Prioritising Public Financial Management to improve health outcomes

Health partners – their understanding and use of government systems

APPS Conference – September 2014

Challenges in the PFM Cycle

Policy, Planning & Budgeting

- The level and timing of the political/policy dialogue. How to get earlier and higher political involvement in planning and budgeting. Health Sector Plans – declared political ownership vs effective political ownership
- Difficulty for some development partners in bringing their funding or activities on plan and on budget. Plans and budgets sometimes emerge only in-year
- Credibility of budgets is weak, i.e. actual budget execution is significantly different to published budgets
  - Payroll and allowances deliberately underestimated in an attempt to protect operating budgets, and stay within MoF imposed ceilings (Vanuatu)
  - Aspirational development budgets where infrastructure or other projects are nowhere near ready for implementation but are still included in Estimates
  - Procurement capacity and contract management capacity cannot deliver on the published budget
  - Poor national level revenue performance brings cash limited budget execution

Challenges in the PFM Cycle

Capacity in procurement; fraud in procurement

- Poor value for money purchasing – no centralised procurement in MoH and no professional procurement cadre in MoH or across govt
- Politically appealing devt. projects that are not ready for imp'n
- Poor regulatory framework, or lack of compliance/enforcement e.g. failure to use purchase orders, taking delivery before preparing a requisition or LPO, failure to certify delivery or quality of works
- Limited or no use of preferred supplier arrangements
- Fraud in procurement where internal control and internal audit are weak
- Fraud in cash imprests/advances which are a critical part of service delivery at facility level in the provinces

Challenges in the PFM Cycle

Accounting and reporting

- Provincial health cost centres not directly connected to national FMIS. Use of stand alone accounting packages or large cash imprests – health facility staff are not accountants, and challenges of acquitting imprests where cash is spent in remote locations
- Response of DPs increasingly sensitive to fraud is to increase controls and audit, absorbing valuable service delivery funds
- Provincial health supervisors have limited access to or understanding of value of in-year financial management reports, and jointly managing their budget
- Lack of MoH corporate or whole of MoH approach to managing budgets, managing HR resources, reviewing operating plan progress and HIS trends
- Pervasive belief that management = dealing with today's political crises, HR failures, lack of finance, suppliers cutting off supplies ……
- …… rather than regular in year review of progress of spending, operating plans, HR and HIS data

