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**A REPORT ON ACTIVITIES TO STRENGTHEN
THE FINANCIAL MANAGEMENT OF THE
FAMILY PLANNING AND INTEGRATED COMMUNITY
HEALTH PROJECTS OF NEPAL**

A Report Prepared By:
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C O N T E N T S

| | <u>Page</u> |
|---|-------------|
| ACKNOWLEDGMENTS | ii |
| ABBREVIATIONS | iii |
| | |
| I. INTRODUCTION | 1 |
| II. ACTIVITIES | 2 |
| Budgets: FY 2038-FY 2039 | 2 |
| CHIP Financial Management Division | 2 |
| Statements of Expenditures | 4 |
| Uncleared Advances | 5 |
| New USAID/N Funds-Release Procedures--Working Capital | 6 |
| P.D. 70 | 7 |
| Financial Management Training Program | 8 |
| III. SUMMARY AND RECOMMENDATIONS | 10 |
| Summary | 10 |
| Recommendations | 10 |

APPENDICES

- Appendix A: Memo, van der Vlugt to Swezy, March 10, 1981
- Appendix B: USAID/Nepal's Contributions to FP/MCH:
FY 2038-FY 2039
- Appendix C: USAID/Nepal's Contribution to CHIP:
FY 2038-FY 2039
- Appendix D: Memo, Smith to van der Vlugt, April 22, 1981
- Appendix E: PIL No. 17, Brennan to Maskey, May 13, 1981
- Appendix F: PIL No. 3, Rose to Pradhan, January 7, 1981
- Appendix G: Memo, Anderson to Brennan, March 30, 1981
- Appendix H: Nepal RTSA/A Project Proposal: Financial
Management Training for FP/MCH Staff
- Appendix I: APHA Trip Report, April 8, 1981-April 11, 1981

ACKNOWLEDGMENTS

The consultant would like to express his gratitude to the staffs of the FP/MCH Project and CHIP for their cooperation in these joint activities; without their support, few of the achievements described in this report would have been possible. As in past consulting assignments, support from USAID/N, particularly from the Offices of Health and Family Planning and Financial Management, was exemplary. Sincere appreciation is also expressed to RTSA/A, the University of Hawaii, which agreed to fund the financial management training program. This action will contribute significantly to the improvement of financial management of projects within the HMG Ministry of Health.

ABBREVIATIONS

| | |
|---------|--|
| AID/W | Agency for International Development/Washington |
| APHA | American Public Health Association |
| CHIP | Community Health and Integration Project |
| DHS | Department of Health Services |
| FM | Financial Management |
| FP/MCH | Family Planning and Maternal and Child Health |
| FPO | Family Planning Officer |
| FY | Fiscal Year |
| H/FP | Health and Family Planning |
| HMG | His Majesty's Government of Nepal |
| ICHP | Integrated Community Health Project |
| MOH | Ministry of Health |
| PBHW | Panchayat-Based Health Worker |
| PD | Policy Determination |
| PIL | Project Implementation Letter |
| Rs. | Nepal Rupees |
| RTSA/A | Regional Training Services Agency/Asia |
| USAID/N | United States Agency for International Development/ Nepal |
| VSC | Voluntary Surgical Contraception |

I. INTRODUCTION

The consultant was requested to assist the Ministry of Health (MOH), His Majesty's Government of Nepal (HMG), with a number of problems in financial management. The consultancy was financed through a centrally-funded AID/W contract with the American Public Health Association (APHA), in Washington, D.C. The USAID mission in Nepal (USAID/N) was particularly interested in those activities of the MOH that were funded by the Agency for International Development. The consultant, while initiating his activities from this perspective, formulated concepts and procedures generalizable to sound financial management using all external donor support and HMG-appropriated funds.

This was the consultant's fourth assignment to provide assistance in financial management to the MOH of Nepal. During earlier visits, the consultant focused primarily on activities that would strengthen the financial management of the Family Planning and Maternal and Child Health (FP/MCH) Project. For the current assignment, the consultant's duties were expanded to include work in additional areas of program management and in other branches of the MOH, notably, the Community Health and Integration Project (CHIP). The consultant was requested to make programmatic and fiscal recommendations on MOH operations. Specific suggestions were sought on appropriate USAID/N support of MOH activities.

Shortly after his arrival in Nepal, the consultant's duties were finalized (see Appendix A, Memo, van der Vlugt to Swezy, March 10, 1981). The following report is a summary of the consultant's activities in Nepal.

II. ACTIVITIES

Budgets: FY 2038-FY 2039

The consultant worked with senior staff of the FP/MCH Project and CHIP in reviewing the proposed budgets for FY 2038-FY 2039 (July 16, 1981-July 15, 1982). Budgets were prepared, and brief narratives--work plans--were written; these state in general terms how funds are to be used. Copies of the budgets were forwarded to the HMG Ministry of Finance and the National Planning Commission, as well as to USAID/N, for review and funding.

The FP/MCH Project proposed a budget in excess of Rs. 17 million for general operating expenses; included in this budget is a request for USAID/N to provide Rs. 6.3 million, approximately 35 percent of general operating expenses (see Appendix B, USAID/Nepal's Contribution to FP/MCH, FY 2038-FY 2039). It was recommended that HMG provide some funds to support the panchayat-based health worker (PBHW) program within the FP/MCH Project, which at this time is funded entirely by USAID/N. USAID/N has been requested to provide funds, which should supplement appropriations from the United Nations Fund for Population Activities (UNFPA) and HMG, for voluntary surgical contraception (VSC).

The CHIP Project has requested USAID/N to provide Rs. 4.6 million for general operating expenses. In addition, it was recommended that USAID/N stand prepared to support the salary costs of some additional key personnel for CHIP central-level offices, specifically, financial management and logistics management staff (see Appendix C, USAID/Nepal's Contribution to CHIP, FY 2038-FY 2039). USAID/N has agreed to provide the additional funds for the first year; Rs. 265,425 will be provided for staff of a financial management division, and Rs. 54,865 will be appropriated for central-level logistics management staff. This support is contingent on the actual hiring by CHIP of people for these positions (see following section). Future-year USAID/N support for these salaries will be reduced gradually so that at the end of five years the salaries will be fully paid by HMG-appropriated funds.

