

## FINANCIAL MANAGEMENT ASSESSMENT

### EXECUTIVE SUMMARY

1. The Government of Nepal requested a US\$165 million financing from Asian Development Bank (ADB) Asia Pacific Vaccine Access Facility (APVAX) for the procurement of eligible COVID-19 vaccines. The project will be under the Rapid Response Component (RRC) of APVAX to provide quick financing facility for eligible expenditures.
2. The financial management assessment (FMA) was conducted in March and April 2021 and prepared in accordance with ADB APVAX Policy paper<sup>1</sup>, APVAX Guidance Note<sup>2</sup>, guidelines on Financial Management Assessment<sup>3</sup> and Financial Due Diligence: A Methodology Note.<sup>4</sup> The FMA evaluated the Ministry of Health and Population (MOHP) as the implementing agency.
3. The assessment covers (i) review of the country and health sector public financial management system using existing diagnostics and reports, (ii) evaluation of key FM aspects of the NDVP, and (iii) review of FM capacity of the MOHP. The key FM elements including staffing, accounting, financial reporting, financial management information system, and internal and external audit arrangements were reviewed.
4. The most recent Public Expenditure and Financial Accountability (PEFA) Assessment<sup>5</sup> was published in 2015 which showed improved performance for 19 out of 31 performance indicators, while 10 remained unchanged, and 2 deteriorated. The use of information technology with the rollout of the Treasury Single Account (TSA) and Financial Management Information System (FMIS) significantly contributed to improved performance indicators. Despite significant progress in PFM, there are still considerable rooms for improvement.
5. Much has been accomplished by the Government of Nepal since 2015. Improvement in the country PFM system included the passage of Financial Procedures and Fiscal Responsibility Act (2019) which serves as a framework to guide the process of reforming PFM system and processes. This included the formation of clearly separate accounting personnel and internal audit function to ensure independence of internal audit practices and proper oversight.<sup>6</sup> Also an initiative at the federal level that integrated budget system, treasury system, and accounting system which will enhance reliability of financial information and transparency and accountability of public funds.
6. At the project level, the existing financial management capacity of MOHP will be utilized in implementing the project. MOHP has experienced in implementing donors' funded projects. The implementing agency is a government ministry, therefore its finances are managed in accordance with legislation, regulation, policy and processed through the Governments Public Financial Management (PFM) systems.
7. A detailed Risk Assessment and Risk Management Plan is included below. The project pre-mitigation risk is assessed as **Substantial** due to the unprecedented complexity and scale of

---

<sup>1</sup> ADB. 2020. ADB's support to Enhance COVID-19 Vaccine Access policy Paper. Manila

<sup>2</sup> ADB. 2021. APVAX Guidance Note for one ADB team members. Manila

<sup>3</sup> ADB. 2015. Financial Management Technical Guidance Note: Financial Management Assessment. Manila

<sup>4</sup> ADB. 2009. Financial Due Diligence: A Methodology Note. Manila.

<sup>5</sup> World Bank. 2015. Government of Nepal – Public Expenditure and Financial Accountability (PEFA) Assessment Report. Nepal

<sup>6</sup> IMF. 2020. Nepal 2020 Article IV Consultation. D.C.

the project. The mitigation measures were agreed with the Government and the time-bound action plan can be found in **Section VII**.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
<b>Country Specific</b>		
<b>Public financial management.</b> Nepal made great progress on improving the PFM system, though institutional capacity at the sub-national level remains weak.	Substantial	<ul style="list-style-type: none"> <li>a. a. The Government initiated various PFM reforms and is now on the second phase of the PFM reform (PFMRP II 20216-2025).</li> <li>b. Significant capacity development support provided by development partners both in Health Sector as well as in the PFM sector.</li> </ul>
<b>Project Risks</b>		
<b>Funding.</b> Significant financing requirement is needed to deploy the COVID-19 vaccine to the target population. Inability of the Government to secure funding may lead to delay in COVID-19 vaccine deployment to target population.	Substantial	<ul style="list-style-type: none"> <li>a. Regular coordination between MOF and MOHP on financing plans for the COVID-19 vaccination program.</li> <li>b. MOF timely allocation of adequate budget for the COVID-19 vaccination program and creation of budget sub-head.</li> <li>c. Several Development Partners are ready to provide additional financial support.</li> </ul>
<b>Vaccine inventory management</b> Partial rollout of inventory management system to SNGs may result in vaccines being lost, damaged or misused.	Substantial	<ul style="list-style-type: none"> <li>a. Mandate the use of existing e-LMIS inventory system at SNGs district level storages on or before July 2021 as outlined in the Nepal Health Sector Reform Program.</li> <li>b. MOHP will monitor the vaccination process for national and sub-national level including providing trainings to SNGs on the use of e-LMIS.</li> <li>c. Internal audit scope shall include inventory management.</li> </ul>
<b>Staffing capacity</b> Limited capacity staff and experience in ADB's financial management requirements.	Substantial	<ul style="list-style-type: none"> <li>a. MOHP shall coordinate with Financial Comptroller General office for adequate finance staff.</li> <li>b. The Project to follow the existing country system including financial management procedures and processes.</li> <li>c. MOHP shall utilize its existing capacity to implement the project in-line with the Sector Wide Approach.</li> <li>d. MOHP to maximize the benefit of the recently implemented new integrated budget and accounting system.</li> <li>e. Training on ADB's financial management, disbursements and procurement processes and procedures will be provided.</li> <li>f. If required, financial management consultant will be recruited to support and the terms of reference of FM staff shall include oversight functions on anticorruption and integrity risks related to FM and disbursement activities.</li> <li>g. Integrity knowledge management sessions through RETA 9703 will be provided to FM staff involved to increase their awareness of Anticorruption and Integrity risks, prevention and detection and compliance with ADB's Anticorruption Policy</li> </ul>
<b>Internal Audit</b> Low capacity of internal audit function may result to control weaknesses not being identified.	Substantial	<ul style="list-style-type: none"> <li>a. Appointment of qualified staff from the internal audit unit at FCGO to conduct annual internal audit throughout the project life. Internal audit shall be conducted in</li> </ul>

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
		<p>accordance with Fiscal Procedure and Financial Accountability Act, 2019.</p> <p>b. Internal audit scope shall include identification and assessment of anticorruption and integrity risks relating to procurement, financial management and asset management.</p>
<p><b>External Audit</b> Weak enforcement of corrective measures against flagged irregularities and recommendations of the OAG may undermine the value of independent oversight.</p>	Substantial	<p>a. OAG shall conduct annual audit of project financial statements.</p> <p>b. MOHP to address the findings of OAG and implement the recommended measures.</p> <p>c. Auditor's findings and update on status of action taken will be included as part of the tri-annual performance report.</p> <p>d. OAG shall also conduct performance audit on the effectiveness and efficiency of vaccine deployment.</p> <p>e. Auditor's findings and update on status of action taken will be included as part of the joint tri-annual progress reports submitted to ADB and other Development Partners.</p>
<b>Overall Pre-Mitigation</b>	<b>Substantial</b>	

ADB = Asian Development Bank; CGAS = Computerized Government Accounting System; e-LMIS = online inventory management system; FCGO = Financial Controller General's Office; FM = Financial Management; IA= Internal Audit; MOF = Ministry of Finance; MOHP = Ministry of Health and Population; OAG = Office of the Auditor General; PFM = Public Financial Management; PFMRP = Public Financial Management Reform Program; SNGs = Sub-National Governments.

8. The FMA concludes that with the risk mitigation measures and the adoption of the FM action plans, the financial management systems are acceptable for the proposed project and the implementing agency has adequate capacity to handle the advance account.



## I. INTRODUCTION

1. The Ministry of Finance (MOF) is the executing agency for the project. The Ministry of Health and Population (MOHP) and its divisions/units namely Policy, Planning and Monitoring Division (PPMD), Health Coordination Division (HCD), Health Emergency Operation Center (HEOC) and Administration Division/Finance Section is the implementing agency being on the forefront of the COVID-19 national deployment and vaccination program of the Government of Nepal. Implementation unit is Department of Health Services (DOHS) and specifically its Family Welfare Division (FWD) and Management Division (MD), National Health Education Information and Communication Centre (NHEICC), Epidemiology and Disease Control Division (EDCD), etc.

2. This financial management assessment (FMA) was conducted in March and April 2021 and prepared in accordance with Asian Development Bank (ADB) Asia Pacific Vaccine Access Facility (APVAX) Policy paper<sup>7</sup>, APVAX Guidance Note<sup>8</sup>, guidelines on Financial Management Assessment<sup>9</sup> and Financial Due Diligence: A Methodology Note.<sup>10</sup> ADB requires that, during project preparation and processing, sufficient evaluation is undertaken to enable an informed assessment that the borrower's financial management system are or will be sufficient to ensure that the funds are used only for the purpose intended. An assessment was undertaken on the capacity of MOHP to effectively manage the finances of the project. Effective financial management systems are critical for the efficient and effective project implementation. The assessment covers review of financial management capacity, systems, monitoring and supervision procedures, internal controls, and oversight mechanisms to ensure that funds are used for the purpose intended with economy and efficiency. The FMA Report also incorporates proposed disbursement and funds flow arrangements. As part of ADB's development agenda, if there are identified weaknesses in the FM systems, potential FM risks are pinpointed and categorized, and measures are designed to strengthen the system and to mitigate the identified risks.

## II. PROJECT BACKGROUND

3. The project will provide the Government of Nepal with timely financing for procuring safe and effective vaccines against coronavirus disease (COVID-19) and logistics based on an agreed list of eligible expenditures. The project will utilize the rapid response component (RRC) under the APVAX.

4. **Impact and Outcome.** The project is aligned with the following impact: accelerated health, social and economic recovery from COVID-19 in Nepal. It will have the following outcome: target populations safely vaccinated against COVID-19.