Challenges in flow of funds in ‘decentralised’ health systems

Destination and timing of fund flows

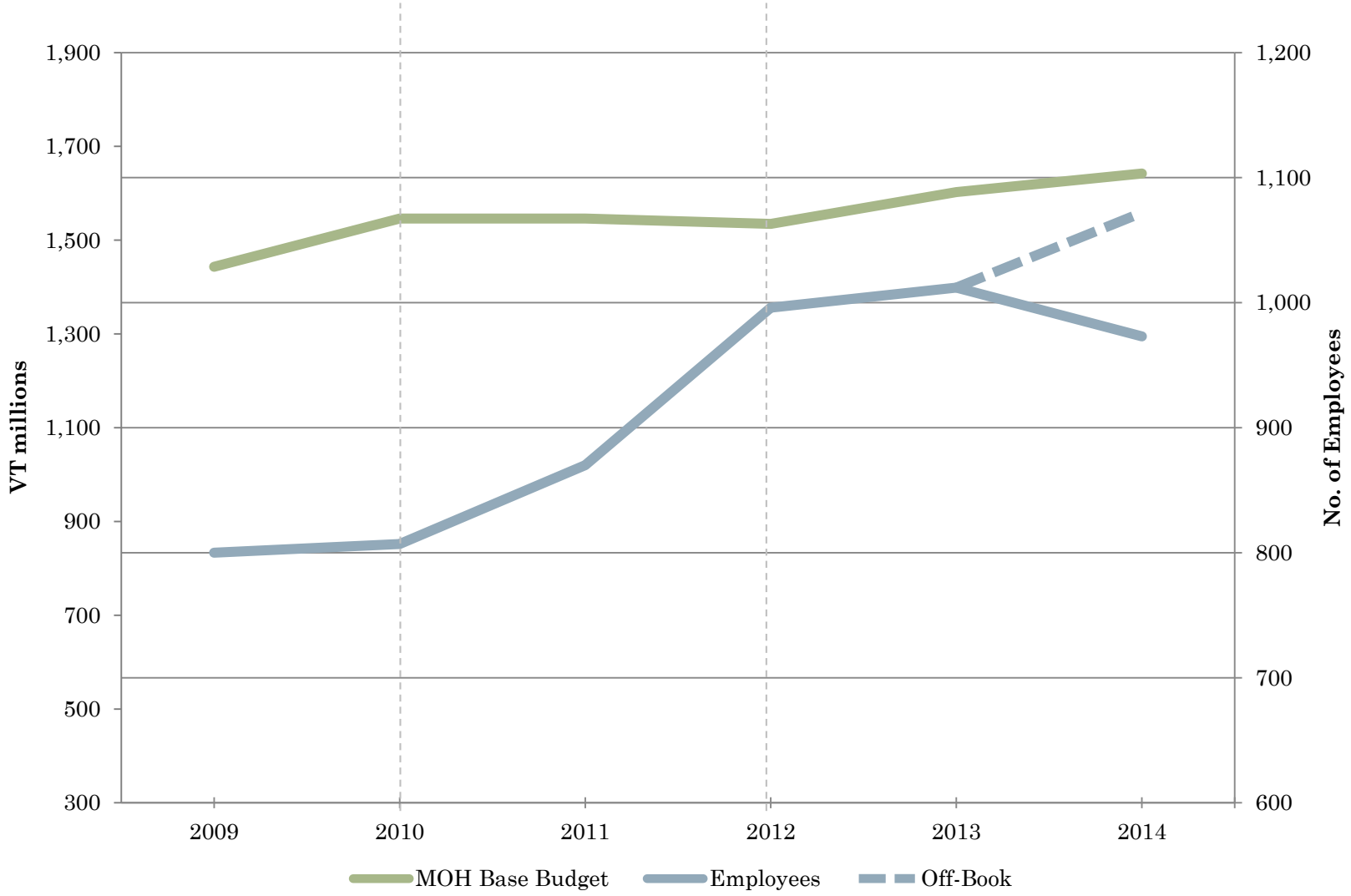
Destination

- Where should provincial facility budget control and spending occur – MoH HQ? MoH provincial or district centre? Area health centre? Facility level?
- Beneficiary facility may not be located near a business or market centre (which are often at provincial capital only) so control over budgets may be cosmetic, and could limit flexibility in budget execution
- Devolved budget control or cash control increases financial risks because of capacity to manage funds, to acquit or return funds, to report on use of funds
- Where budgets lack credibility, facilities may see diminishing level of operating funds, and/or equipment and will resort to increased use of informal fees and charges on patients
- In response to fraud and pressure from DPs, greater proportion of funds must be devoted to financial controller sign off, internal audit, DP auditors, supervisory support for field visits,
- Failure to acquit imprests – advances have not been a priority for MoH – improved internal audit capacity has exposed the risk; executive does not monitor levels or age; poor guidelines for imprest holders; finance units have not followed up outstanding imprests; outright fraud

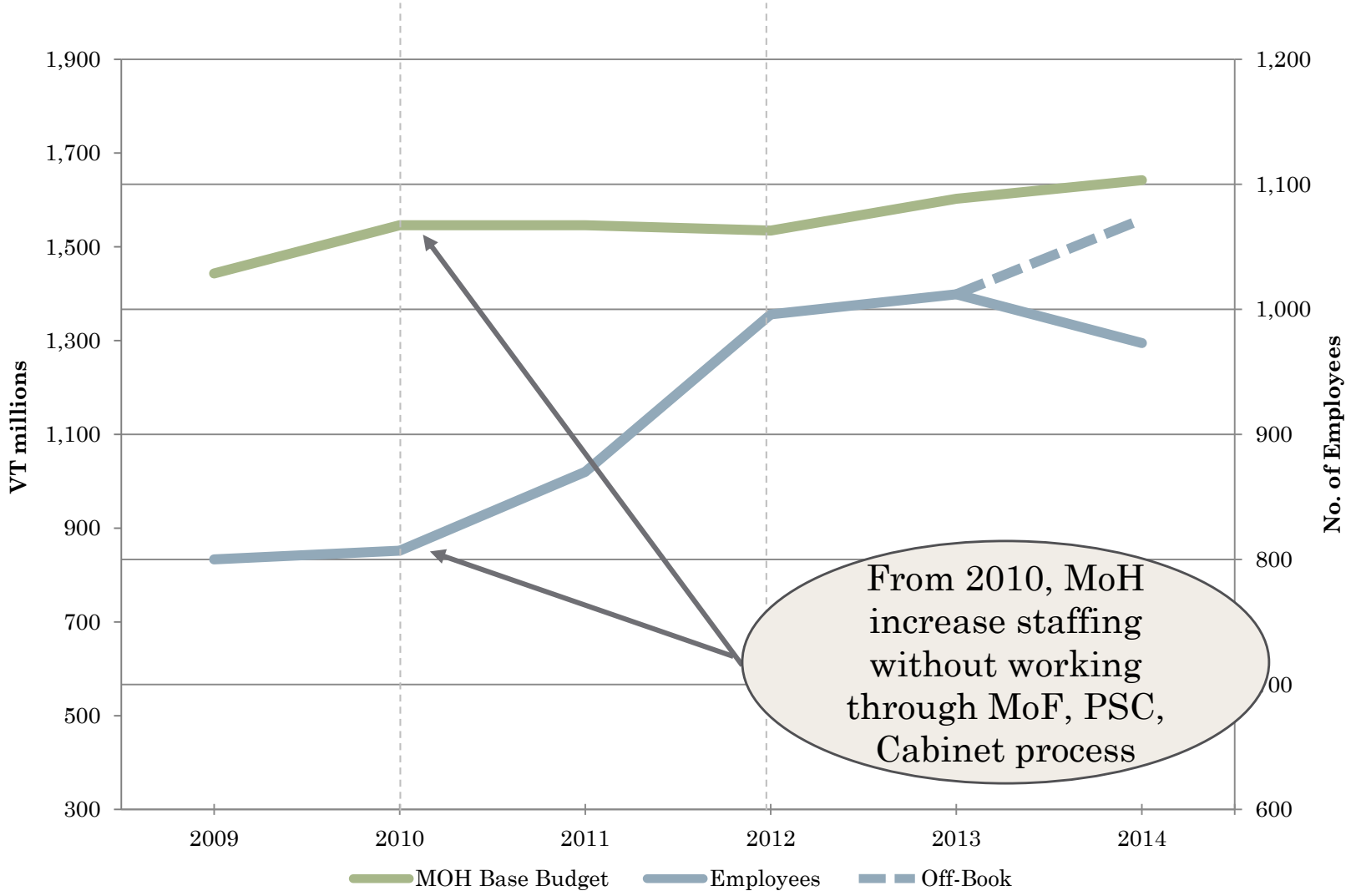
Timing of fund flows to provincial health centres - Vanuatu