CHIP Financial Management Division

By action of the HMG Cabinet, the CHIP Project was created officially as a vertical project on December 17, 1980. CHIP is the successor to the Integrated Community Health Project (ICHP), which was organized within the Department of Health Services (DHS) of the Ministry of Health (MOH). As a vertical project, CHIP will have considerable autonomy, and will be responsible for the day-to-day operations of the program. Administrative

functions once performed by divisions of the MOH will now be done by CHIP staff.

Specifically, CHIP will have to receive, redistribute, and account for project funds. Earlier, this function was done for the ICHP by the Financial Management Section of the DHS. The consultant reviewed with senior CHIP administrative staff the requirements for operating a financial management division. It was agreed that 26 new positions would constitute sufficient staffing for such a division. CHIP staff obtained approval to recruit candidates for these new positions from the Public Services Commission and the Ministry of Finance.

There has been some resistance to CHIP creating its own financial management division. However, final barriers have been overcome and recruitment has begun. An opportunity to deal with year-end closings, billing USAID/N for reimbursement, and sharing in the financial management training conducted by FP/MCH has been lost. USAID/N has made it clear that working capital will not be advanced until a viable financial management unit is in place.

Accommodation made by USAID/N to reimburse for FY 2037-FY 2038 expenditures has helped the financial position of CHIP and reemphasized USAID/N's commitment to CHIP. USAID/N's offer to subsidize the first year's costs of the financial management division helped overcome resistance to adding staff. CHIP senior management must put this unit in place immediately. Steps are already underway to accomplish this task.

During the next year, USAID/N should be prepared to offer intensive technical assistance to CHIP in order to get the financial management division functioning. Specific tasks that need to be accomplished include:

- recruiting the central-level staff;
- orienting new staff to the accounting needs of CHIP and the past problems of ICHP;
- establishing a central-level accounting system in compliance with the standardized HMG system which also meets the needs of the multiple donors;
- selectively analyzing past reports from operating-level offices to assess recording and reporting deficiencies;
- making site visits to operating-level offices to analyze problems in daily maintenance of records and periodic reporting;

- issuing directives to operating-level offices on expectations for accounting and reporting;
- designing a training program for operating-level accountants in correct implementation of the HMG accounting system with particular reference to reporting requirements of USAID/N and other external donors;
- conducting training for operating-level accountants (and perhaps health inspectors);* and
- resolving accounting and reporting problems from the predecessor organization, ICHP.

As noted above, the consultant believes that USAID/N has demonstrated continuing support of ICHP/CHIP by agreeing to reimburse for expenditures incurred in FY 2037-FY 2038. After CHIP has accomplished the first three tasks from the above list and designed a plan for implementing the final six tasks, USAID/N should forward the initial increment of working capital to the Ministry of Finance for use by CHIP.

Statements of Expenditures

The FP/MCH Project has compiled reports of expenditures for the first two quarters of the present fiscal year, FY 2037-FY 2038. Discussions were held with USAID/N Health and Family Planning (H/FP) and Financial Management (FM) staff on an appropriate format for reporting expenditures. In the past, USAID/N has accepted a certified statement of expenditures on the HMG Auditor General's Form Number 13. The USAID/N controller has requested that some additional backup information be provided for certain kinds of expenditures (see Appendix D, Memo, Smith to van der Vlugt, April 22, 1981).

Extensive discussions were held among FP/MCH central-level staff, district family planning officers (FPOs), and USAID/N FM staff on procedures for implementing these requirements. To simplify the reporting process, the controller suggested a modification in the USAID/N procedure for budgeting rupees for the FP/MCH Project. Instead of providing general budget support--a percentage of every line-item in the budget--the controller recommended specifying funds for those line-items in the budget that require

*The senior financial management staff of the FP/MCH Project are prepared to assist CHIP financial managers with the training.

See: Mishra, G.P., et al. Report to Training Services Agency/Asia of the University of Hawaii on the Nepal FP/MCH Training Program on Financial Management, Kathmandu, FP/ MCH Project, July, 1981; p. 25.

no supporting financial documents. In this approach, USAID/N support is removed from those line-items that have created auditing problems in the past; the total amount of rupee support can remain the same.

Project accountants can maintain separate records on these expenditures. USAID/N should implement this budgeting mechanism in the new fiscal year, taking care not to reduce the total rupee support to general operating expenses. The standard HMG certified statement of expenditures should be used for requesting reimbursement.

Uncleared Advances

An ancillary issue to a mutually acceptable statement of expenditures is reconciling previous year balances; specifically, uncleared advances.

For FY 2031-FY 2032 and FY 2032-FY 2033 (FY 1976 and FY 1977), USAID/N waived reconciliation of small sums of uncleared advances that were presumed to have been properly spent, but were undocumented in operating level records.* Two additional years, FY 2026-FY 2027 and FY 2029-FY 2030 (FY 1970 and FY 1973), have been completely reconciled. For the four remaining years, FY 2027-FY 2028, FY 2028-FY 2029, FY 2030-FY 2031, and FY 2031-FY 2032 (FY 1971, FY 1972, FY 1974, and FY 1975), a total of \$374 of USAID/N funds remains unaccounted for.

Some of the advances cleared by the FP/MCH Project for FY 2026-FY 2027 through FY 2031-FY 2032 were overdraft repayments (unexpended for project activities and, therefore, repaid). USAID/N retains a claim for its proportionate contributed share of these funds.

