

## FINANCIAL ANALYSIS

1. **Scope.** The financial analysis has been conducted in accordance with Asian Development Bank (ADB) Guidelines: Financial Analysis and Evaluation: Technical Guidance Note (2019). The financial analysis focused on assessing (i) soundness of the financing and expenditure plan of the National Deployment and Vaccination Plan for coronavirus disease (COVID-19) vaccines (NDVP), and (ii) the capacity of the various recipient entities including the Ministry of Health (MOH) and selected hospitals to absorb the incremental maintenance cost of the assets created under the project.

2. The analysis was conducted as per the following steps: (i) examining the past budget performance as well as the estimated future budget allocations of MOH, (ii) assessing the soundness of the expenditure and financing plan of the NDVP, and (iii) estimating the incremental operation and maintenance (O&M) costs associated with each asset to be created under the ADB assisted project, and assessing the likelihood of adequate fund allocation to cover the required maintenance after the project is completed.

3. **Government of Sri Lanka budget process.** Government of Sri Lanka has a clearly defined state budget and budget formulation procedure. The procedure follows a budget calendar, which includes legislative review of the extent to which budget allocations reflect stated policies and priorities. The budget for the following year is normally published in November. The budget targets are set for a year while budget estimates are made for three years (Ministry of Finance [MOF] medium-term budget framework).

4. **Past budget performance.** Examining the past budget performance and budget utilization rates of MOH (Table 1), it is observed that the overall budget has remained relatively stable with a modest average annual (nominal) growth of 4.5%. Moreover, MOH has shown strong budget utilization rates with an average of 96% utilization rate for recurrent expenditure and 81% utilization rate for capital expenditure. This indicates that MOH has adequate absorption capacity and that MOH is committed to and is able to maintain its investments. Conversely, the high variance in the annual utilization rates for capital expenditures may indicate suboptimal budget practices or delays in procurement and/or releases of government funding to the spending units.

**Table 1: Health Sector Budget Utilization 2015-2020**  
(in SLRs million)<sup>1</sup>

Item	2015	2016	2,017	2018	2019	2020	Average	CAGR
Recurrent (actual)	101,863	112,991	118,034	134,969	159,899	125,776	125,588.7	4.3%
Capital (Actual)	29,032	23,640	28,038	32,677	28,676	36,800	29,810.5	4.9%
Recurrent (budgeted)	108,891	138,078	120,554	134,400	143,626	142,371	131,320.0	5.5%
Capital (budgeted)	22,214	36,600	40,417	44,300	41,856	49,000	39,064.5	17.1%
Recurrent utilized (%)	94%	82%	98%	100%	111%	88%	96%	
Capital utilized (%)	131%	65%	69%	74%	69%	75%	81%	
<b>Total Actual (\$ million)</b>	<b>676.5</b>	<b>706.1</b>	<b>754.9</b>	<b>866.4</b>	<b>974.5</b>	<b>840.2</b>	<b>803.1</b>	<b>4.4%</b>

CAGR = compound annual growth rate.

Source: Government of Sri Lanka, Ministry of Finance Budget estimates.

<sup>1</sup> The recurrent expenditures are mainly financed from domestic sources under budget codes 111/01/05 (hospital operations), 111/01/03 (medical supply division) while the capital expenditures include externally financed projects assisted by the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), World Bank, GAVI, etc. under budget codes 111/02/13 (hospital development projects), 111/02/14 (Health Promotion and Disease Prevention) and 111/02/15 (Control of Communicable and Non Communicable Diseases).

5. **Budget 2021.** In 2020, no budget was approved, and the government operated most of the year under a vote of account covering four months at a time. The budget for 2021 was approved in November 2020. In 2020, the government simplified its tax policy to make the tax administration more efficient and the VAT rate is expected to remain unchanged in 2021. However, the government will aim to improve its tax revenue through improved tax collection efficiency including mandatory use of e-filing system and tax identification number (TIN), strengthened tax audits, etc.<sup>2</sup> The health sector and the COVID-19 pandemic are high on the government's agenda. The 2021 budget speech (footnote 3) focused on strengthening the 2021–2023 medium-term program for poverty alleviation and economic revival, and established investment in public health and expansion of health services to effectively safeguard people from the COVID-19 pandemic as a priority. Moreover, as part of the existing externally financed loan facilities, priority will be given to prevention of COVID-19, supply of drinking water, rural road development, expansion of rural health services, and improvement of nutrition of mothers and children and facilitating students to engage in vocational education.