- Until 2014 all purchasing/payments by provincial health/hospital cost centres processed through MoH HQ in Vila on MoF SmartStream system, including any DP support that is on-budget and on-treasury (incl. imprests/advances)
- Warrants are monthly or fortnightly, and can be cash limited based on timing of revenue flows. Minimal delays in Jan/Feb compared to SI and PNG
- From 2014, a MoF owned Finance Service Bureau (FSB) in each province allows purchases/commitments/payments/advances to be entered by an MoH delegate in each province. Can also be used to draw and acquit imprests. MoH capacity to use this facility is still to be developed
- Each FSB has its own bank account which can process transactions for any Fund, for any cost centre, for any project. The bank accounts are maintained by MoF in Vila who monitor balances, cash flow, and ensure reconciliation. Good system
- Provincial health service delivery constrained not by fund flow delays, not by cash limited warrants, not by MoH Corporate Services using provincial funds, but by overspending of payroll and allowances which each provincial cost centre consistently under budgets for

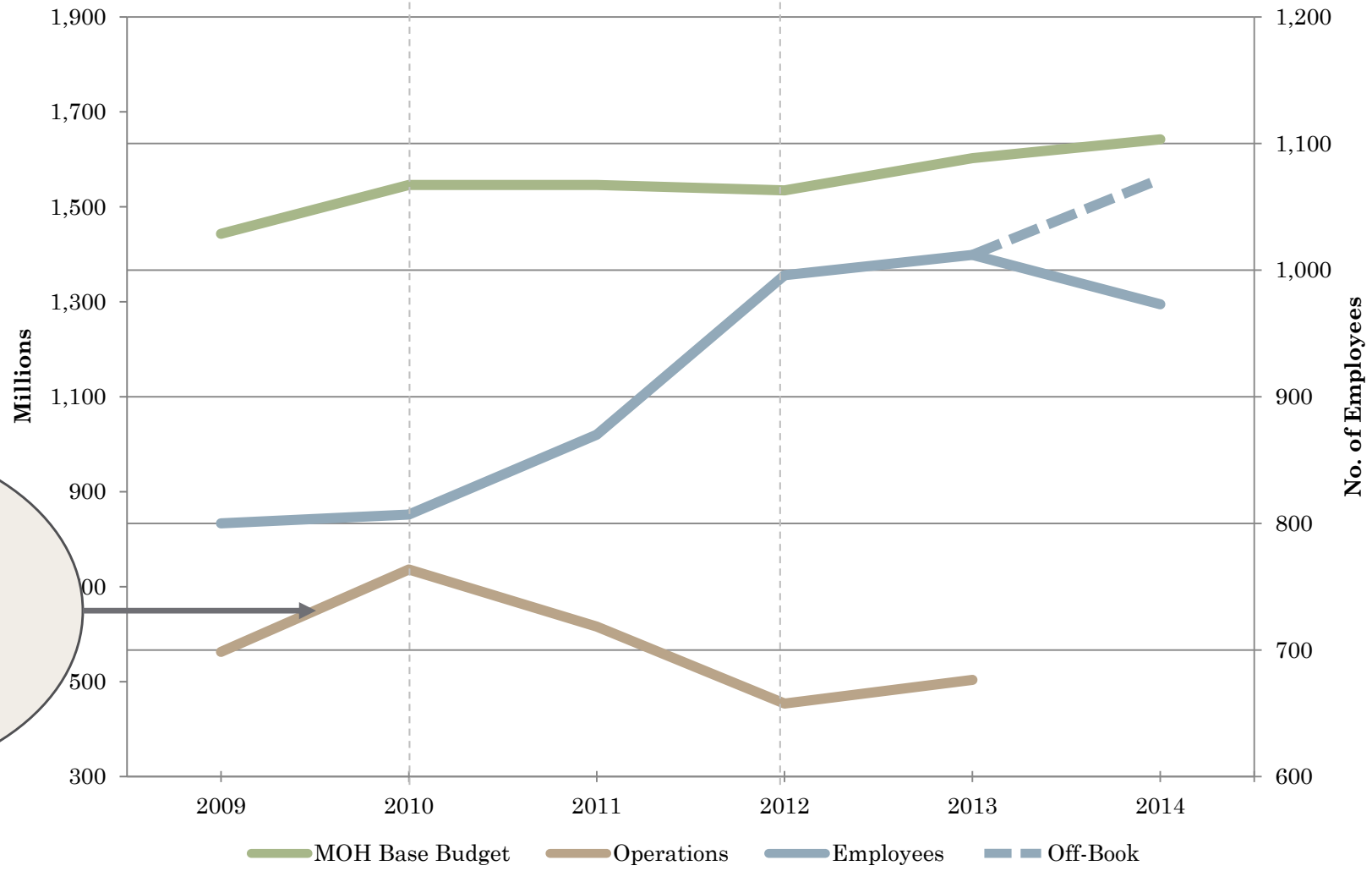
Vanuatu MoH budget trends



Vanuatu MoH budget trends



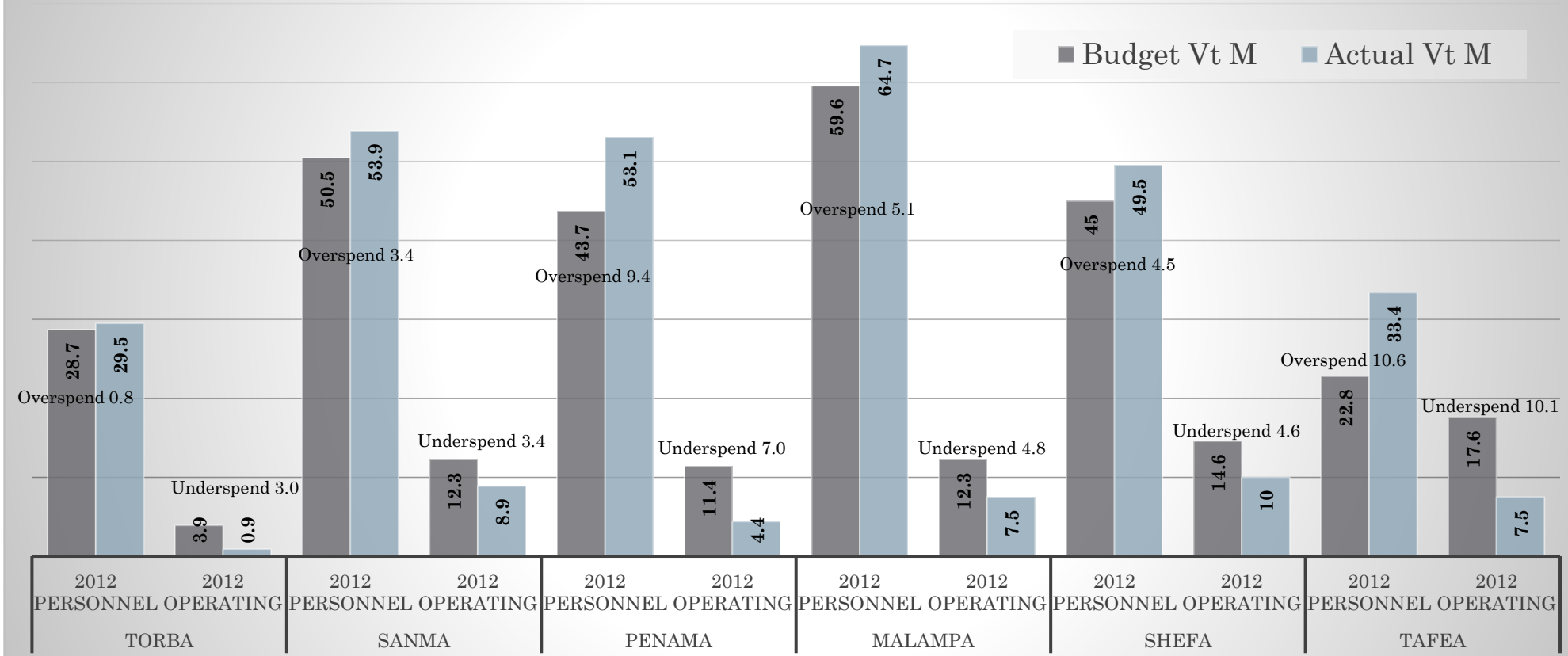
MoH budget outcomes – the accountants strike back! – MoF aggregate spending controls still work



Increase in payroll with no increase in budget = forced decrease in operations spending as result of strong FMIS control

MoH Personnel and Operating, Overspend v Underspend 2011-2013

Community Health Services 2012
Personnel overspend Vs Operating Underspend



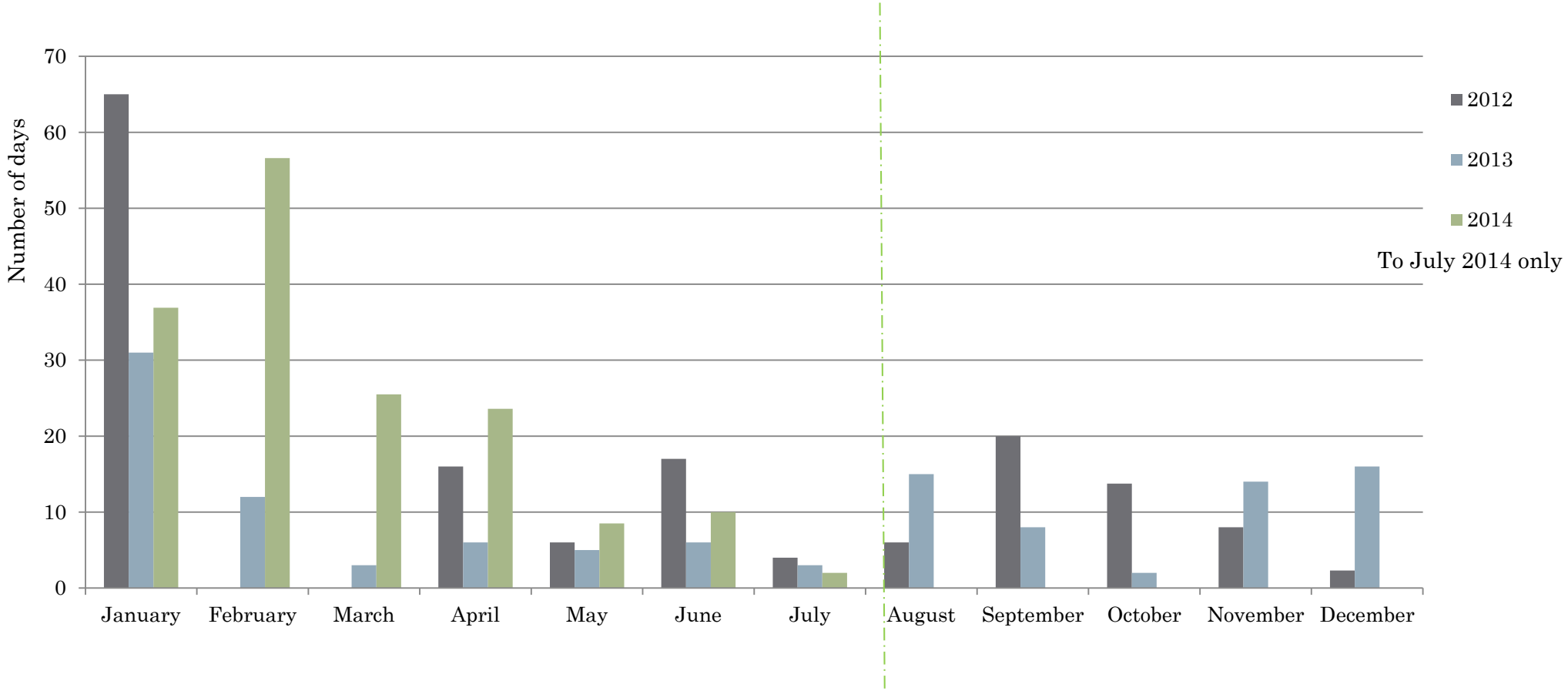
Pop. 9,586 | Pop. 48,979 | Pop. 30,819 | Pop. 36,722 | Pop. 78,723 | Pop. 32,540