The writer recommends three actions to resolve the USAID/N share of these FP/MCH uncleared advances. First, as with FY 1976 and FY 1977, USAID/N should implement the appropriate procedures to waive its share, \$374, of the uncleared advances for the four years prior to FY 1976. Second, the FP/MCH Project should reimburse USAID/N for its share of repaid advances. One way to accomplish this is for USAID/N to take credits in these amounts against the next submission of an FP/MCH certified statement of expenditures submitted for reimbursement. Third, USAID/N should offer technical assistance to FP/MCH to reconcile uncleared advances for FY 1978 to the present. An opportunity for tracing these advances will arise when the FP/MCH senior

* See Swezy, F.C. HMG Nepal Family Planning/MCH Project Fiscal Management Consultant Report. Washington: APHA, May 1980, Appendix B.

financial management staff conduct site visits to operating-level offices as follow-up to the financial management training program.*

As noted in the section on the CHIP financial management division, CHIP, as a newly created vertical project, has no financial management division. Expenditures for the current fiscal year are recorded by the Financial Management Section of the DHS, as was done for the predecessor division, ICHP. The last advance of USAID/N funds to the ICHP was in December 1979. No statement of expenditures on ICHP advances was received by USAID/N for more than a year. Because reporting is late and incomplete and because CHIP has no financial management staff to receive and redistribute funds, USAID/N did not advance funds to CHIP during the current fiscal year. As a result, program operations were retarded.

Following their discussions with senior CHIP staff, USAID/N agreed to provide the current-year funds--slightly more than Rs. 2 million--on a reimbursement basis (see Appendix E, PIL No. 17, Brennan to Maskey, May 13, 1981). When CHIP forwards to USAID/N certified statements of expenditures for specified budget items, CHIP will be reimbursed for the expenses. CHIP staff are working with the Financial Management Section of the DHS to implement the procedure and to obtain as much USAID/N funding as possible by reimbursement.

New USAID/N Funds-Release Procedures--Working Capital

In previous years, USAID/N provided rupee support to MOH projects through a series of advances. Certified statements of expenditures were then submitted that documented advances to and expenditures by field offices. One problem with this system of advances was that it frequently took MOH projects a number of years to clear all outstanding advances as noted in the section above. Under general budget support, a proportion of the uncleared advances was USAID/N funds which had to be carried on USAID/N books.

In the current fiscal year, USAID/N devised a new release procedure which in no way changes the standard HMG accounting system. Under the new release procedure, funds are not released directly to the line ministry (e.g., MOH). Rather, an advance of "working capital" is provided to the Ministry of Finance in the name of the specified project. The Ministry of Finance releases funds, identified entirely as HMG money, to the specific project. The project spends the money and submits certified statements of expenditures through the Ministry of Finance to USAID/N. Those expenditures that USAID/N

* Mishra, *ibid*, pp. 20 ff.

accepts are then reimbursed through the Ministry of Finance to the project. With this mechanism, USAID/N provides assistance to the program through cash flow--the "working capital" and project support--and through reimbursement (see Appendix F, PIL No. 3, Rose to Pradhan, January 7, 1981).

The new release procedure reinforces the operation of the HMG financial system by encouraging projects to submit timely financial statements to obtain reimbursement from USAID/N. The system gives the advantage to USAID/N by removing that organization from uncleared advances; projects are reimbursed for actual expenditures only.

Discussions will continue to determine what might be a mutually acceptable reporting format for certified statements of expenditures. No reimbursements were made during the consultancy.

The new USAID/N release procedures reinforce the efficient implementation of the HMG accounting system. It is in the interest of the FP/MCH Project to forward certified statements of expenditures to USAID/N in a timely manner. This is the only way to obtain a reimbursement payment from USAID. Project staff fully understand this.

A significant advantage of the so-called "working capital" procedure to the FP/MCH Project is that it alleviates HMG constraints on cash flow. Funds are made available to the Ministry of Finance for release at the beginning of the funding cycle. This redresses the persistent problem of late releases within HMG. From that point it is up to the FP/MCH Project to continue the flow of funds from USAID/N by submitting statements of expenditures for reimbursement. The consultant believes that it would be inappropriate for USAID/N to change to a straight reimbursement procedure for release of funds to the FP/MCH Project because of the added burden of cash flow that would be placed on the Ministry of Finance. The consultant predicts that a change to straight reimbursement would curtail FP/MCH and CHIP service activities.

An advantage of the "working capital" and reimbursement procedure to USAID/N is that it removes USAID from the flow of uncleared advances in operating-level offices. Since FP/MCH will only be reimbursed for expenditures, USAID will not be responsible for a share of uncleared advances. As noted in the section above, there are still unreconciled advances between FP/MCH and USAID/N back to FY 1970.

P.D. 70

The AID administrator's Policy Determination No. 70 (P.D. 70) states that USAID missions may not fund or in any way support projects in which incentives are used to encourage patients to undergo surgical contraception. Surgical contraception must remain entirely voluntary to qualify for continuing U.S.

Government assistance. Financial payments to the providers of surgical contraception are permitted, however, under AID's Revised Program Guidance interpreting P.D. 70, if certain conditions are met. Of paramount importance, payments to providers must not affect the patient's decision to undergo sterilization.

Physicians in Nepal are paid a small fee per patient, Rs. 20 (U.S. \$1.67), to conduct sterilization surgery. The payment system for vasectomy and tubectomy in Nepal was reviewed (see Appendix G, Memo, Anderson to Brennan, March 30, 1981). It was determined that the problem in Nepal is finding physicians who are willing to provide the service; acceptor demand for voluntary surgical contraception (VSC) is far greater than available services. Strong sentiment exists among Nepali physicians to raise the small per-case fee. USAID/N has decided that the present system does not provide an incentive to physicians to promote VSC in Nepal. USAID/N has agreed to continue supporting the VSC component of the Nepal family planning program, but it will monitor implementation for the next year to ensure that the per-case payment of \$1.67 does not result in physicians' promotion of this method over alternative forms of contraception.

Financial Management Training Program

In the past year and a half, a number of problems have been identified in financial recording and reporting by the FP/MCH Project and ICHP/CHIP. The APHA consultant worked with the senior financial management staff of the FP/MCH Project in identifying many of these problems. A proposal was prepared to conduct a series of regional training workshops for district FPOs and accountants to solve these problems (see Appendix H, Nepal RTSA/A Project Proposal, Financial Management Training for FP/MCH staff).