5. **Output: Safe and effective COVID-19 vaccines delivered.** The project will support the procurement and delivery of safe and effective vaccines against COVID-19 through APVAX's RRC in compliance with ADB's vaccine eligibility criteria to the country. It aims to finance procurement of up to 15.99 million doses of vaccines, which will be administered to about 6.77 million Nepalese by 2024 based on the NDVP. The vaccination campaign for priority phase 1 has already started following the NDVP and according to vaccination protocols and standards. The government has developed plans for appropriate waste management, risk communication and community engagement (RCCE), registration, inclusive service delivery, and monitoring of

<sup>7</sup> ADB. 2020. ADB's support to Enhance COVID-19 Vaccine Access policy Paper.

<sup>8</sup> ADB. 2021. APVAX Guidance Note for one ADB team members as of 22 January 2021.

<sup>9</sup> ADB. 2015. *Financial Management Technical Guidance Note: Financial Management Assessment*. Manila

<sup>10</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

adverse events. To support inclusive and safe vaccination at least one female health care worker or volunteer will be part of the vaccination team at the vaccination centers. In addition, due to inclusive targeted RCCE activities, awareness about the risks of COVID-19 and the benefit of vaccination is expected to have been increased.

### III. SUMMARY OF RESULTS OF EXISTING COUNTRY FINANCIAL MANAGEMENT SYSTEM ASSESSMENTS

6. The most recent assessment of the PFM system in Nepal was undertaken in 2015. The 2015 Public Expenditure and Financial Accountability (PEFA) Assessment Report showed improved performance for 19 out of 31 performance indicators, while 10 remained unchanged, and 2 deteriorated. This depicts significant improvement in Nepal PFM as compared to previous assessment in 2008. The use of information technology with the rollout of the Treasury Single Account (TSA) and Financial Management Information System (FMIS) significantly contributed to improved performance indicators. The 2015 PEFA also underscored that the Nepal PFM system is relatively strong and performed better than 15 fragile states and 27 low-income countries.<sup>11</sup> The summary of 2015 PEFA in Table 1 was also outlined in the 2019 ADB Report on *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*.

**Table 1. Summary of Public Expenditure and Financial Accountability Report**

Assessment Areas	Specific Indicators	Grade	
		2008	2015
<b>1. PFM OUTTURNS</b> (Credibility of the budget result)	PI-1 Aggregate expenditure outturn compared to original approved budget.	B	A
	PI-2 Composition of expenditure outturn compared to original approved budget.	C	C+
	PI-3 Aggregate revenue outturn compared to original approved budget.	A	A
	PI-4 Stock and monitoring of expenditure payment arrears.	D+	B+
<b>2. KEY CROSSCUTTING ISSUES</b> <i>Comprehensiveness and transparency</i>	PI-5 Classification of the budget.	C	A
	PI-6 Comprehensiveness of information included in budget documentation.	B	A
	PI-7 Extent of unreported government operations.	C	D+
	PI-8 Transparency of intergovernmental fiscal relations.	C	C+
	PI-9 Oversight of aggregate fiscal risk from other public sector entities.	D+	C
	PI-10 Public access to key fiscal information.	B	A
<b>3. BUDGET CYCLE</b> (i) Policy-based Budgeting (ii) Predictability and control in budget execution	PI-11 Orderliness and participation in the annual budget process.	C+	A
	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.	C+	B
	PI-13 Transparency of taxpayer obligations and liabilities.	C+	A
	PI-14 Effectiveness of measures for taxpayer registration and tax assessment.	C	A
	PI-15 Effectiveness in collection of tax payments.	D+	D+
	PI-16 Predictability in the availability of funds for commitment of expenditures.	C+	C+

<sup>11</sup> World Bank. 2015. *Government of Nepal – Public Expenditure Financial Accountability (PEFA) Assessment*. Washington D.C

Assessment Areas	Specific Indicators	Grade	
		2008	2015
<i>(iii) Accounting, recording, and reporting</i>	PI-17 Recording and management of cash balances, debts and guarantees.	C+	C+
	PI-18 Effectiveness of payroll controls.	C+	C+
	PI-19 Competition, value for money and controls in procurement.	C	B
	PI-20 Effectiveness of internal controls for non-salary expenditure.	C	C
	PI-21 Effectiveness of internal audit.	D+	D+
	PI-22 Timeliness and regularity of accounts reconciliation.	C+	C+
<i>(iv) External scrutiny and audit</i>	PI-23 Availability of information on resources received by service delivery units.	C	A
	PI-24 Quality and timeliness of in-year budget reports.	C+	C+
	PI-25 Quality and timeliness of annual financial statements.	C+	C+
	PI-26 Scope, nature, and follow-up of external audit.	D+	C+
	PI-27 Legislative scrutiny of the annual budget law.	D+	D
	PI-28 Legislative scrutiny of external audit reports.	D	D
<b>4. DONOR PRACTICES</b>	D-1 Predictability of direct budget support.	D	D+
	D-2 Financial information provided by donors for budgeting and reporting on project and program aid.	D	C+
	D-3 Proportion of aid managed by use of national procedures.	D	C

Source: Government of Nepal. Ministry of Finance. 2015. *PEFA Assessment: Nepal PFM Performance Assessment II as of FY 2013–2014*. Kathmandu. [http://www.mof.gov.np/uploads/document/file/PEFA%20II%20Final%20Report%20May%202015\\_20150623043447.pdf](http://www.mof.gov.np/uploads/document/file/PEFA%20II%20Final%20Report%20May%202015_20150623043447.pdf).

7. Despite some progress there are still areas that remain weak, including: (i) extent of unreported government information, (ii) effectiveness of internal audit, and (iii) Legislative scrutiny of external audit reports. The main finding of PEFA on these areas are as follows:

- i. **Comprehensiveness and transparency.** There have been significant improvements on transparency of the budget with the rollout of the Treasury Single Account (TSA). Yet, some autonomous government agencies are still not covered by the Treasury Single Account and Financial Management Information System.
- ii. **Accounting, recording, and reporting.** Maintenance of accounting records and reporting has been strengthened with the implementation of TSA. International reporting standards (IPSAS cash) was implemented, however, staff capacity to record transactions and analyze financial statements is an issue due to overstretched capacity and lack of training.

Further, there is an internal audit function which supports the national and sub-national activities. The internal audit unit at FCGO is responsible to conduct internal audit at the federal level. At the sub-national level and local level, FCGO through its District Treasury Comptroller's Office (DTCO) is responsible for the internal audit. The internal audit is required to cover all financial transactions and their processes, target achievements, and use of financial resources. A report on financial transactions is prepared by DTCO and submitted to the respective expenditure units.

PEFA reported that internal audit has inadequate staff resources, weak technical capacity, and FCGO's focus on providing accounting services rather than internal auditing. ADB supported the Government on its Strengthening Public Management

Program to reinforce oversight mechanism and strengthen local governments' internal and external audits.<sup>12</sup> ADB supported the preparation of risk-based internal audit guidelines and development of an audit clearance tracking system.<sup>13</sup>

Also, to improve enforcement of the findings and corrective measures highlighted by the internal audit function, a Local Government Operations Act 2017 makes it mandatory for SNGs to settle issues flagged by the internal auditors prior to start of external audit activities.<sup>14</sup>

- iii. **External scrutiny and audit.** OAG is mandated to undertake audits under the Audit Act (1991). OAG is an independent constitutional oversight body to conduct financial, compliance and performance audits of government revenues and expenditures. The audits are conducted within 8 months and in accordance with International Organization of Supreme Audit Institutions Standards. The audit reports are submitted to the President and are publicly available via the website.<sup>15</sup> PEFA assessments 2015 show that while external audit coverage and quality has improved, oversight and accountability remain weak. Weak enforcement of corrective measures against flagged irregularities and recommendations of the OAG has been a persistent challenge.

8. In 2015, Nepal adopted a new constitution and transformed the government to a federal democratic republic with three levels of Government, the central government (federal), provincial and local government. Governments in all three tiers were formed in 2018 following the election in 2017.<sup>16</sup>

9. **The key players in the Government of Nepal PFM system.** The key institutions responsible for PFM in Nepal are (i) the Parliament's Public Accounts Committee as an oversight body for overall fiscal discipline and management; (ii) MOF for budgeting, accounting, treasury management, and domestic and external debt management; (iii) National Planning Commission for resource planning; (iv) Financial Comptroller General's Office (FCGO) for treasury, including financial record keeping, reporting and internal auditing; and (v) the Office of the Auditor General (OAG) for external auditing.<sup>17</sup>

10. The Government of Nepal has recently enforced the Financial Procedures and Fiscal Accountability Act, 2019 (2076) (FPFAA) to regulate financial procedures of the federal government. The FPFAA has detailed provisions on management of consolidated and other government funds, budget formulation, budget release, accounting, reporting procedures, internal controls, and audits. The FPFAA aims to promote transparency, accountability and provide guidelines in financial management.<sup>18</sup>

11. **Information and reporting systems.** At federal offices, Computerized Accounting System (CGAS) is used for accounting, Line Ministries Budget Information System (LMBIS) for budgeting, and Treasury Single Account (TSA) and the Financial Management Information System (FMIS) for treasury. Local levels use the Sub-national Treasury Regulatory Application

<sup>12</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu.

<sup>13</sup> ADB. 2019. *Nepal Strengthening Public Management Program*. Manila

<sup>14</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu.

<sup>15</sup> Ibid.

<sup>16</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu.