Timing of fund flows to provincial health centres – Solomon Islands

- History – unitary system of prov'l govt in decline since early 1990s; health service delivery had been a delegated function; in response to poor funding, governance concerns, DP pressure, MoH seconded its own staff to provinces, and grant funds were redirected to MoH Provincial Health Directorates with their own bank accounts. But these SIG and HSSP funds are still treated as grants, even though they are simply transfers between SIG bank accounts
- Prov Health Directors are doctors, not accountants or managers. Accounting, reconciliation and reporting on funds used has been a low priority, but with WB/DFAT support, MoH Finance Unit is now providing mobile support
- SIG 'grants' are monthly – significant delays in both MoH & MoF processes
- HSSP 'grants' quarterly – same MoH & MoF delays, but also some quarterly grants can be frozen in response to frauds

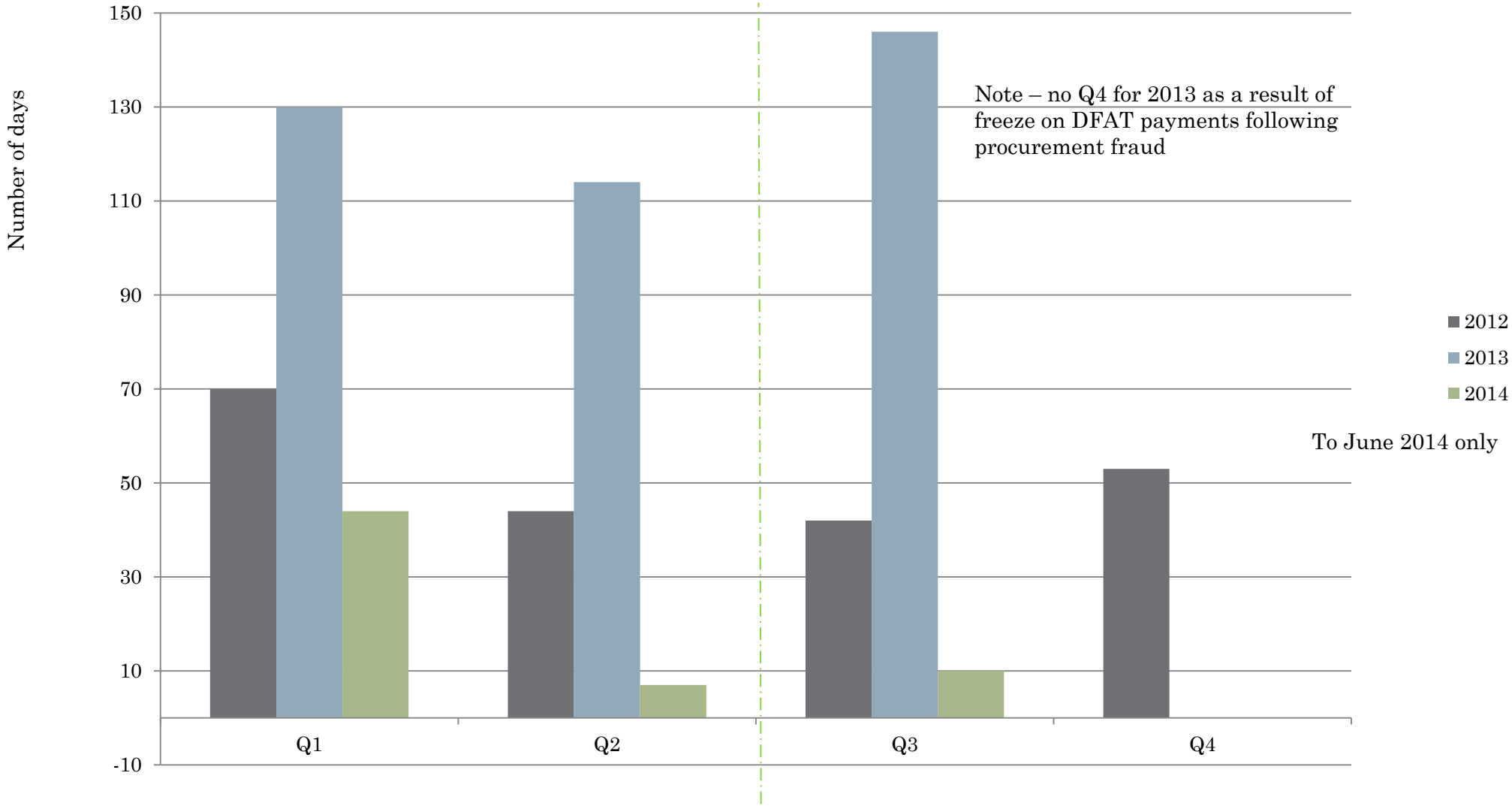
SIG monthly 'Grants' – Total MoH/MoF delay between 1st of month and money in PHD bank account

(monthly provincial average of delays)