6. **Medium-term budget estimates.** The importance of the health sector is also reflected in the medium-term budget (MTB) estimates covering 2021–2023 and published by the MOF. Despite the current economic and fiscal constraints faced by the country, the budget allocations to MOH and the State Ministry of Production, Supply and Regulation of Pharmaceuticals are expected to remain fairly stable. At the same time, the funds allocated to the health sector in the provinces in the form of provincial development grants are expected to increase significantly. The detailed MTB estimates 2021–2023 is outlined in the table below.

**Table 2: Health Sector Budget Estimates 2021–2023**  
(in '000 SLRs)

Year	2021	2022	2023	Total 2021–2023	CAGR	Average
<b>Ministry of Health</b>						
Recurrent	128,481,000	130,091,600	131,459,000	390,031,600	1.2%	130,010,533
Capital	30,995,000	42,130,400	35,732,000	108,857,400	7.4%	36,285,800
Subtotal	159,476,000	172,222,000	167,191,000	498,889,000	2.4%	166,296,333
<b>State Ministry of Production, Supply and Regulation of Pharmaceuticals<sup>3</sup></b>						
Recurrent	60,660,000	63,172,000	65,685,000	189,517,000	4.1%	63,172,333
Capital	500,000	1,195,000	1,118,000	2,813,000	49.5%	937,667
Subtotal	61,160,000	64,367,000	66,803,000	192,330,000	4.5%	64,110,000
<b>State Ministry of Indigenous Medicine Promotion Rural &amp; Ayurvedic Hospitals Dev. &amp; Community Health</b>						
Recurrent	2,144,000	2,191,700	2,233,000	6,568,700	2.1%	2,189,567
Capital	505,000	232,300	302,000	1,039,300	-22.7%	346,433
Subtotal	2,649,000	2,424,000	2,535,000	7,608,000	-2.2%	2,536,000
<b>Provincial Development Grants Earmarked for Health</b>						
Total	5,822,021	7,450,022	8,939,023	22,205,000	23.9%	7,403,689
\$ Million	30.1	38.5	46.2	114.8	23.9%	38
<b>Grand Total</b>	<b>229,107,021</b>	<b>246,463,022</b>	<b>245,468,023</b>	<b>721,032,000</b>	<b>3.5%</b>	<b>240,346,022</b>
<b>\$ Million</b>	<b>1,184.0</b>	<b>1,273.7</b>	<b>1,268.6</b>	<b>3,726.3</b>	<b>3.5%</b>	<b>1,242</b>

CAGR = compound annual growth rate.

Source: Government of Sri Lanka, Ministry of Finance Budget estimates.

<sup>2</sup> Government of Sri Lanka, Ministry of Finance. 2021. *Budget Speeches*. Colombo.

<sup>3</sup> Includes Medical Supplies Division since 2020 onwards.

7. **Analysis of the NDVP.** The NDVP was developed by the government in January 2021 to address key considerations for the selection of vaccines (e.g., safety, efficacy, sensitivity, supply, and cold chain requirement), the process and stages of vaccination from scientific evaluation to monitoring and safety surveillance, and the desired end-state of coronavirus vaccination. The plan includes a prioritization and allocation strategy for vaccines (sectoral and geographical), along with vaccine deployment, waste management, and development coordination.

