 0.00
L/C Number :		Loan/Credit (US\$M):	491.00 0.00
Sector Board :	Health, Nutrition and Population	Cofinancing (US\$M):	
Cofinanciers :		Board Approval Date :	11/24/2009
		Closing Date :	06/30/2012 02/28/2011
Sector(s):	Health (70%); Public administration- Health (30%)		
Theme(s):	Health system performance (50% - P); Other communicable diseases (50% - P)		
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2. Project Objectives and Components:

a. Objectives:

According to the Loan Agreement (LA), p. 5, and the Emergency Project Paper, p. 11, the project's objective was "to strengthen the capacity of the Borrower's health system to monitor the spread of influenza viruses and to control influenza epidemic waves."

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

The project contained two components :

I. Strengthening the capacity to monitor the spread of influenza viruses (appraisal, US\$ 64 million; actual, US\$ 0.00). Activities included: (i) strengthening the management and technical quality of the National System for Epidemiological Surveillance (SINAVE) through development of SINAVE's information technology system and upgrading the country's national reference laboratory for epidemiological surveillance, including construction and equipment; (ii) ensuring the quality, relevance, and timeliness of epidemiological information through organizational reforms in the Federal Secretariat of Health, including the establishment of a central analysis unit and mobile units, setting up epidemiological research programs to assess the relevance and deepen the understanding of information collected, and certifying SINAVE according to international standards; and (iii) improving SINAVE's human resource capacity through training staff in new processes, management schemes, and bio -security in laboratories, applying new information technologies and platforms, and carrying out knowledge event to promote a culture of analysis, research, and dissemination of information for policy making .

II. Strengthening the capacity to control epidemic waves of influenza viruses (appraisal; US\$ 426 million; actual, US\$ 0.00). Activities included strengthening the infrastructure effectively to distribute medicines, vaccines, and medical supplies, replenishing and expanding the country's strategic reserves. In particular, the Government planned to vaccinate more than 20 million Mexicans against influenza A/H1N1 during the winter of 2009/2010, as soon as a

vaccine became available.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost: The project included price contingencies of US\$ 47.0 million, and interest during construction of US\$ 0.8 million, bringing total required financing to US\$ 538.8 million.

No Loan funds were allocated, as the Loan lapsed before becoming effective.

Financing:

Alternative sources of financing were considered, including from the Bank's Global Program for Avian and Human Influenza Preparedness (GPAI) or the Development Policy Lending with Catastrophe Deferred Drawdown Option (CAT DDO), but given the magnitude of the resources Mexico was considered to require, the Bank opted for a stand-alone project that would be considered directly by the Board of Directors.

In line with OP/BP 8.00, the loan was to reimburse Government expenditures incurred during the first wave of influenza A/H1N1, including the purchase of medicines, vaccines, and medical supplies on or after April 23, 2009. This retroactive financing was to constitute up to US\$ 196.4 million, or 40% of the loan amount.

Borrower Contribution: There was no planned Borrower contribution.

Dates: After three extensions of the original February 26, 2010 effectiveness deadline, the Loan lapsed without becoming effective on February 28, 2011.

There were four basic reasons why the Loan never became effective and was cancelled :