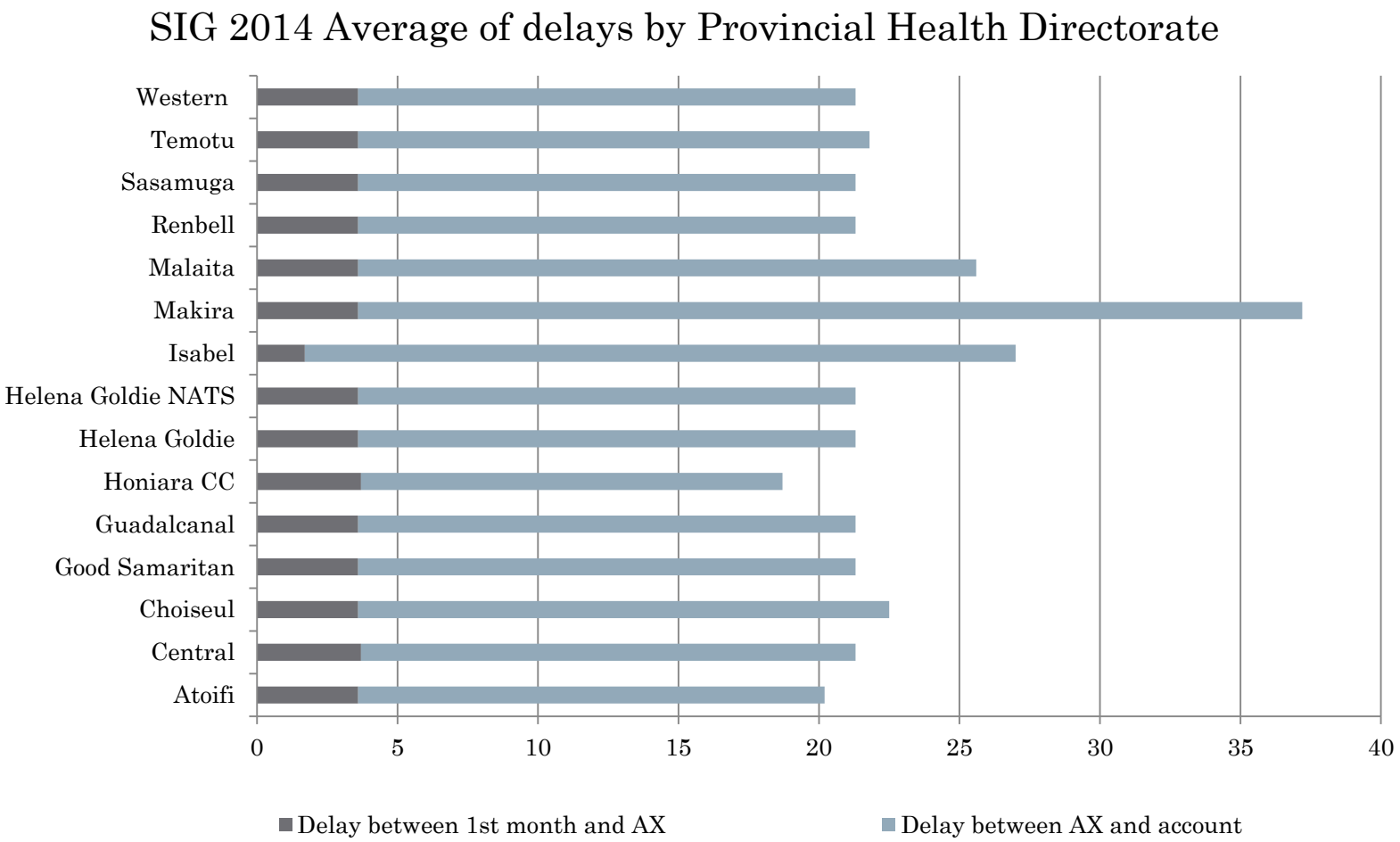


HSSP Quarterly 'Grants' - Total MoH/MoF average delay by quarter

Quarterly provincial average of delays



Where are the delays occurring? In MoH or in MoF? For SIG 'Grants'



