1. Country and Sector Background

Main Sector Issues

2.1 Unfinished Agenda. Despite remarkable improvements in overall health status in the past decades, China’s health services remain inadequate and regional disparities are very wide. A significant proportion of the country’s population still lacks satisfactory provision of basic health care, and access to health care is inequitable and often unaffordable for many poor communities. Consequently, health status varies greatly among geographical areas and income groups. For example, while the national maternal mortality ratio was 61.9 per 100,000 live births in 1996, Guizhou and Xinjiang reported rates of 262.3 and 462.8, respectively. China’s per capita total public and private health spending was RMB 110 in 1993, but rural spending was RMB 60 per capita compared to RMB 235 in urban areas.

2.2 Tuberculosis tops the list of infectious causes of death in China, with over 400 million persons estimated to be infected, including five million persons with the active disease, and 150,000 persons dying from the disease. Each year, 1.3 million additional persons develop active TB. The rate of TB in impoverished rural areas is nearly three times higher than in economically developed urban areas. This is attributed to poor living conditions, insufficient financial resources to pay for health care, reduced access to health services, and lack of knowledge about TB. As poverty facilitates the spread of TB, it also contributes to the cycle of poverty for many in China. Physical disease and economic hardship form a self-perpetuating vicious cycle.

2.3 Financing Health Care. Health financing in China has shifted from a collective or centralized system to a more decentralized...
The percentage of government funds used for public health services has decreased, while charges and user fees have become increasingly common as sources of income for health care workers and facilities. The impact of this shift has been especially problematic for TB control as market failures lead to increased public health risks. Tuberculosis, which disproportionately affects the poorest populations, thwarts poverty alleviation goals. In areas without special funding programs, cost recovery and user charges have lead to disincentives for patients to seek care and to continue to complete cure, thereby increasing risks of transmission and death and development of drug resistance. The providers have also disincentives to treat as the patients are not always important sources of income although doctors have been charging patients for TB diagnosis, drugs and services wherever possible. Public health facilities lack equipment or resources to perform activities like sputum microscopy, and supervision of village doctors, along with training or surveillance activities, are poorly conducted, if at all. Parts of China are already facing some of the highest rates of multidrug-resistant (MDR) TB in the world because of poorly managed TB control programs, as either patients do not take their drugs regularly or the drug supply is interrupted. MDR-TB poses one of the gravest risks to the control of TB. It also costs more than 100 times to treat and, even then, only 60 percent of patients are cured as compared to 95 percent with non-drug resistant TB under proper patient management.

2.5 New Challenges. Rapid economic growth, reform measures, growing openness, and the country’s epidemiological transitions have brought new health problems, including a major increase in chronic diseases, the emergence of HIV/AIDS infections, and reemergence of sexually transmitted diseases. Currently, more than 1 million persons are estimated to be infected with HIV and this number will increase. Overall, one-third of those with HIV/AIDS will die from TB. By pursuing HIV prevention and by implementing an effective TB control program, China can minimize the impact of HIV-associated TB and improve the care of those with HIV/AIDS. Government Strategy2.6 The Government has made efforts to complete the unfinished tasks and respond to newer challenges. Practically, all ten World Bank assisted health projects address these old and new challenges. Recent emphasis on accelerated development of poorest inland provinces is expected to provide a further boost toward these goals. To control tuberculosis, the government has taken significant steps since 1990. Their efforts have included the implementation of two large TB control projects utilizing the WHO-advocated directly observed treatment, short-course (DOTS) strategy. The first major project was the Bank-financed Infectious and Endemic Disease Control (IEDC) Project (Cr. 2317-CHA), which was approved in December 1991 and covers 13 of China’s current 31 provinces. The second project, the Strengthening and Promoting TB Control Project (1993), was jointly funded by the Ministry of Health and the provinces, and was implemented in 15 provinces not covered by the IEDC Project. In addition, the province-level cities of Beijing, Tianjin, and Shanghai have their own well-organized TB control programs with well trained personnel and sufficient equipment. More recently, the Government has announced major initiatives to control TB nationally, including a pledge to significantly increase Central funding. 2.7 The TB Control program under the IEDC Project has become very successful in its coverage and remarkable cure rates, and was cited by WHO as one of the most successful TB control interventions in the world. However, many of achieved gains can be lost if the government does not provide adequate resources to continue the
program after Bank financing concludes in mid-2002. The Government initiated TB control program has also achieved a very high level of patient cure rates. However, the coverage tends to be much lower than under the IEDC Project, mainly because there is no free treatment to all patients and there are no special incentives provided to health workers for case identification and case management. The preparation of the proposed project would build on the lessons learned from the IEDC Project as well as from other programs.