<sup>17</sup> Ibid

<sup>18</sup> MOHP. 2020. *Ministry of Health and Population Public Financial Management Strategic Framework*. Nepal

(SuTRA) for planning, budgeting, accounting, and reporting. Local levels are required to provide quarter and annual report through SuTRA. The Government of Nepal recognized the need to integrate its various systems. FCGO led the integration of CGAS, LMBIS, FMIS and TSA. As of July 2020, FCGO servers were upgraded and IFMIS diagnostic review has been completed.<sup>19</sup> In December 2020, the IFMIS has been implemented. The integrated financial information system will ease effective, efficient, and transparent accounting and reporting of financial information.<sup>20</sup>

12. **Government consolidated financial statements.** The Government of Nepal annual consolidated financial statements are prepared by FCGO in accordance with Nepal Public Sector Accounting Standards which was drawn based on the International Public Sector Accounting Standards, Cash Basis of Accounting.<sup>21</sup> The Government of Nepal annual consolidated financial statements are prepared within six months from the end of each fiscal year, then submitted to OAG. The daily revenue and expenditures data are available on the FCGO website.

13. **Recent Governance Risk Assessment in Nepal.**<sup>22</sup> The country PFM assessment section of this FMA report draw from the most recent diagnostic assessment (December 2019) conducted by ADB for Nepal Governance and Institutional Risk Assessment. Below are some of the key PFM-related challenges highlighted in the report:

- i. **Fiscal Discipline.** Despite having financial laws and regulations, these are not fully complied and enforced. The annual reports of OAG in the last fiscal years highlighted financial irregularities in certain sector. For instance, for the education sector, some payments are made without supporting documents. Also, grants are provided to various academic institutions and project are not accounted for and no progress reports are prepared. This increased the risk of poor service delivery, financial management and poor quality of infrastructures.
- ii. **Digitization of PFM system will enhance accountability and transparency.** The development and implementation of PFM information and communication technology in all SNGs has been the Government of Nepal's priority. It was recommended that a single comprehensive financial system shall be implemented across all 753 local governments which will ensure uniformity of financial management and will ease monitoring. Non-digitization of financial functions, inadequate number of PFM experts, weak technical capacity of accountants and poor internal control may increase the fiduciary and corruption risks. FCGO mandates SNGs to use Sub-national Treasury Regulatory Application (SuTRA). As of 12 December 2020, total 666 SNGs have now used SuTRA.<sup>23</sup>
- iii. **Implementation of fiscal federalism at SNGs.** This is a challenge given the inadequate knowledge and experiences, weak institutional capacity, inadequate human and financial resources at SNGs. At project level, the financial management arrangements including managing and accounting of project finances will be at the central government level.

14. **Impact of the current PFM challenges to the project.** The PFM challenges underscored in the recent ADB governance risk assessment for Nepal are not expected to significantly impact

<sup>19</sup> World Bank. 2020. *Nepal Public Financial Management Multi-Donor Trust Fund – Progress Report*. Washington D.C.  
<sup>20</sup> Ibid

<sup>21</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu.

<sup>22</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu.

<sup>23</sup> <https://kathmandupost.com/columns/2020/12/12/a-better-way-to-ensure-accountability>

the proposed project. It is envisaged that all financial transactions for the project will be made at the central government level. Fund flow and procurement will be made by the EA/IA. Furthermore, high value contracts can be made via direct payment from ADB to the supplier/contractor.

15. The ADB Country Partnership Strategy (CPS) 2020–2024<sup>24</sup> noted the move to a federal governance system mandated by the 2015 constitution will lead to greater accountability and better public services. The Government of Nepal aims to graduate from least-developed country status by 2022. On the other hand, the move from regional and district offices previously under the federal sector ministries to subnational government (SNGs) disrupted service delivery as the provincial government is new with limited institutional capacity. One of the issues identified in the CPS is on weak institutional capacity, specifically on the subnational government (SNGs) which were only recently established. As part of ADB CPS 2020-2024, ADB intend to assist with reforms and capacity development areas including public financial management. Also, the CPS stressed the need for measures to enhance resources use and service delivery in SNGs which include (i) a stronger link between planning and budgeting, (ii) credible accounting and reporting, (iii) better internal controls of expenditures, (iv) more robust procurement, and (v) more effective project management.

16. The Government of Nepal initiated various Public Financial Management (PFM) reforms. The Government of Nepal is on the second phase of the PFM reform, the PFMRP II was developed and drawn from the lessons on the first phase of the PFM Reform Program, Phase I (PFMRP I), the strengths and weaknesses highlighted in the 2015 PEFA assessment and other priority areas identified by the Government of Nepal.<sup>25</sup>

17. The enforcement of the Financial Procedures and Fiscal Accountability Act (FPFAA), 2019 (2076), establishment of Debt Management Office (DMO) at the MoF, improvement in the Integrated Financial Management Information System (IFMIS) including interlinked among budget management information system, Government accounting system, Payment system and local level budget and accounting system are the major reform results of reforms after the second PEFA assessment.

18. Several donors have been supporting the Government of Nepal on its federalization and institutional restructuring process. A consortium development partners, the Federalism Working Group, has been formed to help coordinate the federalism agenda and support to the government. ADB is an active member of this group.<sup>26</sup>

**Table 2: Donors Funded Reforms, Programs and Projects in PFM<sup>27</sup>**

<b>Donors/Amount/Period</b>	<b>Program and Project Activities</b>
DFID (\$6.5 million) 2019–2021	<ul style="list-style-type: none"> <li>• Local governance PFM system strengthening</li> <li>• Sectoral PFM reform</li> <li>• Capacity building</li> </ul>
USAID (\$14 million) 2016–2021	<ul style="list-style-type: none"> <li>• Improved PFM system in Ministries of Health and Education, and National Reconstruction Authority</li> <li>• Capacity building</li> </ul>

<sup>24</sup> ADB. 2019. *Nepal, 2020–2024 Promoting Connectivity, Devoted Services and Resilience*. Country Partnership Strategy. Manila.

<sup>25</sup> 2016. Government of Nepal. *Public Financial Management Reform Strategy/Program (PFMRP) Phase II (2016/17-2025/26)*. Nepal

<sup>26</sup> Ibid

<sup>27</sup> Ibid

Donors/Amount/Period	Program and Project Activities
World Bank (\$150 million) 2018–2019	<ul style="list-style-type: none"> <li>• Policy reforms, fiscal federalism and PFM</li> </ul>
PFM Multi-Donor Trust Fund (\$18 million) 2018–2021	<ul style="list-style-type: none"> <li>• Support implementation of PFMRP II</li> <li>• Strengthen PFM institutions, systems and procedures at the federal and subnational level, including the OAG</li> <li>• Public expenditure, revenue management in federal and subnational governments</li> <li>• Capacity building</li> </ul>

DFID = Department for International Development, OAG = Office of Auditor General, PFM = public financial management, PFMRP = Public Financial Management Reform Program, USAID = United States Agency for International Development.

Source: Federalism Working Group of Development Partners working in Nepal.

19. **Health Sector in Nepal.** In Nepal, approximately 21.6% of the population is below the poverty line.<sup>28</sup> In the past two decades, Nepal has made significant improvement in health sector, despite this progress Nepal still faces many health challenges including inequality. The federal government is responsible for overall health sector policy. The Government of Nepal has prepared National Health Sector Strategy (NHSS) 2015-2020 to guarantee access to basic health services as fundamental right of all Nepal Citizens. The Government of Nepal is committed towards achieving Universal Health Coverage (UHC).<sup>29</sup> The NHSS has four strategic principles including (i) equitable access to health services; (ii) quality health services; (iii) health system reform; and (iv) multi-sectoral approach. The NHSS envisage to achieve the following outcomes:

- Rebuilt and strengthened health systems: Human Resources for Health (HRH), infrastructure, procurement, and supply chain management
- Improved quality of care at point of delivery
- Equitable utilization of health care services
- Strengthened decentralized planning and budgeting
- Improved sector management and governance
- Improved sustainability of health sector financing
- Improved healthy lifestyles and environment
- Strengthened management of public health emergencies
- Improved availability and use of evidence in decision-making processes at all levels

20. World Bank has been supporting the Government of Nepal on its Nepal Health Sector Management Reform to strengthen logistics management, fiduciary, and information system at federal level.

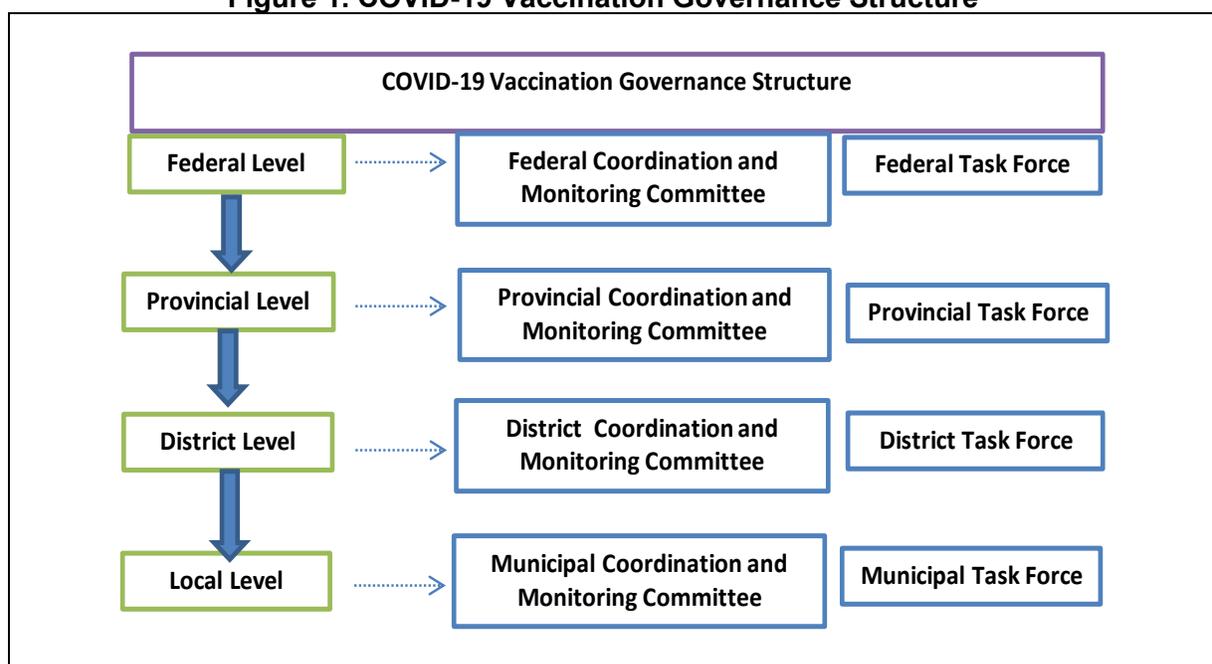
<sup>28</sup> [https://en.wikipedia.org/wiki/Economy\\_of\\_Nepal](https://en.wikipedia.org/wiki/Economy_of_Nepal)

<sup>29</sup> MOHP. 2015. *Nepal Health Sector Strategy*. Nepal

#### IV. VACCINATION PLAN FINANCIAL MANAGEMENT SYSTEM ASSESSMENT

21. The Government of Nepal through MOHP- DOHS has approved COVID-19 national deployment plan and issued related program guideline on Immunization Campaign COVID 19.<sup>30</sup> Based on the National Development and Vaccination Plan (NDVP), MOHP is responsible for overall policy guidance, quality assurance, resource allocation, multi-sectoral coordination, and communication. DOHS will be responsible to implement the program.

