Technical Brief
November 2023

Status Report of Rollout of the Financial Management Improvement Plan in Lumbini and Madhesh Provinces

A. INTRODUCTION

Sound healthcare systems and medical treatment procedures are essential for upholding citizen's health rights and well-being—as envisioned by Nepal's Constitution and mandated by various legal, policy and strategic instruments. Nepal's transition to federalism created the need for disbursement of fiscal resources to three tiers of government, which called for an accountability ecosystem that involved clear roles, responsibilities, and reporting requirements. The Public Financial Management (PFM) architecture across all tiers of government, is therefore, connected and needs to follow a coherent planning and budgeting process. The Public Financial Management Strategic Framework (PFMSF), 2020/21-2024/25 is the overarching document that brings together all this and is applicable nationwide, endorsed by Ministry of Health and Population. Provincial and Local Governments have the authority to form their own plan, budget, buy and own assets, incur liabilities, procure necessary goods, services and works, and/or engage in transactions in their own right. They have autonomous and shared fiscal authority, can raise their Own Source Revenues (OSR), receive an intergovernmental fiscal transfer from the federal government (e.g., fiscal equalisation, conditional grants, others) and revenue sharing, and bear increasing responsibility for healthcare expenditure. Therefore, managing health resources effectively, equitably and accountably across all government is crucial.

Health Ministries in Madhesh and Lumbini Province have developed and endorsed their Financial Management Improvement Plans (FMIPs), for fiscal year 2022/23-2026/27 based on outputs (Fig. 1) and put themselves on the pathway to PFM reform. The plans encompass critical dimensions (also known as outputs) and activities of the PFM cycle in health and is in compliance with prevailing laws. Provincial MoHs are responsible for tracking the rollout status and progress of the FMIPs annually and taking timely corrective measures. The UK funded Nepal Health Sector Support Programme (NHSSP) has been supporting them to undertake these activities. This briefing provides a summary of the progress of the FMIPs in these provinces for the fiscal year 2022/23, including challenges and recommendations.

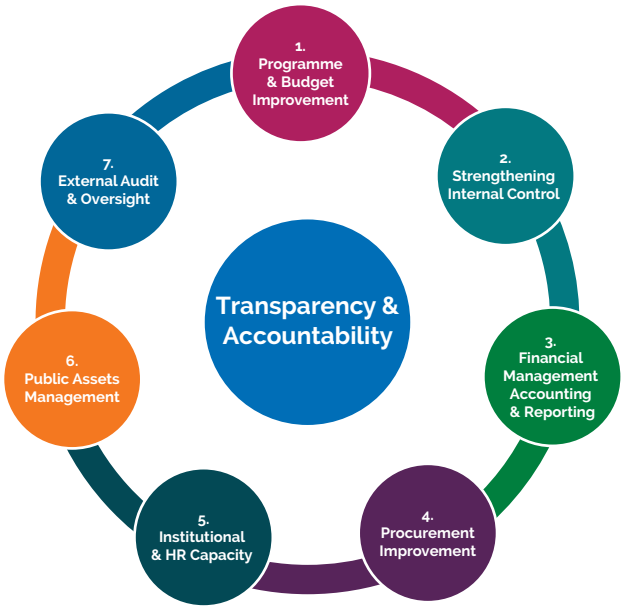

Figure 1: *FMIP critical areas / Expected outputs*

B. APPROACH AND METHODS

A qualitative approach was used to track, gather, and analyse data on the roll-out of FMIPs in both Lumbini and Madhesh provinces. This included - tracking of activity implementation frameworks using a colour coding scheme; consultations with purposively selected key government officials from finance and health ministries and several other stakeholders; desk reviews of various federal, provincial, and local government documents; and a validation workshop (Fig. 2) and policy dialogues at provincial levels. The validation workshops in both provinces were a key step in the process where the findings presented in draft report were discussed with the government stakeholders. The final report incorporated all feedback from various stakeholders including federal Ministry of Health and Population.