2. Objectives
The objective of this project is to reduce tuberculosis morbidity and mortality through an effective and sustainable National TB Control Program, especially among the poor.

3. Rationale for Bank’s Involvement
5.1 The achievements of the IEDC Project are well known and well documented in reports. It would be impossible to achieve its results on such a large scale without the Bank’s active involvement. While the project is exceptionally successful from technical and implementation viewpoints, it suffers from uncertainties of future adequate financing, to continue the results before the program becomes a regular activity in the provincial and local levels. The role of the Bank will be critical to design a substantive project that will create a significant impact in reducing TB in a large country like China, and at the same time help increase the sustainability of TB control program in China. 5.2 The Bank has the unique ability to raise the political commitment so essential for a successful TB program in China for two reasons. First, the Bank has the experience and the capacity for large scale involvement, which would help attain favorable attention from various levels of governments in China. Second, helping raise the country’s commitment to public health programs like TB control is one of the Bank’s most important health sector strategies in China and an important recommendation of the last health sector study.5.3 Finally, this large project could not have materialized without the joint involvement of the Bank and UK’s Department for International Development (DFID). It is also the wish of DFID and other international partners that the Bank should play this important role in effecting a major joint international effort for a substantive TB control project in China. DFID’s high priority for poverty alleviation programs fits extremely well in this case because of the strong cause and effect relationship between TB and poverty.

4. Description
The project, financed jointly by the Bank and UK’s Department for International Development (DFID), will have three broad components, one at the National level and two at the provincial level, as described below:
Component 1. Strengthened National TB Control Program
  1.1 Institutional Development
  1.2 Policy and Program Development
  1.3 Coordination and Management
Component 2. Improved Access to and Quality of TB Services at Province Level
  2.1 Program Management
  2.2 Service Delivery
  2.3 Patient-focused Innovations
Component 3. Strengthened Institutions and Financing to Deliver TB Program at Province Level
  3.1 Institutional Strengthening
  3.2 Expanded Financing for Sustainable TB Control

1. Strengthened National TB Control Program
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2. Improved Access to and Quality of TB Services at Province Level
2.1 Program Management
2.2 Service Delivery
2.3 Patient-focused Innovations

3.1 Institutional Strengthening
3.2 Expanded Financing for Sustainable TB Control

5. Financing
Total (US$m)
Total Project Cost 225

6. Implementation
4.1 Project Implementation. The project will be implemented over seven years, starting January 2002. The Ministry of Health (MOH) will have the overall responsibility for overall coordination of project implementation and conduct of national level activities. A Project Leading Group will be established under a Vice Minister of MOH and will include representatives of other key Ministries, including the Ministry of Health, Ministry of Finance, and the State Development and Planning Commission, to oversee this project and mobilize official commitment at the highest level at the Center as well as in the provinces. MOH’s Department of Disease Control (DDC) will be responsible for implementing the national component of the project. DDC will rely heavily on a central TB unit to carry out both the "Policy and Programme Development" and the "Coordination and Management" components of the project. The Foreign Loan Office (FLO) of MOH, which is fully experienced to implement Bank-assisted projects, will ensure the compliance of the project related commitments and requirements, including procurement, monitoring and reporting, financial, and auditing. The project will require significant management, coordination, and implementation capacities from both the central TB unit and FLO. Therefore, it is important to strengthen their capacity through the provision of additional staff and resources.