1. Lack of incentive to use the Loan. Mexico's budgeting system is such that external finance is generally not incremental to the executing agencies. However, the Federal Secretariat of Health would have had to comply with the project's fiduciary and safeguards requirements, even though the financing associated with the Project would produce no incrementality to its budget. Although the planned technical support was an important counterbalance, overall there was little incentive for the Federal Secretariat of Health to implement the project with Bank financing. Negotiations were affected by lengthy discussions between the Federal Secretariat of Finance and the Federal Secretariat of Health about the overall project cost and the issue of incremental financing to the Secretariat of Health.
2. Problems in using the planned retroactive financing. The Task Team requested internal clearances for direct contracting for the purchase of anti-virals and the influenza A/H1N1 and seasonal influenza vaccines in the amount of approximately US\$ 150 million. The direct contracting for the purchase of anti-virals was authorized, but would have required a restructuring to include the supplier, a financially autonomous public limited company in Mexico, as an implementing agency under the project (and not contracted as an independent provider). In addition, authorization for retroactively reimbursing amounts for the purchase of both anti-virals and vaccines was subject to the retrofitting of each of the contracts with primary suppliers with new language (including anti-corruption clauses, as required by the Bank's anti-corruption guidelines). However, Mexico's legal framework did not make it possible for the Government to retrofit the anti-virals and vaccine contracts to comply with the Bank's guidelines. Although the Government had concurred with these contract retrofits during Loan negotiations, upon further consultation with the Federal Secretariat of Health's Legal Department, it concluded that Bank conditions for retroactive financing could not be reconciled with federal legislation and regulation.
3. Lack of consensus on restructuring the project. Given these challenges, the Bank began preparing a Level One restructuring that would respond to a Government request to expand the scope of the project to capture epidemic response outcomes. The proposed restructuring would have expanded the second objective not only to control epidemic waves, but to respond to them, through the addition of a third component. According to the Note on Cancelled Operation (NCO, p. 10), this proposal for restructuring

never moved forward due to lack of interest and incentive from the Federal Secretariat of Health .

4. Milder than expected influenza A/H1N1 epidemic. By mid-2010, infection trends of the influenza A/H1N1 virus were confirmed to be on a decline both globally and in Mexico . In August 2010, the World Health Organization called for a shift in focus toward "post-pandemic period" strategies.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial. At the time the project was being prepared in September 2009, there had been over 52,000 laboratory-confirmed cases of influenza A/H1N1 in Mexico, resulting in more than 350 deaths. The Bank estimated that the total number of infections exceeded 347,000; the project team explained that this overestimate was due to the complex nature of the epidemic and incorrect assumptions about existing immunity. Simultaneously, Mexico was experiencing its sharpest economic contraction since the 1994-1995 peso crisis, resulting in a projected 2009 budget deficit of 2.1% of gross domestic product (GDP) that would circumscribe the Government's ability to direct resources toward a response to influenza A/H1N1. The influenza A/H1N1 epidemic was further weakening fiscal and macroeconomic prospects; the project team explained that early on, the epidemic was overwhelming the health system and severely negatively impacting tourism and trade. Based on the pattern of past influenza pandemics, experts expected that a second wave of influenza A/H1N1 would affect Mexico during the winter of 2009/2010, and that by then the virus could mutate into a more virulent strain.

The project was substantially relevant to the Government's five-year plans for SINAVE (2007-2012) and the health sector (2007-2012), which emphasized the need for improving epidemiological surveillance and strengthening the response capacity of health services. The project supported all of the seven action areas identified in the SINAVE plan, and five of the ten strategies outlined in the health sector program. The Bank was already supporting several pillars of the Government's National Health Sector Program through several ongoing and proposed operations, but not directly in the area of health surveillance. The project was also substantially relevant to the Bank's current Country Partnership Strategy (CPS) for Mexico (2008-2013), which includes principles of engagement emphasizing flexibility, fast, response, and selectivity in addressing developing challenges, and which cites investment in human capital and strengthening institutions as two key development challenges.

b. Relevance of Design:

Substantial. The project's outcomes were linked, through a plausible and detailed results chain (Emergency Project Paper, pp. 40-44), to its planned activities (as stated in the description of the components) and output/outcome indicators. The activities outlined in the project's components would reasonably have been expected to produce the expected outcomes.