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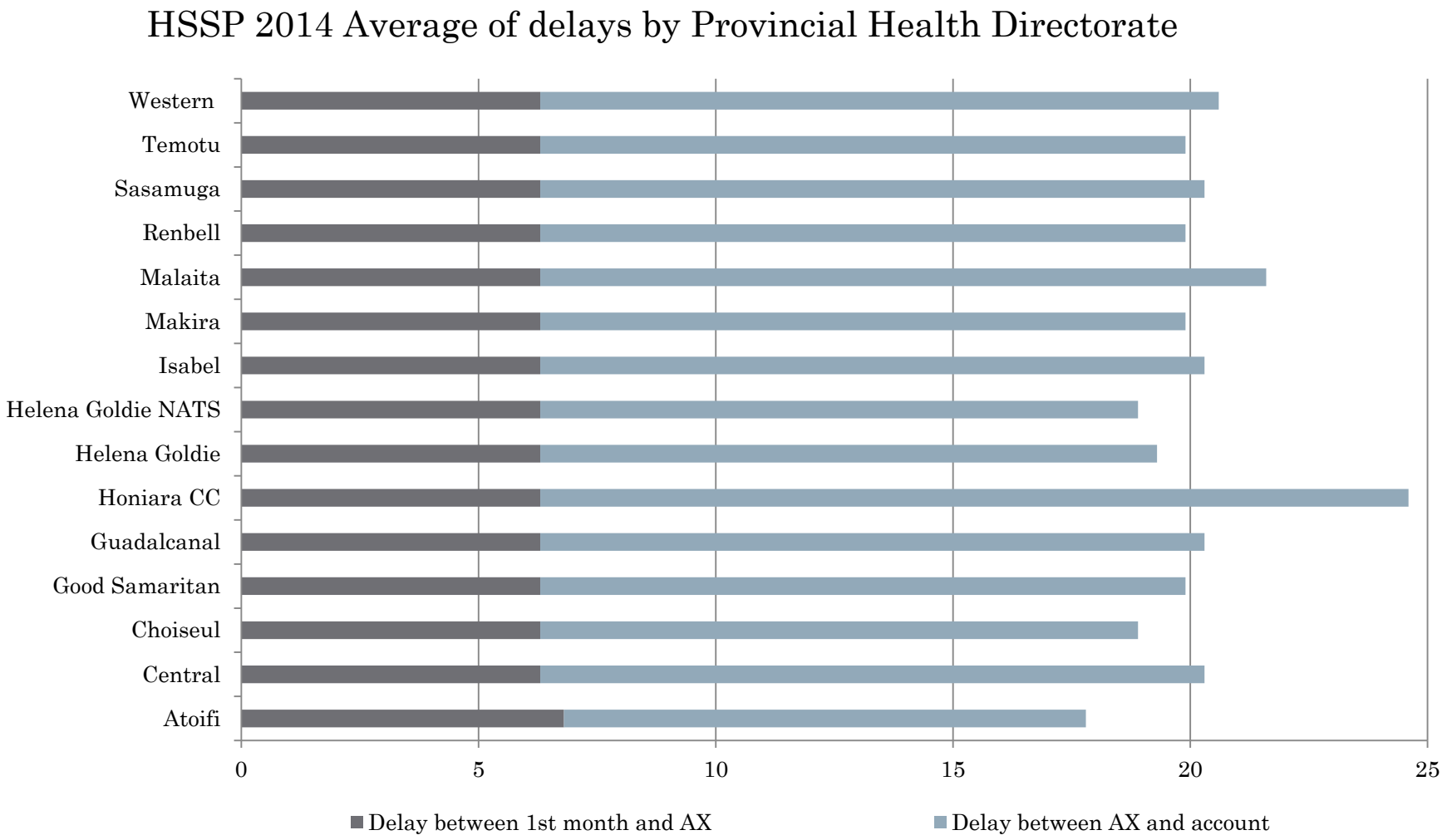
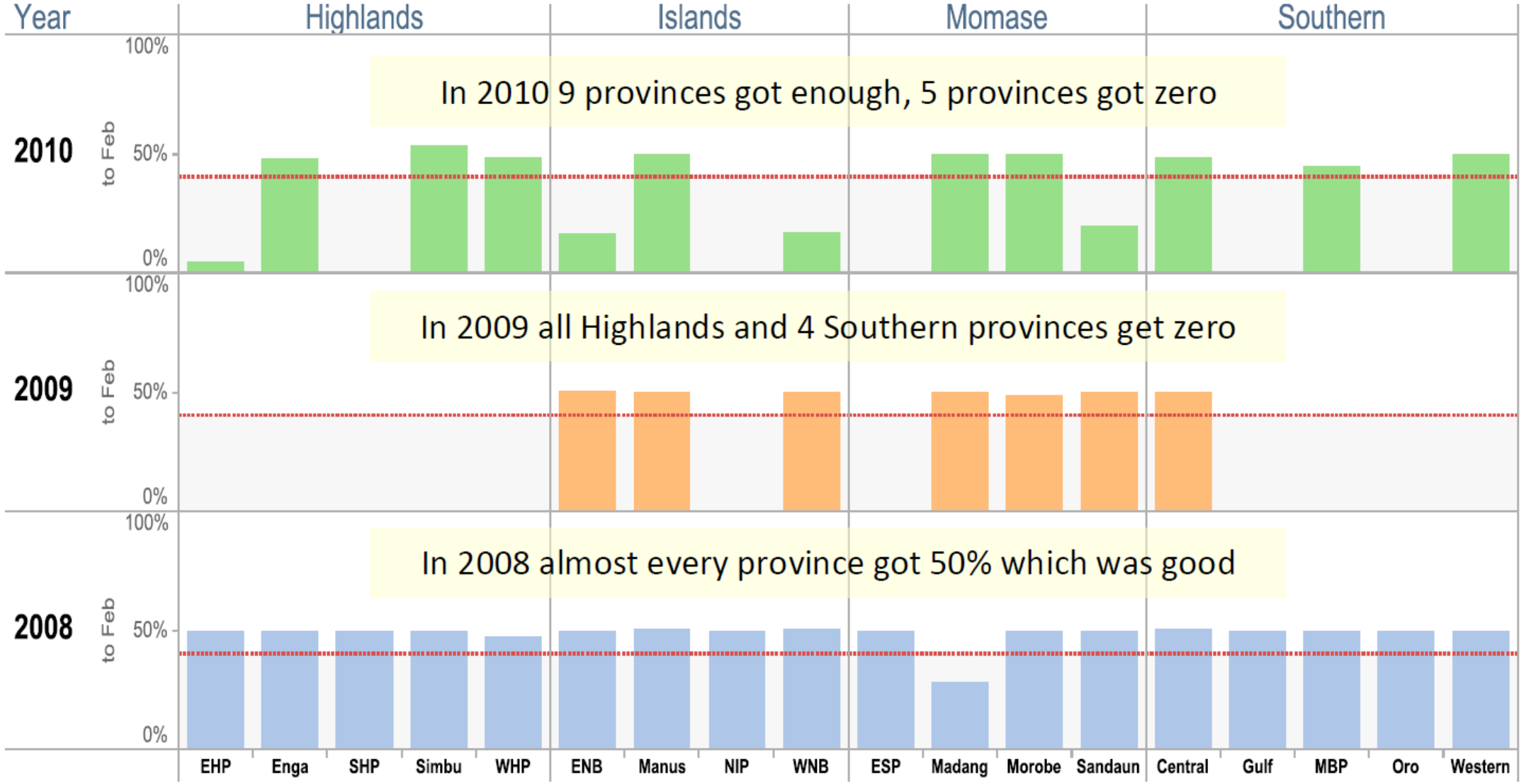