4.2 Practically all of the tuberculosis control activities, which are the bulk of this project, will be implemented in the provinces with most activities falling under the counties. The management and coordination of these activities will be the responsibility of the concerned provincial government. Each project province will establish a leading group following the Central model and each will also maintain a foreign loan office, under the direction of a project director, to handle the logistics of project implementation. The project will strengthen the project implementation capacity at the provincial, prefectural/city and county levels.

4.3 Cofinancing. This project is designed as a pioneering effort to combine grant funds with regular IBRD loans to soften the terms for high priority social sector projects with overwhelming objective of poverty alleviation. This project combines approximately US$... million grant from the United Kingdom’s Department for International Development (DFID) with IBRD’s US$117 million loan to control TB, which disproportionately affects poorest populations in China’s poorest provinces. The detailed mechanism and terms of combining the two sources of funds will be finalized before loan negotiations. DFID has played a very active role during project development and is expected to play an equally active role during project implementation. In addition to the IBRD/DFID joint financing, The Government of China also expects to receive grants totaling about US$12 million (over 5% of the total project costs) from the Government of Japan.
during the first five years of the seven-year project period. However, considering that a part of that US$12 million is still to be formally agreed, the project’s financial and costing arrangements will include the Japanese grant as part of the Central Government’s responsibility and obtain assurances accordingly. 4.4 Monitoring and Supervision. A project implementation plan (PIP) is being prepared by MOH’s technical experts and the provinces through an iterative process based on discussions with successive Bank/DFID missions. The final PIP, which will be discussed and agreed during negotiations, will provide the basis for project implementation, monitoring and supervision. The project’s implementation progress will be monitored through semi-annual progress reports, containing essential data on the implementation of the project components and sub-components, and through field supervision visits. Achievement of project objectives will be assessed through a Mid-term Evaluation scheduled not later than December 31, 2004, and through a project completion review jointly produced by the Borrower and the Bank at the end of the project. 4.5 Financial Management. (See Annex 6 for detailed description). As for other Bank supported health projects, financial management will be the responsibility of the project units, the project offices in MOH and bureau of finances (BOFs) at each level, and the Ministry of Finance (MOF). There will be a Special Account for the project located in a commercial bank acceptable to the Bank, and managed by MOF. The internal disbursement procedures will involve the project management offices at financial bureaus of each level. Separate project accounts will be kept in the project units and offices at each level. Each project unit will prepare regular financial reports to submit to higher level project office. FLO/MOH will consolidate provincial reports and prepare the final financial report for the whole project. MOH/FLO has the experience and ability to handle financial management of Bank-assisted projects at the Central level. The project accounts and financial statements will be audited by the State Audit Administration or its local offices, in accordance with standard practice in China, which has been found satisfactory by the Bank. 4.6 Procurement and disbursement. (See Annex 6 for detailed description). FLO/MOH will oversee project procurement and will be responsible to ensure that the Bank Guidelines are followed. FLO is highly experienced to manage the Bank’s procurement procedures. FLO will closely manage all international competitive bidding (ICB) procurement except those agreed to be decentralized to the provinces for the sake of efficiency. ICB procurement will be carried out by one of the certified trading companies that is knowledgeable about the Bank’s procurement rules and procedures. Most non-ICB procurement will be decentralized to the provinces and, to manage such procurement, project offices will be established at the provincial level with adequate trained staff. The project will use the same arrangements as in other health projects for submission and validation of claims through the project office at each level, with review by BOF at each level before being passed to the level above. The funds are transferred from level to level through commercial banks nominated by the BOF at each level. During the project implementation, the World Bank Office Beijing (WBOB) procurement team will be responsible for all review and communications with the Government regarding ICB and national competitive bidding, except when alternative arrangements are made. The WBOB procurement staff will be responsible for the assessment of the procurement capacity of the central and provincial implementing agencies and training requirements according to the OCSFP guidelines, "Assessment of Agency’s Capacity to Implement Procurement."
They will also evaluate procurement preparation and be responsible for evaluation of procurement performance during implementation. \{THE PROCUREMENT PLAN WILL BE FINALIZED DURING APPRAISAL IN LATE AUGUST 2001. WORKSHOPS WILL BE ORGANIZED BEFORE AND DURING PROJECT IMPLEMENTATION TO FAMILIARIZE THE PROJECT PROVINCES WITH BANK PROCUREMENT PROCEDURES.\}