**Figure 1. COVID-19 Vaccination Governance Structure**



Source: MOHP. National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccine

22. The NDVP included strategies for deployment, implementation and monitoring of COVID-19 vaccine in Nepal. The Government of Nepal has a longstanding experience on vaccination program and has an existing National Immunization Program (NIP), initially called the expanded program on immunization (EPI) which was established in 1977. NIP is a program under the MOHP with the mandate to immunize children under the Immunization Act and Immunization Regulations. It provides all infants with free of cost vaccines through its networks of public health facilities nationwide. Unlike the routine vaccination programs, the COVID-19 vaccine program needs to be deployed quickly, ideally to the whole population.

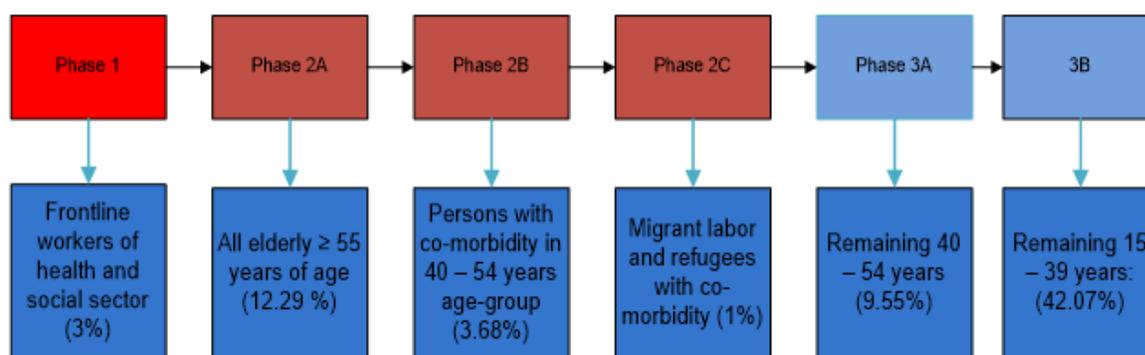
23. Within MOHP-DOHS the responsible division to carry out the immunization program is The Family Welfare Division (FWD). FWD is supported by five other divisions and centers: Management division (MD) for cold chain logistics and procurement, National Health Education Information Communication Centers (NHEICC) for Information Education Communication and Behavioral Change Communication (IEC/BCC) materials, National Health Training Center (NHTC) for training, Health Management Information System (HMIS) for service data and Epidemiology and Disease Control Division (EDCD) and WHO/IPD for surveillance.

<sup>30</sup> MOHP. 2021. *National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccine*. Nepal

24. The implementation for the COVID-19 vaccination will be under NIP. NIP will be challenged with the different target group for COVID-19 vaccination compared to the conventional target group of the existing programs. NIP will draw experiences from campaigns for Polio, Tetanus, Japanese Encephalitis and Measles- Rubella.<sup>31</sup>

25. **Prioritization and Allocation Plan.** Due to limited supply and sources of COVID-19 vaccines in the world, it is critical to properly plan the identification of priority groups and allocate its usage. The Government of Nepal COVID-19 vaccine prioritization and allocation plan were developed based on the guidelines and recommendations given in World Health Organization SAGE Framework.

**Figure 2. National Vaccination Phases**



Source: Nepal NDVP

**Table 3. COVID-19 Vaccine Target Population in Nepal**

Phase	Target group	% Total Population	Target population size
1	Health and front-line workers	3%	911,342
2	Elderly (all ≥ 55); Co-morbidity (40-54); and Migrant labour, Refugees with co-morbidity and jail inmates	17%	5,164,269
3A	Remaining population age 40 - 54	9.55%	2,901,104
3B	Remaining population age 15 - 39	42.07%	12,780,048
	Remaining population: age 0 – 14 years (28.38%)	28.38%	8,621,292

Source: Nepal NDVP

## A. Budget

26. Planning the budget and securing the funds are critical for timely disbursement and delivery of COVID-19 vaccination program. Government of Nepal targets to vaccinate ~72% of the population, out of which 20% of the population will be through COVAX. In November 2020, the Government of Nepal initially estimated the amount of vaccine fund to be USD415 million<sup>32</sup> for 72% of the population. This target amount will cover phases under COVAX and non-COVAX mechanism excluding children. Vaccination of age 0-14 will be planned based on availability of vaccines and resources in the future. Based on the recent information in March 2021, the vaccine

<sup>31</sup> Ibid.

<sup>32</sup> at US\$10 per dose and 10% wastage

price was revised to US\$7 per dose at 15% wastage rate. These are consistent assumptions with the recent World Bank project. Based on the revised assumptions the budget requirement to vaccinate the target population is US\$277 million. The vaccine unit costs are provided as indicative rates based on early discussions the government has had with prospective suppliers. The cost estimates are fluid and may change as the market prices of COVID-19 vaccines and other costs continue to be volatile and uncertain.

27. The Government of Nepal has established a COVID-19 dedicated “Vaccine Fund” under the Immunization Act (2072) and Immunization Regulation (2074).<sup>33</sup> The Vaccine Fund will follow the existing fiscal administration procedure and will also be subject to audit by the Auditor General’s Office.

28. As a member of World Health Organization (WHO), Nepal has committed to align with COVAX strategies to ensure equitable access to quality vaccines. In August 2020, the Government of Nepal submitted its non-binding expression of interest to GAVI. In September 2020, it received an official confirmation from GAVI on its eligibility for Official Development Assistance (ODA) support through COVAX Advance Market Commitment (AMC) mechanism.

29. For vaccine financing, the Government of Nepal explores both national and international financial resources to ensure adequate funds for timely procurement of quality vaccine with associated operational costs.

30. MOHP prepared a strategic financing plan to ensure resource requirements for the COVID-19 vaccination program is adequate, the scopes of the document included: (i) strategy and financing mechanism; (ii) resource planning document for accessing and deploying the COVID-19 vaccine(s); and (iii) other critical component of operational aspects.<sup>34</sup>

31. The Government of Nepal target to access COVID-19 vaccine through COVAX and non-COVAX facilities. The proposed sources of the Vaccine Fund are summarized in **Table 4** below:

**Table 4: Proposed Sources of COVID-19 Vaccine Fund**

	<b>Proposed Source</b>	<b>Proposed Contributor</b>	<b>%</b>
1	Government Financing <sup>a</sup>	<b>Government of Nepal</b> (Immunization tax 1-3% or Internal Fiscal Transfer or Unspent budgets; Local, Provincial and Federal Government contribution)	20%
2	Business/Private Sectors <sup>b</sup>	<b>CSR of Business/Corporate House/Private Sectors</b> (1% of net profit or 1million whichever is higher)	3.5%
3	International Funding	<b>Bilateral Organizations</b> QF, KF, JICA, KfW, FCDU, USAID, GiZ, KOICA	53%
4	International Funding	<b>Multilateral organizations</b> ADB, WB, EUB, AIB	17%
5	International Funding	<b>Multilateral organizations</b> UN Agencies	5%
6	International Funding	<b>International Non-Government Organization</b>	1.5%

<sup>a</sup> Contribution of Government of Nepal will be sourced from the allocation of health tax or enactment of vaccination tax and re-allocation of un-spent/un-expendable budgets.

<sup>33</sup> Government of Nepal. 2020. *A Proposal for Ensuring Resources Requirements for COVID-19 Vaccine. Nepal*

<sup>34</sup> Government of Nepal. 2020. *A Proposal for Ensuring Resources Requirements for COVID-19 Vaccine. Nepal*

<sup>b</sup> Income tax will be exempted for business or corporate houses, private sectors, and philanthropists for the contributed amount.

Source: Government of Nepal. 2020. *A Proposal for Ensuring Resources Requirements for COVID-19 Vaccine*.

32. The MOHP has a separate budget head to prevent and control COVID-19 activities in FY 2020/21. The NDVP states that MOF has already provided MOHP NPR 2,500,000,000 (US\$21,236,833) for COVID-19 vaccination. This allocated amount will be sufficient to be spent by the end of the current fiscal year. The next fiscal year will start on 15 July, the Government of Nepal will allocate more budget in the next fiscal year.<sup>35</sup> The Government of Nepal has planned and budgeted the requirements for the program and is receiving commitments from the international agencies such as ADB, EU and WB.

33. The Government of Nepal has also allocated budget to construct vaccine stores at provinces to house the cold chain equipment. The allocated amount is sufficient to cover the current fiscal year.<sup>36</sup>

## **B. Inventory Management and Control**

34. Management Division (MD) under DOHS is responsible for the overall logistics and inventory management. Chief of the management division oversees the overall inventory management function for the NVDP.