4. Achievement of Objectives (Efficacy):

N/A

5. Efficiency:

N/A

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

N/A

a. Outcome Rating : Not Applicable**7. Rationale for Risk to Development Outcome Rating:**

N/A

a. Risk to Development Outcome Rating : Not Applicable**8. Assessment of Bank Performance:****a. Quality at entry:**

The project was prepared expeditiously (in under two months) under OP/BP 8.00. The Bank team had an active and productive engagement and policy dialogue with sector authorities . The project's focus not only on emergency finance of needed inputs, but also on preparedness and mitigation of future health emergencies, was strong and appropriate. The Emergency Project Paper (pp. 20-21) identified four key risks and corresponding mitigation measures: the risk that Mexico's response capacity could be insufficient to control a second wave of influenza A/H1N1; the risk that the influenza A/H1N1 vaccine under development could cause adverse health events more frequent and severe than anticipated and tolerable; the risk that implementation capacity constraints could hamper timely execution of project activities, and that investment in information technology might not be sustainable; and the risk that the economic crisis could reduce the Government 's budget to support project activities. The project also learned key lessons from related Bank operations (Emergency Project Paper, p. 10): that a clear, well-designed strategy for influenza preparedness and response is essential; that ensuring the cooperation and compliance of sub-national actors is complicated and difficult; and that evaluation efforts much be planned well in advance.

An economic analysis conducted during preparation showed that the benefits of the project would exceed the costs, in some scenarios by a factor of 113 (Emergency Project Paper, pp. 68-71).

The coordination and implementation of project activities was to be governed by two highly visible and technically sound national plans (the National Epidemiological Surveillance System Plan and the National Plan for Preparedness and Response to an Influenza Pandemic). Project activities were to be coordinated and implemented by experienced national agencies with demonstrated technical and managerial skills . Furthermore, the project was part of a comprehensive plan to strengthen the capacity of the Mexican health care system to respond to the influenza A/H1N1 challenge that also included: the Third Basic Health Care Project, which was to strengthen health service capacity and expand access for 22 million (mostly poor) Mexicans; a new loan under preparation to support Mexico's social protection system that would ensure universal access to quality health services; and a new grant, approved by the Avian and Human Influenza Facility with the grant agreement scheduled to be signed shortly, that would strengthen the communication campaigns of federal entities to produce and disseminate messages on influenza -related behavior change.

According to the Note on Cancelled Operation (NCO, p. 7), before Loan negotiations, the Bank had anticipated that the non-incremental financing and high transaction costs (complying with Bank fiduciary and other requirements) could lead to incentive issues with the Federal Secretariat of Health, and the Task Team explored the use of alternative instruments that would circumvent this problem . However, the NCO (pp. 8, 13) states that "after considerable internal discussion, the team was advised to follow a Specific Investment Loan option, in accordance with OP/BP 8.00, and agreed to include financing of additional staff within the Federal Secretariat of Health to coordinate activities and ensure compliance with the Bank 's fiduciary requirements, with the Federal Secretariat of Health accepted at the end of 2009." No further detail about the advice to pursue the Specific Investment Loan option is given in the NCO; the project team later added that other instruments were considered, but no preferable options could be identified . The Bank 's inability to choose the appropriate instrument, considering the existing inconsistencies between its emergency policies (OP/BP 8.00) and some of its fiduciary policies, made it impossible to respond to the client in the course of the epidemic .

Quality-at-Entry Rating :

Moderately Unsatisfactory

b. Quality of supervision:

Quality of Supervision Rating : Not Applicable

Overall Bank Performance Rating : Not Applicable

9. Assessment of Borrower Performance:

a. Government Performance:

The Government's response to the influenza A/H1N1 outbreak was swift, as was its request to the Bank for assistance. The Federal Secretariat of Finance allocated resources to pre-finance needed medicines and vaccines. The highest levels of Government intervened to preclude budget cuts to the Federal Secretariat of Health in the face of the outbreak, despite a severe economic downturn that had reduced the Government's fiscal space. Despite the cancellation of the Loan, the Government has implemented a number of actions that have demonstrably strengthened the country's capacity to monitor effectively, distribute vaccines, medicines, and medical supplies, and expand the country's strategic reserves of these supplies.