7. Sustainability
1.1 The project will require significantly increased budgetary resources to implement as well as sustain the program after its completion. There is always the risk that the provinces will not allocate sufficient funds for these purposes. The following measures are expected to minimize the risks to an acceptable level: The project starts with a larger proportion of domestic resources than its predecessor projects, notably the IEDC Project, and thus the transition to the post-project phase should be relatively easier; The Central Government will also participate with grant funds mainly directed towards poorer and needy provinces; There is a greater awareness among the provinces and, because of the experience with the IEDC Project, they are aware of the costs involved; Each province was selected only after obtaining a clear indication of its commitment and a firm assurance to provide the required resources; China has high rates of economic growth but very low current resource allocations for the health sector. The issue is not one of affordability but of political will. The Central Government is taking determined actions to raise allocations for preventive health and, in fact, has issued guidelines to provinces to significantly raise the allocations; and The project's benefits are expected to put pressure on the provinces to continue the program.

8. Lessons learned from past operations in the country/sector
3.1 Valuable lessons have been learned from the design and implementation of the Bank-assisted IEDC Project (Cr. 2317-CHA), as well as from the experience of the Strengthening and Promoting TB Control Project (MOH-assisted project). The most important lessons can be summarized as follows:
3.2 Technical Design. Both the IEDC and the MOH-assisted projects clearly illustrated that directly observed treatment, short-course (DOTS) can be a well appreciated and very successful method of TB control in China. The projects showed that Chinese officials were fully capable of implementing a very successful DOTS program. Also, China has the basic health infrastructure well-suited to mounting successful TB control program and achieve very high public health impact. However, the extent of success depends upon substantial additional resources, which are not easily available without strong commitment and the strengthening of management and implementation capacity at provincial levels and below.
3.3 Political Commitment. It is very clear that a successful TB control program requires a high level of commitment from provincial and local levels, mainly because many officials consider free access to TB service too expensive and even unnecessary in China's cost recovery system based on fee-for-services. In the IEDC Project, it was clear from inception that senior officials of some project provinces were not inclined to spend significantly increased resources and, as a result, the project could not attain 100 percent coverage in all provinces. The lesson is clear that the project should not expect the required additional financial allocations from provincial and local levels unless they are fully discussed and agreed beforehand.
3.4 Resistance from within Health Sector. Free TB service removes potential income from those who would benefit from fees, including local hospitals. Therefore, determined actions are
required to ensure internal cooperation for full compliance with the referral program. Furthermore, while the provision of case management incentives to health workers can significantly improve TB control, this can also create dissatisfaction among other health staff who do not receive such incentives for their other activities. On the other hand, in order to motivate staff to continue working in TB control programs, case management incentives must be comparable to compensation missed by not charging the patients.

3.5 Sustaining the Success. The IEDC Project also demonstrated that program sustainability would be extremely difficult unless the program can be implemented as part of the regular budget and financing system rather than from ad hoc allocations. 3.6 Provision of Quality Drugs and Equipment. High quality, low priced anti-TB drugs were procured and supplied through competitive procedures with excellent effects on the project. On the other hand, equipment procured through ICB did not always meet required standard or expectations due to incomplete technical specifications and/or insufficient attention paid to quality. This caused dissatisfaction at provincial and lower levels. The lesson is that procurement procedures should carefully build the quality requirements and after sales service.

9. Program of Targeted Intervention (PTI) Y

10. Environment Aspects (including any public consultation)

   Issues : The project is expected to have no adverse environmental impact, because the project involves the establishment of a better managed and more effective program to control tuberculosis by significantly increasing access to better quality care. Civil works are expected to be limited to minor repairs and renovations of the existing clinics.

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

This PID was processed by the InfoShop during the week ending September 7, 2001.