Reasons for delays in funds reaching PHD bank accounts

- MoH
  - January & February – Christmas – New Year shut down
  - Staff performance & accountability issues in MoH finance unit
  - Until 2014, weak systems for tracking payments where no ministries have online access to MoF AX
- MoF
  - January & February – Christmas – New Year shut down
  - Staff performance & accountability issues
  - Until 2014 – finance staff (now suspended) gaming the system with suppliers
  - Revenue or cash flow problems for MoF partially dealt with by not cheque releasing payments recorded as accounts payable on AX, or, until 2014, not recording the MoH requisitions and payment vouchers at all
  - For HSSP 'grants' – delays and freeze for last two quarters of 2013

Timing of fund flows to provincial health centres – PNG

Source: Below the Glass Floor – Analytical Review of Expenditure on Rural Health, WB 2013



Note

The shaded area represents the 40% target funding that provinces need to commence their service delivery responsibilities

'PNG Below the Glass Floor' Recommendations, July 2013 - To be useful most funding needs to be disbursed by the end of July. It takes provincial administrations 2-3 months to spend or transfer the money received (to districts, LLGs or facilities) it is proposed that 90 percent of funding needs to be released by Treasury by the end of July to ensure that it is well spent on service delivery activities before the end of the year.

Proposed Warrant Release Schedule to achieve this:

Month	Warrant / Cash	Process at sub-national	Spend / cheque
Jan			
Feb	40%	Processing	
Mar		Processing	
Apr	30%	Processing	40%
May		Processing	
Jun			30%
Jul	20%	Processing	
Aug		Processing	
Sep	10%	Processing	20%
Oct		Processing	
Nov			10%
Dec			
Total	**100%**		**100%**

Source: NEFC, The 2011 Provincial Expenditure Review, Taking Stock 2013.

Political Economy Issues

- Solomon Islands – Prov'l Govt still able to appoint Direct Wage Employees (DWEs) in health, & set terms & conditions. These impose financial burden on the Provincial Health Directors who must fund them from their 'grants'. Legal liability issues
- Solomon Islands – state of health infrastructure – National Referral Hospital and provincial facilities; Universal Health Care Policy, Service Delivery Packages, Role Delineation Policy, NRH autonomy policy – cost, affordability over what timeframe?
- Vanuatu – Frequent changes of government - turnover of Ministers and therefor of DGs and other senior officials; decentralisation policy changes, organisation structure changes; political time and energy divided between political survival and health service delivery issues
- Vanuatu – location and staffing of health facilities as political instruments; ministers unilaterally appointing staff; ministers divorced from budget considerations or HR management issues
- Moral hazard for DPs over the long term – Ministers with policy agendas (good), but with inadequate involvement in budget prioritisation process

Central Agency Issues

- Ministries of Finance/Planning – portfolio officers or sector analysts not sufficiently engaged with their client ministries
- PSCs – weak level of engagement with client sector agencies, quality of HR advice or coordination services across sector agencies.
  - Disciplinary cases for senior officials suspended on full pay accumulating in Solomon Islands
  - Disciplinary cases in Vanuatu – reluctance to terminate or even suspend officials
  - Lack of PSC intervention in political appointment of contract employees, or even 'employment' of staff without contracts and without pay
- Level of cooperation between central agencies and turf issues – MoF, PSC and Ministry of Planning (or PMO). Machinery of government broken. Real gains in performance require cooperation across central agencies

Fraud and Risk

- Underlying issues
  - Accountability for performance, non attendance, absenteeism is weak
  - Understanding and valuing of role of internal audit by MoH management team
  - Risk of disempowerment of internal audit or worse, capture; role of MoF central IA agency in coordinating and maintaining internal audit standards/practices
  - Internal audit capacity to risk assess & audit procurement/payroll in MoH
  - Procurement capacity in MoH; no central procurement unit or body of skill in MoH
- Vanuatu – payroll fraud and imprest fraud, including on DP funds (DFAT and Global Fund); payroll/HR control weaknesses still exist
- Solomon Islands – fraud in infrastructure procurement and in contract management/progress payments/ certification of delivery of goods/services/ or works performed; fraud in imprest/advances
- Recent frauds resulted in tighter controls from MoF and from DPs – with significant impact on amounts & timing of funds for service delivery

Current approach – MoH, WB, DFAT

- Health Financing Options – realistically either internal efficiencies or increased share of national budget
- Recognition by MoH & partners on scope for improvements in effectiveness/efficiency; e.g. prov'l allocation changes & results based financing could improve outcomes
- No single model or approach, but will vary based on better understanding of country systems, and nature of DP funded programs
- Scope and effectiveness of DP coordination and DP-Govt coordination varies
- Tight domestic revenue conditions and reduced levels of DP funding (e.g. global fund, DFAT allocations) will help to force efficiency measures
- Continue to encourage increased use of govt systems with parallel support for strengthening those systems
- Maintain and improve SWAp approach and DP coordinated support; HR remains an area that requires greater support – both for MoH and national HR systems
- Procurement, particularly in the area of infrastructure and contract management is a major capacity challenge, and a fraud challenge – will require ongoing or increased support

Way forward

- Joined up approach with central agencies – how to get them at the same table with Health and other partners. JPAM could provide leverage
- Greater level of and earlier involvement of Minister in budget cycle
- How to get Prime Minister & Cabinet intervention on machinery of government and central agency issues
- Complete current analytical work; develop policy options; work through SWAp to implement the policy priorities
- Higher level of technical & strategic support to DG & management team
- More partnership; more/higher level dialogue; increase MoH & DP understanding of govt systems, and how to work within the constraints and opportunities they bring
- Increase shared understanding of and commitment to policies based on sound evidence and analysis