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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
HEALTH SYSTEM MODERNIZATION PROJECT
CREDIT NUMBER 4154 ALB
March 14, 2006
TO THE
REPUBLIC OF ALBANIA
September 15, 2011

ABBREVIATIONS AND ACRONYMS

HII	Health Insurance Institute
HIS	Health Information System
MoH	Ministry of Health of the Republic of Albania
PDO	Project Development Objectives
PHC	Primary Health Care
PHCP	Primary Health care Providers

Regional Vice President:	Philippe H. Le Houerou
Country Director:	Jane Armitage
Sector Director:	Mamta Murthi
Sector Manager:	Daniel Dulitzky
Task Team Leader:	Lorena Kostallari

REPUBLIC OF ALBANIA
HEALTH SYSTEM MODERNIZATION PROJECT

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HEALTH SYSTEM MODERNIZATION PROJECT

CREDIT NUMBER 4154 ALB (P082814)

RESTRUCTURING PAPER

SUMMARY

The proposed restructuring is a level two restructuring to make the following changes to the Health System Modernization Project (the “Project”) being carried out by the Republic of Albania: (i) revision and cancellation of certain Project activities, and (ii) reallocation of credit proceeds. This restructuring is expected to aid in the successful completion of all Project activities before the Project Closing Date.

PROJECT STATUS

The Project was approved by the World Bank Board on March 14, 2006 and became effective on July 9, 2006. The Project underwent a level two Restructuring in May 2010, which included: (a) revision of a number of Project activities, (b) an 18-month extension of the original Closing Date from September 30, 2010 to March 31, 2012, and (c) revision of the results framework. Currently the Project has disbursed around 65% of the Credit proceeds.

Following the Project restructuring in May 2010, Project implementation has shown good progress overall. Most Project activities have been completed or are being implemented. Under Part A, Paragraphs 2 and 3 of the Project, an information technology (IT) package was to be procured for the Health Insurance Institute. This is the main remaining activity under the Project.

While there has been good progress in proceeding with procuring the hardware that forms part of the IT package, procurement of the software has suffered significant delays. The main reason for the delay is that the Health Insurance Institute delayed making a decision on the required software for developing the health insurance information system.

By way of the letter dated April 22, 2011, the Republic of Albania (through the Prime Minister’s Office, Ministry of Health) has requested the Bank that the Project continue to provide hardware support to the Health Insurance Institute (under Part A, Paragraph 2 and 3 of the Project) through the purchase of some additional equipment critical for the implementation of the information system defined in the conceptual design of the Project, which has its conceptual design completed under Part A, Paragraph 3 of the Project. The

same letter also requests that the procurement and installation of software under Part A, Paragraphs 2 and 3 of the Project be dropped from the Project's activities and no longer form part of the Project.

The Republic of Albania also states that it will secure financing through other donors to procure and install the software according to the conceptual design. The implementation of the Project's activities under Part A does not depend on the procurement and installation of the said software and therefore is independent of whether or not additional donors' financing is obtained. No change to the Financing Agreement is required in this regard. The procurement plan has been updated to reflect this understanding.

As a result of the fact that the Project would no longer finance the procurement and installation of software under Part A, Paragraphs 2 and 3 of the Project, the Credit proceeds allocated for this purpose (under Category 1 and 2) are proposed to be reallocated to Category 3 to further support the reform in hospital sector under Part B, Paragraph 6 and Part C Paragraph 3 of the Project through procurement of necessary medical equipment as well as testing of the hospital rationalization strategy in two districts, as requested by the Republic of Albania.

In addition, the activity set out under Part B, Paragraph 1 of the Project, viz, "*The facilitation of the registration and enrollment of the population to receive primary health care services, through provision of Unit Costs*" has suffered significant delays, due to delayed Government decision for the production of health cards. Currently, the Health Insurance Institute is funding this activity. It is proposed that this activity be cancelled and the credit proceeds allocated to this activity under Category 6 be reallocated to Category 3 to further support the reform in hospital sector, under Part B, Paragraph 6 and Part C Paragraph 3 of the Project through procurement of necessary medical equipment as well as testing of the hospital rationalization strategy in two selected districts, as requested by the Republic of Albania.