## **C. Transportation**

35. Proper vaccine transportation arrangement is one of the critical areas that must be addressed. The COVID-19 vaccines will be received from the manufacturer through air shipment at Tribhuvan International Airport (TIA) and then stored at the central vaccine store. The MOHP has planned the transportation arrangement from the Federal level to province level and from district level to local level. The provincial level refrigerator van will be used for delivery from provincial vaccine stores to district vaccine stores on monthly basis. Transportation from the district stores to the service point (Sub-centre) using passive container in public vehicles and motorbike having conditioning ice packs presents challenges in maintaining the required temperatures. With this, two more additional vans for central and six vans for provincial vaccine stores are required.

36. In the context of the COVID-19 vaccine, if the super cold chain vaccine (-25 degree) is deployed in the country, there will be a critical need of refrigerator vans.

## **D. Storage**

37. The cold chain and vaccine management is led by the Logistics Management Section of the Management Division/Department of Health Services (DOHS). It is supported by various development partners like UNICEF and WHO. A National Vaccine Logistics Working Group with clear terms of reference to coordinate the deployment of COVID-19 vaccines and ancillary products is functional.

38. The Government of Nepal has existing cold chain facilities. The cold chain requirement varies by type of vaccine some involved ultra-cold chain requirement for transportation and a limited shelf life outside the cold chain. There are two central storages, (Kathmandu and

<sup>35</sup> MOHP. 2021. *National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccine*. Nepal

<sup>36</sup> MOHP. 2021. *National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccine*. Nepal

Pathlaiya), six provincial vaccine storages and 77 district vaccine storages.<sup>37</sup> The existing capacity depends on the cold chain characteristics, below are the assessment of the Government of Nepal's cold chain capacity based on varying segment requirements.

39. **+2 to +8 degree Celsius.** Nepal has enough space for all the vaccines at central, provincial and district level for this segment. Nepal has experience in handling additional vaccine through its cold chain system with multiple immunization campaigns. Based on the assessment, if the cold chain requirement is between +2 to +8 degree Celsius, the country will have adequate cold chain spaces but may need support if the vaccination is done in single phase. Currently, cold chain spaces are sufficient to cover the plan which is based on 3 phases.<sup>38</sup>

40. **-20 degree Celsius.** There is an existing system which is used for freezing ice packs, storing oral polio vaccines and measles-rubella vaccines. Nepal has strong and continued experience in running multiple polio immunization campaigns. The space available is approximately 15,000 liters which will be inadequate if the cold chain requirement for the new COVID-19 vaccine is all at -20 degree Celsius. Nepal will require strong support to increase the capacity for this cold chain segment.<sup>39</sup>

41. **-70 degree Celsius.** The existing cold chain system does not have capacity for this segment. Nepal may require total restructuring of the cold chain system if the requirement is -70 degree Celsius for vaccine storage.

42. **Surge capacity and dry storage:** Assessments were made for the cold chain space available (cold room) outside the immunization system which can be used for COVID-19 vaccine storage. An estimated space of 81m<sup>3</sup> is available for 2 to 8 °C and 25m<sup>3</sup> for -20 °C. An arrangement has been made to use this space to store COVID-19 vaccines in case of a surge or whenever needed. Similarly, the Gavi supported cold chain equipment optimization platform (CCEOP) is currently ongoing (2019 – 2022) aiming to strengthen supply chain and capacity at sub-district level. The CCE were installed through Gavi's support and have considered the sub-national level capacity. An adequate dry space for storing syringes, safety boxes and other supplies is available at central vaccine store with a total of 2838m<sup>3</sup> to accommodate storing of vaccine accessories. In addition, there are adequate spaces for dry storage at province and district levels.<sup>40</sup>

---

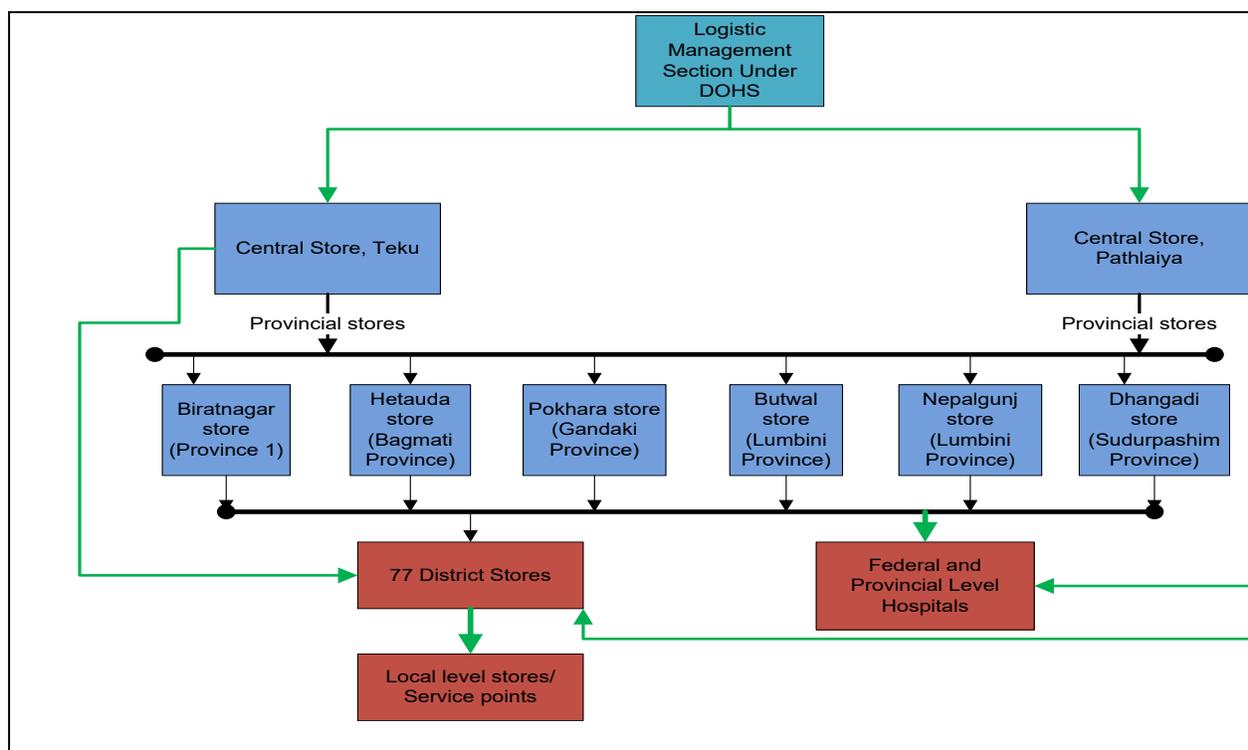
<sup>37</sup> Ibid

<sup>38</sup> Ibid

<sup>39</sup> Ibid

<sup>40</sup> Ibid

**Figure 2. Government Cold Chain Facilities**



Source: Nepal NDVP

43. **Security of vaccines and vaccination centres.** Safety of the vaccine need to be ensured during storage, transportation, and delivery of vaccine with required police arrangements so that there are no leakages in the delivery system. The MOHP will coordinate with Ministry of Home Affairs for the security of the vaccines and staff deployed for COVID-19 vaccination. Securities will be provided at all supply chain level. The refrigerator van will be tracked by the GPS system while vaccine transportation in coordination with security authority. Management Division, Provincial Health Logistic Management Centre, and Health Offices will closely work with security officials to monitor the vaccine safety and security at their respective levels. Moreover, local governments are in the front foot who will coordinate to ensure the security of the vaccines and personnel deployed at local level.<sup>41</sup>

44. **Data Management for inventory.** COVID-19 vaccines will be recorded in the existing online inventory management system (e-LMIS system) to get real-time information on stock and consumption patterns. e-LMIS is fully implemented at the central and provincial vaccine storages, however, not fully implemented at all district vaccine stores, nonetheless for other general medicine and medical equipment, it is fully implemented up-to the local level. The MOHP has planned to functionalize it at the sub-national (District level) storages on or before July 2021 as outlined in the Implementation Status & Results Report (Dec 2020) of the Nepal Health Sector Management Reform Program, WB. e-LMIS does not have unique identification for each vaccine and has no linkage to the target group. There is a challenge to collect the vaccine related information from the local level including the wasted vaccine. Enhancement to the system may

<sup>41</sup> Ibid

be required such as introduction of barcode/QR scanner to track each COVID-19 vaccine.<sup>42</sup> To facilitate monitoring and reporting, the Government of Nepal will need to integrate the beneficiary data (identify the target, registration process, and vaccine supply data) into single system. This has been included as part of the FM Action Plans.

45. **Data management for vaccinated population.** The MOHP has the Health Management Information System (HMIS) to record and report the data related to the health services using DHIS2 Software. The system will capture beneficiaries' details (e.g., personal info, age, gender disaggregated data, etc.) once the COVID-19 related module is introduced. MOHP plans to integrate the systems (HMIS/DHIS2 and eLMIS) into a full Integrated Health Management Information System (IHMIS) for the overall health data management. In absence of COVID-19 module in DHIS2 during the first phase of the vaccination, a different application called IMU (Information Management Unit) was used. These data in IMU will also eventually be brought into DHIS2. Reporting is initially done paper-based (authorized forms and formats of the Govt.) and then this will be used to compile data from the local level to the district level, and then will be entered in HMIS/DHIS2 system for final reporting until IHMIS comes into full operation across all levels of the government.

46. The WB PforR also envisions that Health Management Information System (HMIS)/ District Health Information System (DHIS) shows timely reporting from at least 50% of public health facilities by July 15, 2021). The accurate and complete real time data collection from the Local levels will still be a big challenge for vaccine deployment.