However, the project was adversely affected by ongoing discussions between the Federal Secretariat of Finance and Federal Secretariat of Health regarding the latter's reluctance to commit to a Bank loan in the absence of confirmation of additional budgetary resources. Also, while the Government concurred during negotiations with the retrofitting of each of the contracts with primary suppliers with anticorruption clauses as required by the Bank's guidelines, it subsequently transpired that Bank conditions for retroactive financing could not be reconciled with Federal legislation and regulations. According to the NCO (p. 15), "the Government was not willing to proceed with a proposed Restructuring, although it [a restructuring] could have provided a straightforward manner of disbursing retroactive finance against an easy -to-disburse category of expenditures: eligible federal social contributions to the premium of the Popular Health Insurance to cover the costs of medical services provided during the influenza epidemic." While there may not have been an incentive for the Federal Secretariat of Health to carry out the restructuring, moving forward in this manner would have provided an alternative for disbursement to the Government that was within its program of emergency response to the influenza A/H1N1 epidemic.

Government Performance Rating Moderately Unsatisfactory

b. Implementing Agency Performance:

Implementing Agency Performance Rating : Not Applicable

Overall Borrower Performance Rating : Not Applicable

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The Emergency Project Paper (pp.13-14, 40-44) clearly explains the project's expected outcomes, key output and outcome indicators to be used to measure achievement of those outcomes, and the use primarily of country systems for project monitoring. Its discussion of the two main indices to be used as outcome indicators - the National System for Epidemiological Surveillance (SINAVE) performance index measuring the performance of that agency, and the Epidemiological Surveillance System for Influenza (SISVEFLU) index measuring the performance of health facilities and laboratories in all federal entities - is particularly comprehensive and clear.

b. M&E Implementation:

N/A

c. M&E Utilization:

N/A

M&E Quality Rating :

11. Other Issues

a. Safeguards:

The project was Category B and triggered the Bank's environmental safeguard policy (OP/BP 4.01) and indigenous people's social safeguard policy (OP/BP 4.10).

b. Fiduciary Compliance:

N/A

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings :	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Not Rated	Not Applicable	
Risk to Development Outcome:	Non-evaluable	Not Applicable	
Bank Performance :	Moderately Satisfactory	Not Applicable	Quality at Entry is Moderately Unsatisfactory.
Borrower Performance :	Moderately Satisfactory		Government Performance is Moderately Unsatisfactory.
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The following lessons are taken from the NCO, with some adaptation :

- Non-incremental financing incentives : The Bank should assess the value-added of a non-additional loan in middle-income countries such as Mexico. Although agencies receive strong technical support under Bank-financed projects, this incentive could be outweighed by Bank fiduciary and safeguard requirements, as was the case with this project.
- Anti-corruption policy and its application under emergency situations : Although anti-corruption measures aim to limit exposure to fraud and corruption risks and to manage reputation risks to the Bank and the Borrower, these measures limit the flexibility of quickly prepared and disbursed operations. Particularly in emergency situations, there is room for further work to find balance in the way the Bank engages on corruption issues. In this case, emergency policies (OP/BP 8.00) were not fully aligned with anti-corruption policies.
- Efficacy of the emergency instrument in health emergencies : In public health emergencies, it is often difficult to predict the course of the emergency or the damage caused to human lives and health. Other instruments may provide a more effective option to respond to client needs, in view of

the fiduciary requirements related to emergency purchases .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The NCO is very clear and comprehensive in discussing the main events leading to the cancellation of the Loan, steps that were taken in an attempt to resolve the key issues, and the responsibility of the parties involved for the cancellation. However, it could have given more detailed information on the source and nature of the advice that was given to the Task Team to pursue a Specific Investment Loan, even though the risks of this approach were well identified and discussed.

a. Quality of ICR Rating : Satisfactory