Also, the Bank has declared misprocurement for the activity set out under Part B paragraph 6 of the Project, viz: "Procurement of Medical Equipment G-ICB-05/2010/ALB/Lot2", through letter dated August 9, 2011, as result of violation of Bank's Procurement Guidelines. In accordance with Section 6.03 of the applicable General Conditions incorporated by reference in the Financing Agreement, the Bank, through letter dated September 12, 2011, has cancelled SDR 697,669 (which is the amount of the financing allocated to this specific activity, equivalent to US\$ 1.1 Million) from Category 3 (Part B paragraph 6 of the Project).

The MoH proposes to start the implementation of the rationalization strategy for the hospitals (which strategy has already been approved by the MoH) by piloting the recommendations of the strategy in two districts. A new Project activity will be added to this effect, as requested by the Republic of Albania.

The Project has no outstanding audit reports. Also, the financial management procedures are in full compliance with Bank's requirements. The revision and changes to the Project's activities will not impact the Project's development objectives or the Project's performance indicators which will remain unchanged.

C. PROPOSED CHANGES

1. Changes to Project activities:

- (a) A new Project activity will be inserted in Part C, paragraph 3 of the Project's description and the Financing Agreement will be amended accordingly. The new Project activity is as follows:

“Testing of the hospital rationalization strategy on a pilot basis, in two selected districts, through the provision of consultancy services.”

- (b) Under Part A paragraphs 2 and 3 of the Project, both hardware and software were to be procured. However, as result of significant delays in procurement of software (main reason being the lack of decision from the Health Insurance Institute on key directions for developing the information system for the whole health insurance), the Project will no longer include procurement of software. Procurement of hardware will still continue to be financed under the Project as planned. Since the activity is broadly worded in the Financing Agreement, no amendment to the Financing Agreement will be required.
- (c) Part B, Paragraph 1 of the Project, i.e., *“The facilitation of the registration and enrollment of the population to receive primary health care services, through the provision of Unit Costs,”* will be cancelled.

The Procurement Plan has been updated to reflect these changes.

2. Reallocation

Project Costs: The proposed revisions in the Project costs by components and category of expenditures are presented in the tables below. The restructured Project will include an increase of expenditures (local and foreign) for goods to finance purchase of additional medical equipment for hospitals under Part B of the Project. In addition, it includes a reduction of expenditures (local and foreign) for goods under Part A of the Project (since the Bank will no longer be financing the IT software for the Health Insurance Institute under the Project), as well as a reduction of expenditures under goods as a consequence of the cancellation of the Unit Costs under Part B of the Project (for the primary health care enrollment).

Project Costs (US\$ Million)		
Project Components	Current¹	Proposed
1. Part A : Strengthening Sector Stewardship, Financing and Purchasing	5.01	4.41
2. Part B: Improving PHC Service Delivery	10.00	10.06
3. Part C: Health Sector Governance and Management	1.36	1.46
Total Project Costs net of Cancellation	16.37	15.93
Cancellation per September 9, 2011		1.10
Total Project Costs	16.37	14.83

Reallocation:

Category of Expenditure			Amount of the Credit Allocated (expressed in SDR)		Percentage of Expenditures to be Financed	
	Current	Revised	Current	Revised	Current	Revised
1	Goods other than goods under Parts A.3 and B.6 of the Project	n/a	690,000	320,000	85%	85%
2	Goods under Part A.3 of the Project	n/a	2,050,000	1,520,000	85%	85%
3	Goods under Part B.6 of the Project	n/a	4,102,331	5,502,331	85%	85%
4	Consultants' Services other than under Parts A.1, A.2, A.4 and A.7 of the Project	n/a	2,500,000	2,500,000	100%	100%
5	Training	n/a	80,000	80,000	100%	100%

¹ The project has had a previous restructuring, hence the current figures reflect the latest approved costs.

6	Unit Costs under Part B.1 of the Project	n/a	500,000		75%	75%
7	Small Grants under Part B.7 of the Project	n/a			100%	100%
8	Incremental Operating Costs	n/a	80,000	80,000	100%	100%
9	Unallocated	n/a			-	-
	Total Amount Net of Cancellation		10,002,331	10,002,331		
	Cancellation per September 9, 2011		697,669	697,669ⁱ		
	Total Amount		10,700,000	10,700,000		

ⁱ The amount is cancelled as per the Bank's cancellation letter of September 9, 2011