The main objectives of the training are:

- to instruct district staff in uniform HMG accounting policies and procedures;
- to make district accountants and FPOs aware of the need for timely and accurate financial reporting;
- to show central-level and operating-level accountants how to maintain separate program-specific statements of expenditures by funding source; and
- to advise district FPOs on their appropriate role in supervising field office accountants.

III. SUMMARY AND RECOMMENDATIONS

Summary

The APHA consultant was requested to provide assistance in financial management to HMG Ministry of Health programs that are supported by USAID/N. A variety of tasks was undertaken with staff from the FP/MCH Project and CHIP. The consultant addressed the following issues:

- budget recommendations for the new fiscal year;
- creation of a financial management division for the new vertical Community Health and Integration Project;
- submission of financial statements for the current fiscal year;
- resolution of uncleared advances from prior years;
- implementation of new USAID/N release procedures;
- analysis of fee-for-service payments for VSC services;
and
- the design of a financial management training program for Ministry of Health field personnel.

No significant problems or barriers were encountered in the performance of these tasks.

Recommendations

1. USAID/N rupee support should remain at the same proportionate level as negotiated (Appendix B). HMG (FP/MCH) budget figures should be reallocated to reflect some support for PBHW activities.
2. USAID/N should pay the total rupee costs for the operation of the financial management and logistics divisions of CHIP. The first year support should be in addition to the negotiated level of contributed rupees for FY 2038-FY 2039 (Appendix C).

3. USAID/N should offer technical assistance to the financial management division of CHIP during the first year of operation.
4. When CHIP has a financial management staff in place and functioning, USAID/N should provide the Ministry of Finance with working capital for this project.
5. USAID/N should discontinue general budget support and specify discrete line items eligible for reimbursement.
6. As per recommendation 5, USAID/N should accept the standard HMG certified statement of expenditures as a basis for reimbursement without recourse to supporting documentation.
7. USAID/N should inform FP/MCH that the U.S. Government share of uncleared advances, FY 1970-FY 1978, are considered to be cleared.
8. USAID/N should inform FP/MCH that technical assistance is available, if desired, to help clear advances for FY 1978-FY 1980.
9. USAID/N's proportionate share of repaid HMG advances should be credited to USAID.
10. In the current fiscal year, CHIP should be reimbursed for authorized expenditures.
11. USAID/N should continue the working capital procedure for releasing funds and should avoid straight reimbursement.
12. USAID/N should inform CHIP that technical and financial assistance is available to train field office accountants.

Appendix A

MEMO, VAN DER VLUGT TO SWEZY, MARCH 10, 1981

Memorandum

TO : F. Curtiss Swezy, APHA Consultant

FROM : *Sigrid Anderson*
Gerold V. van der Vlugt, Chief, H/FP

SUBJECT: Scope of Consultant Duties

DATE: March 10, 1981

We have requested you to come to Nepal to perform the following tasks:

1. Work with the FP/MCH and CHIP financial management staff on preparing the FY 2038/039 budget. Suggestions are desired on USAID/N support, both in quantity and specific activities for USAID/N assistance.
2. Assist CHIP in initiating a financial management section. Suggestions are desired on how USAID/N can support the development of a viable financial system within CHIP.
3. Work with the FP/MCH financial management staff and USAID/N, FM in an attempt to resolve deficit balances of USAID/N - supported activities for the past few years.
4. Assist FP/MCH Project in clearing advances dating back to 1970. Complementary to this activity will be addressing the question of repatriating USAID/N funds from repaid advances.
5. Assist FP/MCH and CHIP financial management staffs in the design and conduct of a financial management training program. Particular attention should be paid to conforming to HMG rules and regulations. In addition, a procedure must be developed to maintain identity of funds by discrete funding sources (i.e., USAID/N).
6. Assist FP/MCH and CHIP in forwarding current year statements of expenditures to USAID/N for reimbursement.
7. Assess the effectiveness of new USAID/N funds release procedures. In particular, note any reinforcement of the HMG system, improvements in reporting to USAID/N, and acceleration of releases by USAID/N to the health projects.
8. Assist USAID H/FP staff in analyzing and making recommendations on implementing PD-70 guidelines. Particular attention should be paid to incentive payments for sterilization service providers.



Appendix B

USAID/NEPAL'S CONTRIBUTION TO FP/MCH: FY 2038-FY 2039

USAID/Nepal's Contribution to FP/MCH: 2038/39

Attached is a copy of the FP/MCH budget for FY 2038/39. The budget requests a total of Rs. 36,888,000. USAID support is again requested for General Operating Expenses, FHEW, and VSC.

FP/MCH Proposed Budget: FY 2038/39

| | General Operating Expenses | FHEW | VSC |
|--------------|----------------------------|------------|---------|
| EMG | 13,262,000 | - 0 - | - 0 - |
| USAID | 4,543,000 | 11,348,000 | 888,000 |
| Total | 17,805,000 | 11,348,000 | 888,000 |

In this budget USAID's total support would be Rs. 16,779,000 (US \$1,410,000).

The total request for GOE is Rs. 17,805,000. The request for FHEW, 100% funded by USAID, is Rs. 11,348,000.

In this proposed budget the EMG share of GOE would be Rs. 13,262,000. According to N/FP projections, the FP/MCH Project can expect to receive approximately Rs. 10,500,000. Added to the amount requested from USAID, Rs. 4,543,000, this simply would be insufficient for adequate program operation.

N/FP staff have been discussing with FP/MCH financial and program managers the possibility of (1) EMG picking up some of the costs for FHEW and (2) USAID providing more funds for GOE. Our recommendation is that USAID pay only for FHEW salaries, allowances, and TA/DA; Rs. 10,240,000. Under this alternative, EMG would pay all other associated costs; Rs. 1,100,000, from GOE.