Figure 2: *Validation workshop in Madhesh province*

C. KEY FINDINGS:

C1. STATUS OF ROLLOUT OF THE FINANCIAL MANAGEMENT IMPROVEMENT PLAN

The FMIP is an overarching plan including seven critical dimensions, collectively covering the entire PFM cycle at the provincial level and mainly aims to improve financial accountability and discipline. It is a guiding document for various PFM activities, specifying baseline and target indicators, assigning responsibilities, and outlining a multi-year activity to be implemented through various spending units. The implementation status of activities within the key areas and outputs for the fiscal year 2022/23 were analysed against these outputs and colour coded as green to imply completion of activity, blue to indicate ongoing activities and red as those are yet to be started (Table 1).

Table 1: *Summary of activity-wise colour coding of FMIP outputs*

Output Description	No of Activities	Madhesh			Lumbini		
		Green	Blue	Red	Green	Blue	Red
Output 1: Improvement in Budget and Programme Formulation	18	6	6	6	5	6	7
Output 2: Strengthen Internal Control System	9	0	2	7	0	2	7
Output 3: Improvement in Financial and Management Accounting	26	9	6	11	9	8	9
Output 4: Improvement in Public Procurement Management	1	1	0	0	1	0	0
Output 5: Auditing and External Scrutiny	24	3	10	11	3	12	9
Output 6: Improvement in Asset Management System	13	0	9	4	1	10	2
Output 7: Improvement of Institutional and Human Resource Capacity	11	0	5	6	2	3	6
Total	**102**	**19**	**38**	**45**	**21**	**41**	**40**

C1.1 Improvement on Budget and Programme

Both provinces show mixed progress with regard to budget credibility, comprehensiveness, and programme improvements. Provincial MoHs have completed or are in process of implementing various activities related to policy-based budgeting, transparency, and budget release and authorization. For example, both provinces met budget calendar and have prepared Medium-term Expenditure Framework (MTEF) for FY 2023/24. Budget absorption rates can be better, with Madhesh reporting about 90% but Lumbini on 63% expenditure of the health budget which implies either programme implementation challenges and efficiencies in service delivery. Provinces still need to implement various activities related to preparing health budgets based on business plans and strategic result frameworks. Although budget guidance is provided to all spending entities, access to the Provincial Line Ministry Budget Management Information System (P-LMBIS) is limited, and traditional top-down budgeting practices continue to be imposed. There is room for significant improvement in this output area.

C1.2 Strengthen the Internal Control

Internal control strengthening activities in both provinces are either underway or yet to be initiated. Specifically, targets related to establishing an internal control and monitoring mechanisms, formulation of guidelines and directives, publication of financial reports through websites are not met. Whilst there is regular monitoring in place using indicative checklists, there is no integration of monitoring reports, and performance contract could be emphasised in both the provinces. Overall, prevention, detection and control of financial risk need to be strengthened in both provinces.

C1.3 Improvement in Financial and Management Accounting

Findings on output 3 showed that various fundamental- activities related to financial accounting, financial reporting, and procurement planning have been implemented. There are however a number of unimplemented activities, suggesting that there is room for improvement in the integration of reporting and transparency and accountability related measures in disclosure of health expenditure data. Cash-based Double-Entry Accounting System and Provincial Computerised Government Accounting System are used in both provinces, including in all health spending units. However, there's a need for more comprehensive and timely financial reporting. The Financial Controller General Office provides Financial Management Information Systems (FMIS) for all provinces, which is not used well in both provinces. A persistent gap exists in capturing internal revenues within provincial hospitals and could be integrated with Revenue Management Information System. Similarly, Gender-responsive Budgeting guidelines are available for provincial governments but yet to be fully used.

C1.4 Improvement in Public Procurement Management

Output 4 has only one planned activity which is to develop the PIP, and both provinces have completed it. A report on the progress of the PIP is available as a separate Technical Brief.

C1.5 Auditing and External Scrutiny

This output includes 24 different activities for audit and external scrutiny that have to be implemented, and very few have been completed in either province. But there are several underway and many yet to be initiated. While the PMoH in both provinces are committed to resolving audit irregularities (or arrears) and maintaining good governance in the health sector, the pace of work has been slow. The low rate of settling outstanding irregularities, far below the target (60%), indicates sub optimal efficiency in clearance of arrears. Also, emphasis on proper documentation and recording of audit irregularities, that could enhance regular reporting and progress of audit clearance data is needed. The lack of audit committee and a clear Action Plan to mitigate audit-related issues could lead to accumulation of health queries and increased fiduciary risk in the future. In summary, there isn't adequate emphasis on proper planning, documentation, recording of audit irregularities in which is required as per the FMIP.