## **E. Human Resource.**

47. Nepal has a success stories in various immunization campaigns like measles rubella campaign, JE campaign, and Tetanus toxoid campaign using the existing immunization system. These campaigns have been successfully completed in the past. The NVDP has planned to utilize about 8000 trained vaccinators, mid-level health workers working in the health facilities (about 7000) and 4000 health facilities (Health post and PHCC) spread all over the country and manned by at least two health workers to provide regular immunization. The plan assumed that at least four persons will be running the vaccination booth as follows:

- At the check-in area: registration and identity verification will be conducted by one trained worker or volunteer.
- At counselling area: one person (preferably health worker) will provide pre-vaccination counselling and screening.
- Vaccination area: one health worker who will administer the COVID-19 vaccine and issue a vaccination card.
- Post-vaccination area: one health worker who will observe the vaccinated persons for any symptoms of AEFI and counsel on second visit.

## **F. Accounting and Reporting.**

48. The COVID-19 vaccination program will use the existing country system for accounting and reporting. Fiscal Procedure and Financial Accountability Act, 2019 (FPFA) shall be followed up by all the agencies involved in the project activities. Accordingly, the project will follow the FPFA and the regulations thereunder for planning and budgeting, accounting, funds flow, reporting, internal control, internal audit, external audit, and other financial procedures.

---

<sup>42</sup> Ibid

## **G. Oversight, Verification and Audit.**

49. The Vaccine Fund will follow the existing fiscal administration procedure and will also be subject to audit by the Auditor General's Office.<sup>43</sup>

50. NDVP formed various committees at different level to monitor and supervise the vaccination program. The MOHP and its subordinate units will monitor vaccine safety and security at the centre, province, and local levels. The plan stated that MOHP is responsible for overall policy guidance, quality assurance, resource allocation, multi-sectoral coordination, and communication, whereas overall implementation of immunization is responsibility of the DOHS under MOHP. According to the Immunization Act 2072 (2016) the National Immunization Advisory Committee (NIAC) and National Immunization Committee (NIC) are mandated to guide and support the overall immunization programme across the country. Further, National AEFI Investigation Committee is also the committee mandated by the Immunization Act 2072 of Nepal.

51. In Nepal, monthly, quarterly and annual reporting from each Spending Unit (SU) is essential for compliance with financial rules and regulations. Local levels shall provide quarterly and annual reports through SuTRA. At the federal office, Computerised Government Accounting System (CGAS) is used in accounting, LMBIS for budgeting, TSA for treasury administration and the Integrated Financial Management Information System (IFMIS). In addition, MOHP uses HMIS and eLMIS.

52. Section 33 (4) of FPFA requires that the internal audit to be conducted on a quarterly basis by FCGO or the respective treasury controller offices. The internal audit of the project shall be carried out accordingly. The concerned implementing agencies including the sub-implementing agencies shall be responsible for resolving the audit issues as per the prevailing law. The MOHP has developed and implemented the Internal Audit Improvement Plan, 2017-2021 as an initiative to monitor implementation progress on Internal audit.

53. The external audit for the vaccine deployment will be done by the Office of the Auditor General (OAG), which will include the financial, compliance and performance audit. The audit reports shall be submitted within nine months from the end of fiscal year, or the period specified in the Financing Agreement. The respective implementing agencies shall be responsible for resolving the audit issues as per the prevailing law.

## **H. IT system for tracking COVID 19 vaccination.**

54. The online (e-LMIS and IMS) system existing within the MOHP is fully implemented in central vaccine store and provincial vaccine stores but not fully implemented at all districts vaccine stores and local level hospitals/centers. The MOHP has planned to functionalize e-LMIS at the sub-national (District level) on or before July 2021.

## **V. PROJECT FINANCIAL MANAGEMENT SYSTEMS ASSESSMENT**

### **A. Overview**

55. The Ministry of Finance (MOF) is the executing agency for the project. The Ministry of Health and Population (MOHP) is the implementing agency being on the forefront of the COVID-19 national deployment and vaccination program of the Government of Nepal. The project will be

---

<sup>43</sup> MOHP. 2021. *National Deployment and Vaccination Plan (NDVP) for COVID-19 Vaccine*. Nepal

funded through ADB Asia Pacific Vaccine Access Facility (APVAX), specifically the Rapid Response Component (RRC) which is meant to provide swift financing support for the procurement of eligible COVID-19 vaccines and other eligible expenditures for RRC as outlined in APVAX. The key financial activities and arrangements for the project will be at the federal level.

56. ADB conducted an assessment on the implementing agency's capacity to implement the project. The MOHP has recently implemented the COVID-19 Active Response and Expenditure Program financed by ADB.<sup>44</sup> Though MOHP has limited experience in ADB Funded Projects, it has implemented various projects financed by World Bank, the most recent one is the COVID-19 Emergency Response and Health System Preparedness Project.<sup>45</sup>

57. ADB funded projects in Nepal generally uses the prevailing country systems. ADB's assistance to Nepal in the form of loans and grants is fully "on-budget," whereas the TA projects are "off-budget." ADB's loans and grants proceeds are reflected in the government's treasury system but they are transferred to special accounts under the government's consolidated fund and managed as agreed between ADB and the government, and in accordance with ADB's Loan and Disbursement Handbook.<sup>46</sup>

58. As a Government Ministry, the PFM system weaknesses identified in **Section III** above apply to the financial management systems, processes, procedures, and capacity issues of MOHP. The following sections provide more details on the specific capacity of the implementing agency on key elements of financial management.

## **B. Strengths and Weaknesses**

59. The following strengths were identified on financial management.

- **Well defined financial management system at federal level.** The Government of Nepal financial management system is based on a robust legislative framework, FPFAA (2019) at federal level that covers all the procedures from the planning, MTEF, internal controls and oversight.
- **Automated financial management information system.** The Government of Nepal implemented an Integrated Financial Management Information System (IFMIS) which captures all financial data and information including SNGs. The daily federal level's income and expenditures are published at the FCGO's website.
- **Experienced in Donor financed projects.** MOHP and Department of Health Services have significant experience in the implementation of Donors financed projects/programs. The staff are familiar with Donors financial management procedures which are relatively harmonized.<sup>47</sup>
- **Unified Chart of Accounts.** The unified Chart of Accounts applicable for all federal, provincial, and local level government's offices.

<sup>44</sup> ADB. 2020. (P54184-001) *COVID-19 Active Response and Expenditure Support Program*. Manila

<sup>45</sup> World Bank. 2020. *COVID-19 Emergency Response and Health System Preparedness Project*. (P173760) Kathmandu

<sup>46</sup> ADB. 2019. *Country Situational Analysis of Governance and Institutional Challenges and Risks in Nepal*. Kathmandu

<sup>47</sup> The Government of Nepal. MoF. *An Assessment of Sector Wide Approach (SWAP) in the Health and Education Sectors of Nepal*. Kathmandu

- **Health Management Information System.** HMIS provides periodic health services related data, MOHP-DOHS has the standard operating procedures for vaccine management. Currently, there is ongoing support provided by donors (WB) to strengthen and enhance the HMIS/DHIS 2.
- **Clear guidelines on COVID-19 vaccine campaign.** In addition to the NDVP, MOHP issued a well-defined program guideline (*Immunization Campaign against COVID-19*) and financing strategy (*Report on Proposal for Ensuring Resource Requirement For COVID-19 Vaccine*).

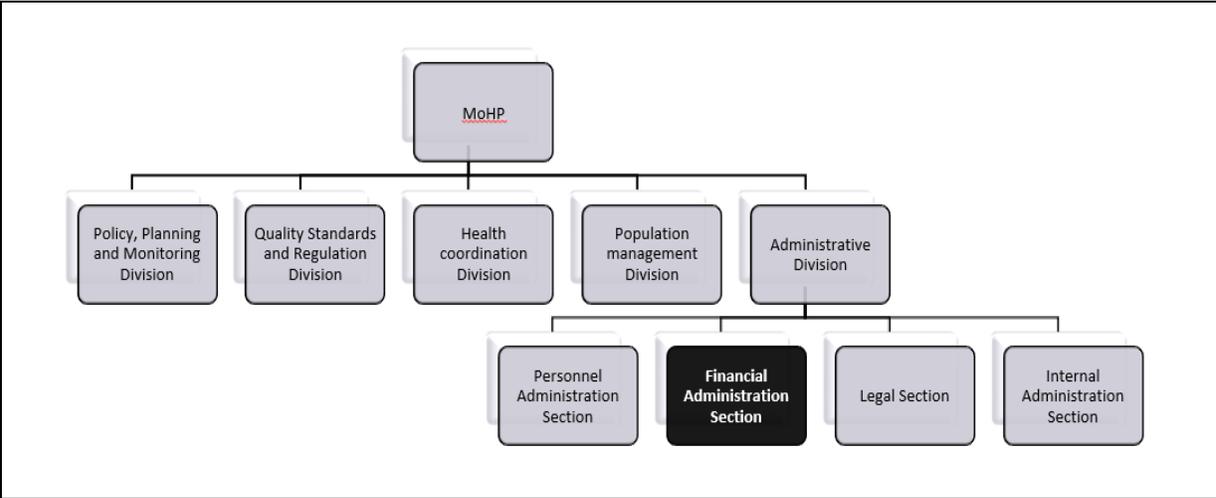
60. The following weaknesses were identified on financial management:

- **Non-Digitization of SNGs.** The SuTRA is not fully operationalized for all SNGs. The Government of Nepal targets to operationalize SuTRA for all SNGs by July 2021.
- **Limited experience with ADB financing.** While MOHP has vast experience with World Bank Projects, it has limited experience with ADB funded project. Hence, training on financial management and procurement for the finance staff will be necessary.
- **Funding.** Though the Government of Nepal has planned the sources of financing both domestic and international. It is uncertain whether full funding can be raised. Close dialogue with financing partner is needed to secure funds.
- **Internal Audit.** The internal audit function of the MOHP and its subordinate office is focused only on transaction compliance rather than internal controls.
- **Inventory Information System.** The e-LMIS is limited to the provincial level stores to capture the data and information related to the logistics.