If EMG is then willing to provide Rs. 11,000,000 for GOE, the N/FP staff recommends that USAID provide Rs. 6,300,000. This would provide a total of Rs. 17,300,000 for GOE. The N/FP staff believes that this is the absolute minimum (with the addition of Rs. 1 million in expenditures for FHEW) that will be required to adequately operate the program. USAID's share of GOE, under this alternative, would be 36%, which is consistent with prior year support. Total USAID support to FP/MCH would then be Rs. 17,428,000 (US \$1,464,538). No decision will be made by FP/MCH on this alternative until Dr. Pande returns in two weeks.

If BMC is willing to provide more than Rs. 11 million for GGE, USAID should stand ready to provide a 36 % match for all the additional funds, up to a maximum budget of Rs. 18.8 million for GGE.

NFP Proposed Alternative

| | General Operating Expenses | FPM | VBC |
|--------------|----------------------------|-------------------|----------------|
| BMC | 11,000,000 | 1,108,000 | -0- |
| USAID | 6,300,000 | 10,240,000 | 888,000 |
| Total | 17,300,000 | 11,348,000 | 888,000 |

Best Available Document

Appendix C

USAID/NEPAL'S CONTRIBUTION TO CHIP: FY 2038-FY 2039

USAID/Nepal's Contributions to CHIP: 2038/039

Attached is a copy of the proposed CHIP budget for FY 2038/039. USAID's proposed share is Rs. 4,600,000 (US \$386,555), not including construction.

The CHIP's Board will be meeting next week. At that time the staff is going to propose that 28 persons be recruited to establish a financial management and internal auditing section. The total cost for the new financial management section, for one year, is estimated to be Rs. 265,425 (US \$22,305). The H/FP staff recommends that USAID/N offer to provide this amount, in addition to the Rs. 4,600,000, if CHIP actually fills these positions.

In addition, the CHIP staff is going to propose that 7 persons be hired to establish a logistics management section. First year operating cost is estimated to be Rs. 74,865 (US \$4,611). H/FP recommends that USAID offer to provide these funds for the first year if these positions are filled.

The budget for CHIP lists Rs 1 million for construction in the Rapti Zone. This is not a rupee expense, but will be paid for directly by USAID (see USAID dollar support, 0135, attached).

It should be noted that the last release by USAID to CHIP was in December, 1979. Since that time we have not received a statement of expenditures.

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Appendix D

MEMO, SMITH TO VAN DER VLUGT, APRIL 22, 1931

FM-51-132

Dr. Gerold V. Van der Vlugt, HFP

April 22, 1981

George L. Smith, Controller

Reimbursement Vouchers for Family Planning Activities

This memorandum is written as a follow-up to our conversation held April 8, 1981.

To process reimbursement vouchers for salary payments we must have a one time listing of all the employees. Additions and deletions should be submitted to FM as they occur. Separate statements of expenditures should be submitted for FBHW, VSC and GBS. The present format is acceptable.

Additional documentation to be submitted with the statements of expenditures for each activity is listed below:

1. FBHW

- a. A listing, by locations, of the number of employees whose salary payments are included in the reimbursement claims.
- b. A breakdown of claims made under budget line items No. 9 (Contingency) and No. 4 (Equipment).

2. VSC

A list of claims made under budget line items 7 (Material) and No. 9 (Contingency).

I recognize that you do not agree with the above but this is what I need in order to certify vouchers for reimbursement. I do not believe that the request is unreasonable nor do I believe that it places a hardship on HFG,

RL: GLSmith:nbv

4/22/81

Appendix E

PIL NO. 17, BRENNAN TO MASKEY, MAY 13, 1981



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO NEPAL

KATHMANDU, NEPAL

May 13, 1981

Mr. Jitendra Lal Maskey
Acting Secretary
Ministry of Finance
Babar Mahal

Subject: Project Implementation Letter No. 17
Integrated Rural Health/
Family Planning Services
No. 367-0135 CHIP, FY 2037/038.

Dear Mr. Maskey:

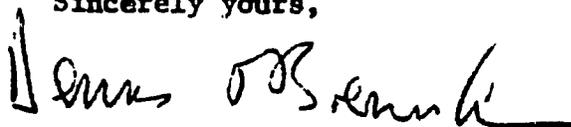
This is to advise you that USAID has agreed to provide Rs. 2,044,000 to the Ministry of Health, Community Health and Integration Project (CHIP) within the total current fiscal year budget of Rs. 24,959,000. USAID support will be up to the following maximum amounts:

| | |
|-------------------------------------|-----------------|
| a) Travel Allowance/Daily Allowance | Rs. 1,544,000 |
| b) Printing/Paper | Rs. 500,000 |
| Total | Rs. 2,044,000 |
| | (\$ 171,764.71) |

To receive these funds CHIP must submit Certified Statements of Expenditures to the Ministry of Finance for transmission to USAID. After reviewing the Statements of Expenditures, USAID will reimburse CHIP for approved expenditures. If applicable, USAID will also identify and explain any claimed expenditures that USAID has disallowed.

This implementation letter earmarks a total amount of Rs. 2,044,000 (\$171,764.71). If the MOF agrees with these proposed financial reimbursements to CHIP, please respond by letter to USAID.

Sincerely yours,


Dennis J. Brennan
Director

Appendix F

PIL NO. 3, ROSE TO PRADHAN, JANUARY 7, 1981



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO NEPAL

KATHMANDU, NEPAL

January 7, 1981

Mr. Goraksha Bahadur Bhuchhe Pradhan
Secretary
Ministry of Finance
Babar Mahal

Subject: Implementation Letter No. 3
Integrated Rural Health/Family
Planning Services No. 367-0135

Dear Mr. Pradhan:

In accordance with principles of agreement reached during a meeting on 11 December 1980 at the Ministry of Finance between representatives of HMG and USAID, this project Implementation Letter establishes the funding procedures that will be followed during the life of this project.