8. **NDVP in the budget.** The NDVP was not included in the 2021 budget or in the 2021–2023 MTB estimates. However, the approved budget included a provision for providing a supplementary allocation for COVID-19 as required. Furthermore, MOF has provided NDVP with budget inputs and a special allocation can be approved through consultation with the Cabinet of Ministers. In addition, the external resources department of MOF has approved the utilization of external support to finance the NDVP. In accordance with the government regulations, once a project is approved a separate budget line will be created for each project<sup>4</sup> and funds will be allocated under the supplementary budget. Moreover, until the external support is mobilized, funds allocated to the State Ministry of Production, Supply and Regulation of Pharmaceuticals<sup>5</sup> can be made available for financing of the NDVP.

9. **NDVP expenditures.** The NDVP includes several vaccination coverage scenarios with different cost estimates outlined in Table 3 below.

**Table 3: Selected NDVP Vaccination Coverage Scenarios**

Population Proportion	Target Population	Total Doses <sup>a</sup>	Item	Scenario 1 <sup>d</sup> (\$)	Scenario 2 <sup>e</sup> (\$)	Scenario 3 <sup>f</sup> (\$)
20%	4,419,800	9,281,580	Vaccine cost <sup>b</sup>	324,855	259,884	194,913
40%	8,839,600	18,563,160	Distribution cost <sup>c</sup>	92,816	74,253	74,253
60%	13,259,400	27,844,740	Fridge & freezer cost	815	815	815
80%	17,679,200	37,126,320	<b>Total Cost</b>	<b>418,486</b>	<b>334,952</b>	<b>269,981</b>
<b>100%</b>	<b>22,099,000</b>	<b>46,407,900</b>	<b>Per Capita cost</b>	<b>18.94</b>	<b>18.95</b>	<b>15.27</b>

Source: National Deployment and Vaccination Plan for COVID-19 Vaccines.

<sup>a</sup> Two doses of vaccine including 5% average wastage.

<sup>b</sup> Distribution cost per dose \$2 per dose.

<sup>c</sup> Non-COVAX at \$7 per dose and COVAX cost free of charge.

<sup>d</sup> 100% of the population with investments in fridges/freezers; 0% of population financed by COVAX.

<sup>e</sup> 80% of the population with investments in fridges/freezers; 0% of population financed by COVAX.

<sup>f</sup> 80% of the population with investments in fridges/freezers; 20% of population financed by COVAX.

10. The development partners, including ADB, have agreed to align their assistance with scenario 3, which aims to provide vaccines to 80% of the population and to strengthen country's cold storage capacity. Under this scenario, it is assumed that 20% of the population will be covered by vaccines provided by COVID-19 Vaccines Global Access Facility (COVAX) free of charge. Accordingly, the total estimated cost amounts to \$270 million and includes \$194.9 million for purchasing of vaccines, \$74.3 million for the distribution of the vaccines (including for COVAX) and \$0.8 million for ensuring adequate cold storage. However, as the NDVP estimates does not adequately cover Medical Waste Management (MWM), the ADB financed project will also support the strengthening of MWM of selected health care institutions as well as the improvement of

<sup>4</sup> For example, the ADB financed Health System Enhancement Project has a budget code of 111/02/13/147.

<sup>5</sup> Under the budget head 423/1/02/001 (Medical supplies purchased through State Pharmaceutical Corporation), approximately \$174 million have been allocated for medical supplies in 2021.

monitoring and implementation systems with an amount of approximately \$28 million, increasing the total program cost to \$298 million.

11. **NDVP financing plan.** The total cost of \$298 million is expected to be financed through ADB loans<sup>6</sup> of \$150 million (50%), World Bank loan of \$80.5 million (27%) as well as the government financing of \$67.5 million (23%). The government is in discussion with United Nations Children's Fund, World Health Organization, other development partners<sup>7</sup> and the private sector to secure additional resources.<sup>8</sup> The total government's contribution to the NDVP is estimated to amount to approximately \$26 million<sup>9</sup> per year or 1.8% of the total estimated budget allocation to the health sector in 2021–2023 and as a result, it is not expected to be a burden.

12. Based on the above analysis, it is anticipated that there are sufficient funds available to finance the NDVP and eventual reallocations of the government funds are not expected to have a material adverse impact on other government financed programs. The program expenditure and financing plan is summarized in Table 4 below.