**C. Personnel, accounting policies and procedures, internal control, internal and external audits**

61. MOHP is responsible for the health sector at national, province, district, and community levels. MOHP is headed by a Secretary and DOHS is led by a joint Secretary. The Ministry is comprised of five functional divisions and one unit on the Health emergency and Disaster Management. The financial administrative section is under the Administrative division in MOHP. Likewise, DOHS has a separate financial administrative section with dedicated finance staffs. Further, there are finance sections/units under the federal level ministries, municipalities at local level, federal and provincial hospitals.

**Figure 5. Ministry of Health and Population Structure**



Source: MOHP website <https://www.moHP.gov.np/eng/about-us/about-moHP>

62. Consistent with the ongoing Sector Wide Approach and effort of the Government of Nepal to take ownership of the government programs and strengthen MOHP’s capacity, the existing MOHP staff through its various divisions and units will be assigned to support the project. This is consistent with the approach applied to World Bank’s project in 2020.<sup>48</sup> Though MOHP is experienced in implementing World Bank projects and ADB programs, it has limited experience with ADB funded projects, hence, trainings to finance and accounting staff on ADB’s procedures, including the disbursement guidelines will be made.

63. **Staffing.** To harmonize with other development partners, the project will utilize the same implementation staffs as in World Bank Project for the financial management. The current finance set up of project implementation staff is led by a Finance Section Chief and consists of an Account Officer supported by a finance assistant. With an addition of another finance assistance, who will primarily be responsible to compile data from various cost centers, the existing set up is found to be adequate to handle the added ADB project function. The function is overseen by a chief specialist and also has a procurement specialist. World Bank has a provision of financial management consultant, if required, the same option shall continue under ADB project. Regular assessment shall be done on the added workload and need for the consultant shall be determined accordingly.

64. **Budgeting.** MOF allocates budget to MOHP and budget ceiling are communicated to subordinate departments, central-level offices, national and other health entities. Budgeted activities should be included in the Annual Work Plan and Budget (AWPB) and released by MOF into the Line Ministries Budget Information System (LMBIS). It is critical that a separate budget sub-head is created for the project. MOHP shall coordinate with MOF for the separate budget sub-head.

65. **Accounting policies and procedures.** The finance section under MOHP is responsible for accounting and financial reporting. The financial management for the project will follow the country system. There is a clear guideline for the federal government on public financial management. The FPFAA 2019 (2076) outlined the provisions on management of government

<sup>48</sup> World Bank. 2020. COVID-19 Emergency Response and Health System Preparedness Project. (P173760). Kathmandu

funds, budget formulation, budget release, accounting, reporting procedures, internal control, and audit. The project will follow the FPFAA 2019 regulations.

66. The project shall follow the Chart of Accounts (COA) issued by FCGO at the time of budget formulation and budget implementation.

67. **Financial Reporting and systems.** The MOHP will maintain separate project accounts and records of the Project, following accounting principles and practices prescribed by the Government of Nepal. The financial reports can be generated from the LMBIS. The cash basis of accounting has been adopted by the government and such policies and procedures will be applied for the project. Financial statements are prepared in accordance with the Nepal Public Sector Accounting Standards (NPSAS). The same basis of accounting and financial reporting will be used for the project financial statements.

68. **Internal control.** The Internal Control Guidelines was formulated by MOHP in compliance with FPFAA 2019. The Internal Control Guidelines will be adopted for the project. Implementation of proper internal controls is required at three levels of the Government.

69. The Internal Control Guidelines included controls and procedures on preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained including the functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation etc.

70. Further, there is an existing Government policy on retention and disposal of supporting documents.

71. **Internal Audit.** There is an internal audit function which supports the national and sub-national activities. The internal audit unit at FCGO is responsible to conduct internal audit at the federal level. At the sub-national level and local level, FCGO through its DTCO is responsible for the internal audit. Clause 33 (4) of FPFAA requires regular conduct of internal audit. Risk based internal audit system was introduced in the government system.

72. Issues on independence and lack of required professional skills in internal audit functions were noted.<sup>49</sup> Also, the OAG report presented several weaknesses in the internal audit function including focus on pre-audit of transactions rather than the identification of broader systemic issues and recommendations.

73. **External Audit.** OAG is a constitutional independent body responsible for the conduct of audit for Government agencies. The accounts of the MOHP are audited by the OAG. OAG will also conduct the audit for the project. The audits of OAG are conducted in accordance with international standards for supreme audit institutions.

74. **Performance Audit.** The performance audit for the COVID-19 national vaccination program shall be conducted by OAG on an annually in accordance with International Standards on Auditing to ensure economy, efficiency, and effectiveness of vaccine program. The report will be submitted to ADB 9 months from end of each fiscal year, this has been included as part of FM Action Plan.

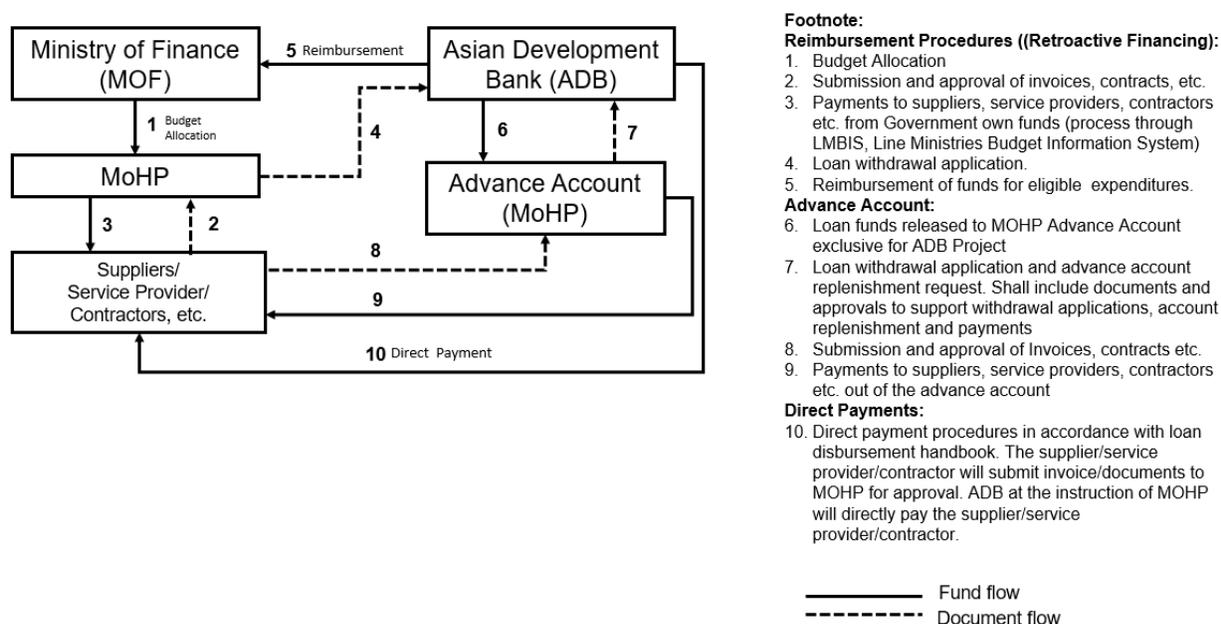
---

<sup>49</sup> MOHP. 2020. *Improved Internal Control Through Internal and Final Audit Clearance, Evidence in Audit Status Report.* Nepal.

75. **Information system.** FCGO is responsible to manage the financial reporting structure and accounting system of all government levels. At federal level, the Government use Line Ministry Budgetary Information System (LMBIS) for budgeting, Computerized Government Accounting System (CGAS) for accounting, and Treasury Single Account (TSA) and the Integrated Financial Management System (FMIS) for treasury. MOHP use LMBIS, CGAS and TSA. IFMIS integrates budgetary, accounting, treasury, and public debt management information. It can produce timely, comprehensive, and reliable financial reports. For SNGs, the Sub-national Treasury Regulatory Application (SuTRA) is used for both accounting and budgeting. The Federal government issued a circular to mandate the use of SuTRA.

76. The overall project fund flow diagram is illustrated below.

VI. **Figure 6. Project Fund Flow Diagram**



#### D. Disbursement arrangements, funds flow mechanism

77. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),<sup>50</sup> and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>51</sup> Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

78. The MOHP will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting and retaining supporting documents, and (iv) preparing and sending withdrawal applications to ADB.

79. **Direct Payments.** Direct payment procedures may be used for large contracts under the project. Suppliers/contractors/consultants are required to submit approved invoices and other

<sup>50</sup> The handbook is available electronically from the ADB website (<http://www.adb.org/documents/loan-disbursement-handbook>)

<sup>51</sup> Disbursement eLearning. [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning)

supporting documentation to ADB in accordance with the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

80. **Advance fund procedure.** After loan effectiveness date, an advance account in USD will be opened for the project by MOHP. The advance account is to be used exclusively for ADB's share of eligible expenditures. MOHP is accountable and responsible for proper use of advances to the advance account.

81. Under the RRC, the total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months, or 50% of the total RRC financing amount, whichever is lower. Per ADB's APVAX guidance note, the combined outstanding balance of advance financing and the percentage approved for retroactive financing should not, at any time, exceed 60% of the loan amount. MOHP may request for initial and additional advances to the advance account based on the estimated expenditures to be financed through the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by the Borrower in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

82. **Statement of expenditure procedure.**<sup>52</sup> The statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account. The ceiling of the SOE procedure is equivalent to \$50,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement and liquidation for individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

83. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments should be paid (i) by the MOHP and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's CPD5 system is mandatory for submission of withdrawal applications to ADB.