In brief, the funding procedure for the IRH/FP project (367-0135) would follow the steps outlined below:

1. The Ministry of Health will develop annual work plans with which USAID will concur. From the work plans, an estimated budget will be prepared by line items and will indicate the equivalent share of cost to be borne by HMG and by USAID. The annual budget amount will be used to determine the quarterly cash requirements.
2. Copies of these annual budgets and quarterly cash requirements will be forwarded by the Ministry of Health to the MOF and USAID accompanied by a request to provide funds on quarterly basis for project use during the coming fiscal year. Semi-annual budget reviews and revisions, if applicable would be initiated by the Ministry of Health.
3. Upon receipt of these documents, MOF and USAID will review them. If acceptable as submitted, or as modified in coordination with the Ministry of Health, MOF and USAID will agree on a quarterly cash flow plan for the project for the coming fiscal year. At this point USAID will issue a Project Implementation Letter (PIL) to the Ministry of Health concurring with the work plan and agreeing with the budget for the coming fiscal year. At the same time, a PIL will be issued to MOF under terms of which USAID will agree to provide working capital equivalent to the calculated USAID share of project costs for a current quarter and the subsequent quarter.
4. Assuming the Ministry of Health has met the HMG requirements for requesting the release of funds, MOF will authorize prompt quarterly release of funds in accordance with the agreed project cash flow plan. The fund releases will be for the full amount of the calculated estimated HMG and USAID shares.

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5. At the end of each quarter the Ministry of Health will submit to MOF and USAID accountings of all expenditures incurred in that quarter. The accounting to MOF will follow standard HMG regulations and will be the basis for determining whether or not the Ministry of Health is eligible to receive the cash advance for the next quarter (i.e. the second quarter following the one for which the statement is being submitted). The statement to USAID will be in the form agreed by USAID and will be used to determine the reimbursement for project expenditures that is to be provided to HMG by USAID.
6. After reviewing the statement of expenditures, USAID will provide MOF with a check in an amount equal to the allowed and approved expenditures plus an identification and explanation of any claimed expenditure that USAID had disallowed.

If the project working capital loan to MOF then exceeds the working capital requirement for the calculated estimated USAID share of project expenditures for the current and forthcoming quarter, then a credit will be taken by USAID against the reimbursement to reduce the working capital loan to the level necessary under the project cash flow plan.

7. MOF and USAID will monitor the expenditures of projects to determine if and when modifications in the projects cash flow plan are necessary. Changes will be made by mutual agreement between MOF and USAID, and will be recorded in a PIL amending the appropriate preceding PIL.

The above funding arrangements are intended to in no way change HMG's established financial/accounting rules and regulations for financial management of donor assisted projects. The intended change is that all releases of funds from MOF to the implementing Ministry or Agency will be entirely HMG funds rather than a mix of HMG and USAID funds. The Ministry of Health will continue to adhere to HMG's procedures for requesting and accounting of funds.

If the MOF agrees with the above procedures, please respond by letter to USAID.

Sincerely,

Thomas L. Rose
Acting Director

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Mr. Dennis J. Brennan, Director

March 30, 1961

A. Sigrid Anderson, Acting Chief, NFP

Waiver of Covenant in Section 3.8 of the Grant Agreement for IIR/FFS
367-0135 Concerning Payment for Voluntary Surgical Contraception
Services on a Per-Case Basis

Attached is a memorandum prepared by NFP discussing whether the covenant contained in the IIR/FFS Grant agreement that the GCM Ministry of Health implement a system for payments to providers of voluntary surgical contraception (VSC) services other than on a per-case basis within one year after the Agreement is signed (by August 31, 1961).

The memorandum reviews the statute, Section 104 (F) of the Foreign Assistance Act of 1961, Policy Determination No. 70, two Program Guidelines, and numerous cables on the subject.

NFP concludes that the covenant should be waived, and the present per-case payment system continued, for several reasons, some of which are here summarized:

1. the present per-case payment system has been determined by AID/M to be in compliance with PD-70, and hence with the statute;
2. the new Program Guidance specifically permits per-case payments;
3. there is no evidence that the present payment system has any motivational effect on acceptors' choice of method of contraception;
4. the present per-case payments are far below the current fees charged by private physicians for similar or identical surgery, and hence are reasonable in amount;
5. the per-case payment system is more cost efficient than any per session payment system that may be devised, and necessary to keep the VSC program operating without disruption.

NFP therefore requests that the Director approve two draft cables, one requesting AID/M concurrence to waive the above - described covenant; and a second recommending that IPAVS' payment policies for VSC service providers be in congruence with GCM VSC payment policies.

Attachments: A/3

cc: AD, S/TC, S/IS, FDIS, ASIA/FFS, CLE

NFP:Anderson:hm
3/30/61

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Appendix H

**NEPAL RTSA/A PROJECT PROPOSAL:
FINANCIAL MANAGEMENT TRAINING FOR FP/MCH STAFF**

NEPAL RTSA/A PROJECT PROPOSAL

Title of Project: Financial Management Training for FP/MCH Staff

Origin: Nepal Family Planning and Maternal and Child Health Project
P.O. Box 820
Ram Shah Path
Kathmandu, Nepal
Telephone # 12731

INTRODUCTION

Nepal does not have an extensive tradition of administrative management within the context of contemporary administrative science. When the current monarchy asserted itself and assumed working control of the government in 1952 only 10,000 Nepali children were enrolled in school. This is the generation that has been implementing a massive development and modernization program for the past 30 years.

In this setting His Majesty's Government of Nepal (HMG) designed a uniform financial management and accounting system in 1968. The system is noteworthy for its simplicity and appropriateness within the Nepal context. Some traditions from the pre monarchical period persist. For example, emphasis on "over accountability" for funds. A key feature of the system is provision for a single funding stream from funds authorization to expenditure.

Despite the simplicity and appropriateness of the accounting system the Family Planning/Maternal and Child Health Project (FP/MCH) has been experiencing some problems in accounting for funds. Constraints include difficulty in obtaining educated staff, adequate pre-service and in-service training in HMG rules and regulations.

and significant barriers to communications whether postal or telecommunications.

Added to the inherent limitations of the HMG uniform system has been the accounting demands of donor agencies. These donors provide critical support to the FP/MCH Project. A series of audits by the USAID/Nepal Mission and the AID Regional Auditor pointed out that the structure of single source funding in the HMG system results in de facto commingling of funds at the level of expenditure. The AID Regional Auditor found this an unacceptable condition for continued USAID/NI support.*

The present HMG accounting system simply does not make provision for maintaining identity of multiple funding streams. For example, there is a single (consolidated) statement of expenditures for all funds, irrespective of source.** Because of the constraints upon administrative management in Nepal the Accountant General adamantly refuses to change the uniform accounting system.