C1.6 Improvement in Asset Management

Public assets management needs to be strengthened Madhesh has not completed any activities regarding improving asset management systems while Lumbini has completed one. But many activities in both provinces are currently underway. The Public Asset Management System (PAMS) is crucial for improving the government's balance sheet and both provinces are using PAMS for general health assets, while medicine commodities are recorded in Electronic Logistics Management Information System (e-LMIS).

C1.7 Improvement of Institutional and Human Resource Capacity

Human resources challenges are pervasive in the country, and this is also reflected this in Output 7 status in Madhesh and Lumbini province. Both provinces are working on enhancing institutional and human resource capacity and while Lumbini has completed two activities, Madhesh has been unable to complete any. There is a shortage of skilled PFM persons and any focus on developing training manuals, and capacity development plans is notably missing.

D. CONCLUSION:

Overall, the colour-coded system pinpoints areas that demand further development and improvement in these provinces. There is recognition of the need for sound financial management practices and accountability at the province level in both provinces. Despite efforts made against several core FMIP indicators over the short period over which it has been implemented, a number of areas face challenges. Effective financial monitoring, internal control strategies and sustained reductions in audit queries remain a major challenge for the health ministries and their spending units in both provinces. There is dearth of expertise and skills proficiency at the sub-national level, and awareness of financial management reforms has been fairly basic, mainly in line ministries and agencies. In the context of limited capacities, implementation of a wide range of technical activities is challenging and the expectation of it only adds to the burden of an already constrained workforce in the provinces.

E. RECOMMENDATIONS:

It is important to note that given that the FMIP is expected to be implemented over five years provinces have made a good start with several activities being completed or underway. A focus on basic targeted improvements initially, would be prudent before moving to more advanced reforms. The depth of provincial ownership and an enabling environment are crucial for the accomplishment of the FMIPs. Some practical recommendations are provided below:

Building capacities

- At the core of most challenges in the federal health system are human resource issues. Ensuring availability of well trained and skilled staff at the provincial and local levels is essential at the very outset. The Organisation and Management (O & M) Survey and Public Service Commissions (PSCs) at the federal and provincial levels can accelerate efforts to fill in already vacant positions.
- Robust in-service training of provincial stakeholders within the government is needed for financial management mechanisms to be reliable and effective. Provincial Training Centres can step up efforts to improve PFM training capacities within their own institution.
- Elected representatives at the province level, the Public Account Committee, Secretaries and Provincial Social Committee and elected leaders, Hospital Management Committees have to be oriented on the FMIP outputs, the key intervention areas and activities, effective oversight and coalition building.
- Financial and administrative staff and healthcare providers particularly involved in planning, budgeting and decision making have to be made literate on service delivery needs and financial management practices respectively so that specific activities included in the FMIP are executed effectively.

Monitoring

- Monitoring of expenditures in provincial hospitals, PHLMC and PPHL has to be strengthened; and bottlenecks in financial management of services and fiscal discipline has to be addressed. PMoH officials will need to undertake these monitoring activities which in turn requires strong capacities within the ministries.
- Staff working in financial management in health ministries and public health entities could be incentivised to carry out analysis and clearance of irregularities and mitigating fiduciary risk.

Strategic coordination and mutual learning

- Healthcare providers, planning and procurement teams and administrative and financial managers/ officials have to be brought to a single platform for joint discussions and sharing. PMoH has to lead on this coordination and attention needs to be paid on political economy factors, system design, technical operations, and fiscal accountability and transparency.
- A PFM advocacy and knowledge platform (learning and sharing, communities of practices, resource, exposure, technical assistance, and backstopping) has to be set-up for enabling transparency in health spending and enhancing health fiscal space with the support of EDPs CSOs and private sector.
- A performance plan and bugdet with strategies for each health entity including ministries with targets, allocated resources, and review yearly in the presence of wider stakeholders is needed to optimise PFM and service delivery .

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