84. **Disbursement arrangements for counterpart funds.** The government counterpart funds will be sufficiently allocated in the budget annually. MOHP will prepare disbursement projections and request budgetary allocations for counterpart funds to the Ministry of Finance. MOHP will submit to ADB annual project contract awards and disbursement projections at least a month before the start of each calendar year.

---

<sup>52</sup> SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook 2017* (2017, as amended from time to time).

## VII. RISK DESCRIPTION AND RATING

**Table 5: Financial Management Internal Control and Risk Assessment**

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Country Specific</b>		
<p><b>Public financial management.</b> Nepal made great progress on improving the PFM system, though institutional capacity at the sub-national level remains weak.</p>	Substantial	<ul style="list-style-type: none"> <li>a. The Government initiated various PFM reforms and is now on the second phase of the PFM reform (PFMRP II 20216-2025).</li> <li>b. Significant capacity development support is being provided by development partners both in the Health Sector and the PFM sector.</li> </ul>
<b>Project Risks</b>		
<p><b>Funding.</b> Significant financing requirement is needed to deploy the COVID-19 vaccine to the target population. Inability of the Government to secure funding may lead to delay in COVID-19 vaccine deployment to target population.</p>	Substantial	<ul style="list-style-type: none"> <li>a. Regular coordination between MOF and MOHP on financing plans for the COVID-19 vaccination program.</li> <li>b. MOF timely allocation of adequate budget for the COVID-19 vaccination program and creation of budget sub-head.</li> <li>c. Several Development Partners are ready to provide additional financial support.</li> </ul>
<p><b>Vaccine inventory management</b> Vaccine lost, misused, or misappropriated.</p>	Substantial	<ul style="list-style-type: none"> <li>a. Mandate the use of existing e-LMIS inventory system at SNGs district level storages on or before July 2021 as outlined in the Nepal Health Sector Reform Program.</li> <li>b. MOHP will monitor the vaccination process for national and sub-national level including providing trainings to SNGs on the use of e-LMIS.</li> <li>c. Internal audit scope shall include inventory management.</li> </ul>
<p><b>Staffing, accounting, and reporting</b> Limited staff and experience in ADB's financial management requirements.</p>	Substantial	<ul style="list-style-type: none"> <li>a. MOHP shall coordinate with FCGO for adequate finance staff.</li> <li>b. The Project to follow the existing country system including financial management procedures and processes.</li> <li>c. MOHP shall utilize its existing capacity to implement the project in-line with the Sector Wide Approach.</li> <li>d. MOHP to maximize the benefit of the recently implemented new integrated budget and accounting system.</li> <li>e. Training on ADB's financial management, disbursements and procurement processes and procedures will be provided.</li> <li>f. If required, financial management consultant will be recruited to support and the terms of reference of FM staff shall include oversight functions on</li> </ul>

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
		anticorruption and integrity risks related to FM and disbursement activities. g. Integrity knowledge management sessions through RETA 9703 will be provided to FM staff involved to increase their awareness of Anticorruption and Integrity risks, prevention and detection and compliance with ADB's Anticorruption Policy
<b>Internal Audit</b> Low capacity of internal audit function may result to control weaknesses not being identified.	Substantial	a. Appointment of qualified staff from the internal audit unit at FCGO to conduct annually internal audit throughout the project life. Internal audit shall be conducted in accordance with Fiscal Procedure and Financial Accountability Act, 2019. b. Internal audit scope shall include identification and assessment of anticorruption and integrity risks relating to procurement, financial management and asset management
<b>External Audit</b> Weak enforcement of corrective measures against flagged irregularities and recommendations of the OAG may undermine the value of independent oversight.	Substantial	a. OAG shall conduct annual audit of project financial statements. b. MOHP to address the findings of OAG and implement the recommended measures. c. Auditor's findings and update on status of action taken will be included as part of the tri-annual performance report. d. OAG shall also conduct performance audit on the effectiveness and efficiency of vaccine deployment. e. Auditor's findings and update on status of action taken will be included as part of the joint tri-annual progress reports submitted to ADB and other Development Partners
<b>Overall Pre-Mitigation</b>	<b>Substantial</b>	

ADB = Asian Development Bank; CGAS = Computerized Government Accounting System; e-LMIS = online inventory management system; FCGO = Financial Controller General's Office; FM = Financial Management; IA= Internal Audit; MOF = Ministry of Finance; MOHP = Ministry of Health and Population; OAG = Office of the Auditor General; PFM = Public Financial Management; PFM RP = Public Financial Management Reform Program; SNGs = Sub-National Governments.

Source: Asian Development Bank.

## VIII. PROPOSED TIME-BOUND FM ACTION PLAN

85. The financial management action plan is provided in the Table below. A time bound FM Action Plan shall be discussed and agreed between ADB and the executing agency. The agreed FM Action Plan should be regularly reviewed for progress and update.

**Table 6. Financial Management Action Plan**

<b>Key Risk Area</b>	<b>Mitigation Action</b>	<b>Responsible Party</b>	<b>Timeline</b>
<b>Funding</b>	<p>a. MOF and MOHP to regularly review and update the financing requirements for the COVID-19 vaccination program.</p> <p>b. Timely allocation of budget for the COVID-19 vaccine program should be made.</p> <p>c. MOF to create system budget sub-head for the project.</p> <p>d. MOF and MOHP to engage with development partners to secure additional funding if required</p>	<p>MOF and MOHP</p> <p>MOF</p> <p>MOF</p> <p>MOF, MOHP, Development Partners</p>	<p>Throughout the project</p> <p>1 month before effectiveness date</p> <p>As above</p>
<b>Inventory Management and control</b>	<p>a. Mandate the use of existing e-LMIS inventory system at SNGs district level storages.</p> <p>b. MOHP will monitor the vaccination process for national and sub-national level including providing trainings to SNGs on the use of e-LMIS.</p> <p>c. Internal audit scope shall include inventory management</p>	<p>MOHP</p> <p>MOHP</p> <p>FCGO</p>	<p>Before July 2021</p> <p>Throughout the project</p> <p>Throughout the project</p>
<b>Staff capacity, accounting, and reporting</b>	<p>a. MOHP to coordinate with FCGO for adequate number of qualified finance staff. The staffing can be supplemented by consultant support if necessary.</p> <p>b. Training on ADB's financial management, disbursements and procurement processes and procedures.</p> <p>c. MOHP shall use the recently implemented new integrated budget and accounting system for the project.</p> <p>d. The joint Tri-annual progress report shall be produced and appropriately reviewed. This shall be submitted to ADB within 45 days from end of 4-month period. Key elements of the tri-annual progress report are as part of the PAM, and the detailed format shall be agreed with MOHP, ADB, World Bank and other partners</p> <p>e. Preparation and submission of annual financial statements to OAG for audit</p> <p>f. Staff to supplement the financial statements generated from the system with other information to report the progress of the project (i.e., output details and progress, etc.).</p>	<p>MOHP</p> <p>ADB</p> <p>MOHP</p> <p>MOHP</p> <p>MOHP</p> <p>MOHP</p> <p>MOHP</p>	<p>1 month before effectiveness date</p> <p>Q3-2021</p> <p>Throughout the project</p> <p>Every 4 months</p> <p>Annually</p> <p>Every 4 months</p>
<b>Internal Audit</b>	<p>a. FCGO to include the project in its internal audit plan and assign qualified internal audit staff(s) to conduct at least annual internal audit of the project throughout the project life.</p> <p>b. Inclusion of internal audit findings and status of actions taken in the tri-annual progress reports.</p>	<p>FCGO</p> <p>MOHP</p>	<p>At loan effectiveness date</p> <p>Every 4 months</p>
<b>External Audit</b>	<p>a. Annual audit of project financial statements.</p> <p>b. Findings included in the management letter report and update on actions taken shall be included as part of the tri-annual progress</p>	<p>OAG</p> <p>MOHP</p>	<p>Annually</p> <p>Every 4 months</p>

Key Risk Area	Mitigation Action	Responsible Party	Timeline
	reports and reported to ADB, World Bank and other partners.		
<b>Performance Audit</b>	a. OAG conducts annual performance audit of the national vaccination program focusing on transparency, accountability, and good governance and submitting to ADB.	OAG	Annually
	b. Jointly finalize and agree the terms of reference.	OAG and ADB	By inception date

ADB = Asian Development Bank; CGAS = Computerized Government Accounting System; e-LMIS = online inventory management system; FCGO = Financial Controller General's Office; FM = Financial Management; LMBIS = Line Ministries Budget Information System; IA= Internal Audit; MOF = Ministry of Finance; MOHP = Ministry of Health and Population; OAG = Office of the Auditor General; SNGs = Sub-National Governments.

Source: Asian Development Bank.

## V. SUGGESTED FM COVENANTS

86. The following financial covenants are to be considered in the Loan Agreement. The government shall:

- i. maintain separate accounts and records for the Project;
- ii. prepare annual project financial statements in accordance with accounting principles acceptable to ADB;
- iii. cause such project financial statements audited annually by independent auditors acceptable to ADB, in accordance with international standards for auditing or national equivalent acceptable to ADB;
- iv. cause the auditors to prepare audit report, and a management letter; and
- v. furnish to ADB, no later than 6 months after the end of each FY, copies of such audited project financial statements, audit report, and management letter.

## VI. CONCLUSION

87. The project will use the existing country system. Consistent with the ongoing Sector Wide Approach and effort of the Government of Nepal to take ownership of the government programs and strengthen MOHP's capacity, the existing MOHP staff through its various divisions and units will be assigned to support the project. MOHP has implemented various development partners projects. Also, there is a well-defined financial management system by enforcing the Financial Procedures and Fiscal Accountability Act, 2019 (2076) (FPFAA) to regulate financial procedures. Moreover, an automated financial management information system was further enhanced and integrated in 2020. The assessment indicates that with the risk mitigation measures and the adoption of the FM action plan the financial management systems are acceptable for the proposed project.