The financial management staff of the FP/MCH Project have developed a procedure for maintaining identity of funds, by source, utilizing multiple statements of expenditures (a separate Form 8 for each donor). The HMG Accountant General has stated that this procedure is acceptable because it does not alter the uniform accounting system.

* See: AID Area Auditor General, Near East. Audit Report on the Examination of USAID/Nepal's Health and Family Planning Program. Sept. 24, 1979. Recommendation No. 6 states, in part if the accounting difficulties "cannot be cleared within 90 days, future funding should be withheld."

** HMG Accountant General Standard Form 8.

OBJECTIVES

1. To provide in-service training in the uniform HMG accounting policies and procedures.
2. To train district accountants and district Family Planning Officers (FPOs) on the necessity of timely and accurate financial reporting.***
3. To train headquarters and field accountants in the maintenance of separate program specific statements of expenditures by funding source.
4. To train district FPOs on their appropriate role in supervising field accountants.

WORK PLAN

A series of four regional training programs will be conducted to train 126 financial management staff and district FPOs. In addition, 20 financial managers from other projects within the Ministry of Health will be invited to attend. The training will be conducted by the senior financial management staff of the FP/MCH Project. They will be assisted by staff of the FP/MCH Training Division, the Accountant General's Office, as well as non-government experts: for example, the Centre for Economic and Development Administration. One RTSA/Asia consultant will assist the FP/MCH financial management staff design, implement and evaluate the training.****

*** This is a particularly important requirement under the new USAID/N funds release procedures. See: Project 367-0135 Project Implementation Letter No. 3, 1/7/91.

**** F. Curtiss Swezy, Dr. P.H., has been a consultant in financial management to the FP/MCH Project on four occasions during the past 18 months. He has been instrumental in identifying some of the problems in current practices and designing this training program. Project staff have requested that Dr. Swezy assist in the training.

EVALUATION

An assessment has already been made by the senior financial management staff of the FP/MCH Project on inaccuracy of reporting, lateness of reports, gaps in knowledge concerning HMG rules and regulations, and ambiguity on the role of district management staff to supervise field office accountants.* Prior to the commencement of training a structured evaluation of these components will be formulated. Immediately following each training session, and during subsequent months, improvements in financial reporting will be monitored. Components of the evaluation will include promptness of reports, accuracy, and maintenance of separate expenditure statements (Form 8s) by funding source.

At the conclusion of the four training sessions an evaluation of the entire project will be conducted. At this time selected site visits will be made by senior FP/MCH financial management staff and the RTSA/A consultant to inspect field office records and interview accountants and district FPOs. Follow-up will be conducted in those districts with continuing notable problems, both for corrective action as well as feedback for improved future training.

* See: Swezy, F. Curtiss. HMG Nepal Family Planning/MCH Project: Vol. 2. Fiscal Management Continuation. Appendix C Monthly District Financial Reports; July 1979 -- December, 1979.

REPORTS

At the conclusion of the second training session an interim report will be prepared on progress to date. This report will detail the conduct of the training sessions, problems encountered, modifications or alternatives for future training sessions, and comparison of pre- and post-training evaluations.

A final report will be prepared after the fourth training session. This report will assess all four training sessions. Specific components of this report will include trainees evaluation of the sessions, improvements in reporting including accuracy and timeliness, increased supervision of accountants by district FPOs and success in maintaining records of expenditures by discrete funding sources. The final report will also include the findings of the post-training site visits (see Evaluation above).

BUDGET SUMMARY

| | |
|-------------------------|-----------|
| I. Training Preparation | \$2,274 |
| II. Validation | 147 |
| III. Training | 33,458 |
| IV. Evaluation | 1,507 |
| Total: | \$37,386* |

* Inflation: 10%

This budget is based upon current prices. All costs are expected to rise during the ensuing months. The factor for inflation, \$3,399, is added to the five components of the Summary Budget

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Appendix I

APHA TRIP REPORT, APRIL 8, 1981-APRIL 11, 1981

AMERICAN PUBLIC HEALTH ASSOCIATION
TRIP REPORT
(April 28, 1981-April 11, 1981)

Travelers: Gobind Mishra, Head, FP/MCH Financial Management
Curtiss Swezy, APHA Consultant

Purpose: To review financial records of operating-level offices and obtain information for the planned financial management training seminar.

Location/Dates: Western Regional Office, Pokhara: April 8-9, 1981
Palpa District Office, Tansen: April 9-10, 1981
Rupandehi District Office, Bhairahawa: April 10-11, 1981

Western Regional Office, Pokhara

The FP/MCH regional office is located on the grounds of the Gandaki Zonal Hospital. Mr. Mishra and the APHA consultant discussed with the regional staff problems in financial management and suggested a curriculum for the planned financial management workshop. Mr. Hom Raj Ghimire, the store-in-charge, had just completed the logistics management training course (sponsored by RTSA/Asia) and provided insight into trainee needs.

Mr. B. R. Gautam, the acting regional medical officer, said a financial management training program would be most useful. It would permit direct communication between central-level and operating-level staff on the latest procedures. Mr. Gautam noted that, when a new directive is received in writing, it is sometimes difficult to interpret all the implications. Face-to-face discussions will permit follow-up questions and in-depth review of financial management procedures.

Mr. Gautam stated that the recently completed logistics management training was very useful. Mr. Ghimire, the store-in-charge, commented that the eight-day training session was too short. He would have preferred more time for workshop sessions to review and fill forms.

Mr. Bisu B. Poudel, the naibsubba, said he welcomed the opportunity to participate in a financial management training seminar. He said that he particularly wanted to see included in the instruction a review of the new (current) HMG accounting system and procedures for maintaining program accounts through use of separate (HMG Auditor General) Form 8s.