**Table 4: NDVP Estimated Expenditure & Financing Plan (80% Coverage Scenario)**

<b>Program cost</b>	<b>Estimated amount (\$ million)</b>	<b>% (of total)</b>
Vaccine cost	194.9	65.4
Distribution cost	74.3	24.9
Fridge & freezer cost	0.8	0.3
<b>Total NDVP</b>	<b>270.0</b>	<b>90.6</b>
MWM, sewerage upgradation & systems strengthening	28.0	9.4
<b>Total</b>	<b>298.0</b>	<b>100</b>
<b>Financing source</b>	<b>Estimated amount (\$ million)</b>	<b>% (of total)</b>
ADB loans (PIC & RRC)	150.0	50.3
World Bank loan	80.5	27.0
GOSL	67.5	22.6
<b>Total</b>	<b>298.0</b>	<b>100</b>

ADB = Asian Development Bank, GOSL = Government of Sri Lanka, NDVP = National Deployment and Vaccination Plan for COVID-19 Vaccines, PIC = project investment component, RRC = rapid response component.

Sources: National Deployment and Vaccination Plan for COVID-19 Vaccines and Asian Development Bank estimates.

13. **Incremental recurrent cost analysis of project assets.** At the time of the assessment, the base cost of the ADB-financed project is estimated at approximately \$148 million (Table 5). About \$107.8 million (72.8%) of the project base cost will be utilized to procure vaccines and medical consumables which will be discarded after use as well as to transport the vaccines to the country. In addition, about \$7.4 million (5%) will be used to procure services, consultancies and cover other recurrent cost as well as leasing vehicles for the project implementation period. The remaining amount of approximately \$32.8 million (22.2%) will be invested in creating sewerage systems in selected hospitals as well as in procuring equipment such as cold storage vehicles,

<sup>6</sup> The ADB loans consist of an RRC loan of \$84 million and a PIC loan of \$66 million.

<sup>7</sup> If required, additional financing from APVAX may also be explored in the future.

<sup>8</sup> Contributions may also be accepted to the account of the National Health Development Fund

<sup>9</sup> The estimated range takes into consideration the scenario where the government covers the entire \$67.5 million from its own resources.

laptops, tablets, routers, and incinerators which are expected to be repurposed for general use in MOH and hospitals after the project has been completed.

**Table 5: Breakdown of Project Base Costs by O&M Requirement**

Items	Estimated Base Cost (\$ million)	%
1. Vaccines, medical consumables & transport (outputs 1 & 2)	107.8	72.8
2. Services & recurrent cost (outputs 2, 3 & 4)	7.4	5.0
3. Information technology equipment, vehicles, incinerators, & sewerage systems (outputs 2, 3 & 4)	32.8	22.2
<b>Total</b>	<b>148.0</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

14. The incremental O&M cost pertaining to the sewerage systems and equipment, vehicles and incinerator is estimated to range from 2–5% of the investment cost per annum, resulting in approximately \$0.7–1.6 million per year which is a negligible proportion of the total O&M budget of the various recipient organizations. Given the limited O&M requirements and the strong budget utilization rate of MOH with regards to recurrent expenditures in the recent past, it is expected that the incremental funds for O&M of these assets after the project completion would be made available by the recipient entities as part of their general operations. However, uncertainty surrounding operations and maintenance funding due to the current crisis, the financial sustainability risk is assessed as moderate.

15. **Risk mitigation.** To strengthen financial sustainability, the project will finance operation and maintenance costs of the sewerage systems created and incinerators procured until project completion. In addition, the following assurances and actions are required from the government as part of the loan agreement and the project administration manual: (i) sufficient counterpart funds to the project is provided from its budget for each fiscal year and in a timely manner; (ii) adequate funds towards operations and maintenance of project assets are provided through budgetary allocations or other means during project implementation and after project completion; and (iii) all entities receiving equipment under the project will be required to maintain sound asset management practices including an asset register and conduct periodic inventories. The above actions will be monitored as part of ADB review missions and quarterly progress reports.