Palpa District Office, Tansen

A visit was made to the FP/MCH office in Palpa District. In Tansen, courtesy calls were also made to the district medical officer, Ministry of Health, and the general services administrator, Mission Hospital (United Mission to Nepal).

The district FPO, Mr. Prakash Man Shrestha, was very enthusiastic in his appraisal of the logistics management training seminar. He did feel, however, that the mukhiyas should have had more time at the workshop to deal with the "practical" aspects of logistics management in addition to the "theoretical" material presented.

Mr. Shrestha strongly endorses the idea of having a financial management training course with FPOs and kharidars. He believes that kharidars will need significant time at the workshop to absorb the procedures for correct completion of daily and monthly financial forms.

A significant program concern of Mr. Shrestha's is insufficient service providers to meet the demand for vasectomy in the hill regions surrounding Tansen. In Tansen itself vasectomy is available on demand year-round from the district medical officer and at the Mission Hospital. But in outlying areas of Palpa, Mr. Shrestha believes that demand is not being met. Mr. Shrestha noted that the Mission Hospital has successfully trained health aides (paramedics) to perform vasectomies. He would like to see HMG adopt a policy of training health aides so that the demand for vasectomy in the remote hills can be met.

Mr. Shrestha took the two Kathmandu visitors on a courtesy visit to the Mission Hospital in Tansen. Ms. Rosemary Carnahan, R.N., the general services administrator, explained that the facility is operated on a (subsidized) fee-for-service basis. There are 100 beds for lying-in patients and a very active outpatient service. Family planning services are cafeteria-style; condoms, pills, IUD, Depo-Provera, vasectomy, and tubectomy (with emphasis on postpartum surgery) are offered.

Ms. Carnahan explained that the Mission Hospital does not actively recruit family planning acceptors, but it makes it known that services are available to all who desire them. All contraceptive supplies, including Depo-Provera, are provided to the hospital by the FP/MCH Project through the district FPO, Mr. Shrestha.

Ms. Carnahan expressed the view that the most appropriate temporary contraceptive in Nepal is Depo-Provera. This is true in terms of lifestyle, efficacy, and continuation rates.

Ms. Carnahan confirmed that the Mission Hospital has trained health aides to perform vasectomies. She is unaware of any differences in side effects or failure rates between vasectomies performed by health aides and services of expatriate physicians. She noted that, periodically, hospital staff travel to surrounding villages to provide vasectomies. But the majority of services are offered at the hospital.

The group also visited Dr. H. P. Mahaju, the district medical officer. Dr. Mahaju and Mr. Shrestha appear to maintain a high degree of cooperation in providing family planning services in Palpa. Vasectomy patients are referred to Dr. Mahaju, who conducts the operation on demand. Last year, he performed approximately 150 vasectomies.

Rupandehi District Office, Bhairahawa

A visit was made to the FP/MCH district office in Bhairahawa. A calculation of the trial balance revealed that Rs. 190 were unreconciled. An intensive review of the records by Mssrs. Gobind Mishra and Marayan Bahadur Thapa, district naibsubba, reconciled all but Rs. 20. Mr. Thapa indicated that the remaining balance would be reconciled before the monthly financial statement is forwarded to Kathmandu in the next week.

Mr. Thapa reviewed with Mr. Mishra a number of financial management problems in the district.

The Bhairahawa branch of the Nepal Rastra Bank has not been completing Form 15 each month. Consequently, Mr. Thapa has had to carry balances forward for two and three months before receiving a statement of the FP/MCH Project's bank balance.

Another problem has been carrying balances of PBHWs' salaries on the books. Supervisors are signing for and receiving PBHWs' monthly salary payments. But, in some instances, they are failing to forward the salaries and obtain signed statements from PBHWs for one or two months. Mr. Thapa does not know how to record these outstanding accounts.

The APHA consultant noted that the office records show that the district FPO has had an outstanding advance of Rs. 3,600 since February. Mr. Thapa explained that the funds were for a sterilization camp and that the FPO was scheduled to account for the advance in the next week. This information was forwarded to the central-level office in the previous monthly financial report on Form 14.

Without prior instruction from the central level, Mr. Thapa has been maintaining separate program accounts by listing expenditures on the separate Form 8s. This is a particularly commendable initiative and will

be noted for all kharidars and naibsubbas during the financial management training program.

Summary

Mssrs. Gobind Mishra, head, FP/MCH Financial Management Section, and Curtiss Swezy, APHA consultant, visited the western regional office and two district offices of the FP/MCH Project. Parts of two days were spent in Pokhara, Tansen, and Bhairahawa. Financial records were reviewed and management problems were discussed. Specific suggestions were sought on the content and presentation of the proposed financial management training seminar. Some practical accounting problems were resolved, and many useful suggestions were provided on the conduct of the planned training program.

Recommendations

1. The first financial management training seminar should be held in the western development region (Pokhara).
2. The curriculum should be carefully limited to only those aspects of financial management that will address current, pressing problems.
3. Ample time should be scheduled for group discussions and exercises on how to fill out the various daily and monthly financial forms.
4. A procedure should be defined for supervisors to pay PBHWs or return salaries to district offices on time.
5. Central-level financial management staff should rigorously review monthly Form 14s from operating-level offices and follow-up on outstanding advances to individuals.
6. HMG should be encouraged to train paramedics in vasectomy and assign them to unserved areas of the country.
7. Those interested in the question of fee-for-service care in Nepal should review the experience of providers such as the United Mission to Nepal.

Attachment A
KEY STAFF CONTACTED

FP/MCH Project

B. R. Gautam, Acting Regional Medical Officer, Western Region

Bisu B. Poudel, Naibsubba, Western Region

Home Raj Ghimire, Store-in-Charge, Western Region

Prakash Man Shrestha, FPO, Palpa District

Narayan Bahadur Thapa, Naibsubba, Rupandehi District

Ministry of Health

H. P. Mahaju, M.D., Medical Officer, Palpa District

United Mission to Nepal, Tansen

Rosemary Carnahan, R.N., General Services Administrator