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TECHNICAL ASSESSMENT – ADDENDUM

I. Implementation performance of the existing Program

1. In the fifth year of implementation, progress towards achievement of development objectives as well as implementation progress for the NHSMRP is assessed to be Satisfactory as per the ISR of January 2021. Rating for technical and fiduciary performance, compliance with environment and social safeguards, DLI performance and Monitoring and Evaluation too is rated Satisfactory. The Program has disbursed 88 percent of the Credit (US$133.95 million). Of the eleven DLI results due for Year 4 (2019-2020), nine DLI results were assessed to be fully achieved, DLI 11.4 was partially achieved (social audit guidelines were not disseminated to sub-national levels due to suspended meetings/trainings/workshops on account of COVID-19) and DLI 6.2 (Effective Vaccine Management Survey not conducted due to COVID-19 restrictions) was not achieved. The MOHP is confident that the pending DLI results from Year 4 as well as the impending DLI results for Year 5 (except DLR 11.5) will be fully achieved by July 15, 2021 as per schedule. Of the nine actions articulated in the Program Action Plan (PAP), six are recurrent in nature and progressing as per plan. Of the remaining three timed actions items, two have been completed, while progress towards a third action (evaluation of implication and options for establishing a post shipment quality assurance system) is ongoing. MOHP anticipates all actions (recurrent and timed) in the PAP will be fully completed by the Program closing date of July 15, 2021.

II. Assessment of the existing implementing agency to adequately implement the modified Program

2. The implementing agency remains the same. MOHP continues to implement the extended one year of its NHSS with which the Additional Financing is aligned. The scope of the Additional Financing falls squarely under the five key outcomes of the NHSS which is the mandate of the MOHP. The program boundary of the Additional Financing, development objectives, DLIs, indicators of the results framework will remain unchanged. Like the parent Program, MOHP with its Department of Health Services and other relevant Divisions including Management Division, Nursing Service Division and Curative Service Division have the capacity and will implement the activities of the Additional Financing. There is considerable donor commitment to the Program and to the overall Nepal Health Strategy. A coordinated approach amongst donors for providing both targeted technical assistance and for monitoring and supervision will continue in the extended period of NHSS.

III. Program expenditure framework

3. The scope of the Program supported by the P4R is limited to the NHSS outcomes focusing on systems strengthening in areas of public procurement, PFM, and monitoring and reporting (**Table 3**).

Table 3: NHSS 2015–2021 Outcome Codes financed by the Program

	WHO estimates (US$341.6 m) for these results	**DLIs**
OP1c	**Procurement and supply chain management**	
OP1c.1	*Improved procurement system*	1-6
OP4	**Strengthened decentralized planning and budgeting**	
OP4.1	*Strategic planning and institutional capacity enhanced*	4, 7, 8 and 9

	WHO estimates (US$341.6 m) for these results	DLIs
OP5	***Improved sector management and governance***	5, 7, 8 and 9
OP6	**Improved Sustainability of health sector financing**	
OP6.1	*Health financing system strengthened*	7, 8 and 9
OP9	***Improved availability and use of evidence in decision-making***	10 and 11
OP9.1	*Integrated information management approach practiced*	
OP9.2	*Surveys, research, and studies conducted*	
OP9.3	*Improved health sector reviews with functional linkage to planning process*	

4. Expenditures of the Program were related to those expenditures in the annual budget that financed consumption, operational and service, and production expenses as articulated in the budget. Table 4 describes the main components of the expenditure program supported by the Parent program.

Table 4: P4R Expenditure Framework (Original Credit)

MOHP Budget Line Items	Total (US$)	%
Consumption expenses	194,512,427	57
Office operation and service expenses	40,300,573	12
Service and production expenses	106,798,308	31
Total	341,611,309	100

5. The relevant P4R Expenditure Framework budget codes include: (i) consumption expenses (21111-21114, 21119, 21121, 21122); (ii) Office Operations and Service Expenses (22111, 22112, 22121, 22122, 22211-22213, 22311, 22312, 22314, 22411, 22412, 22711); (iii) Service and Production Expenses (22313, 22511, 22512, 22522, 22529, 22611, 22612).

6. The costs under the Program Expenditure Framework of the parent Program was estimated to be US$340 million. The actual budget under of the Program Expenditure Framework until the five year of the Program has been US$290 million. The budget under the Program Expenditure decreased after the federalism because some of the funds from the budget codes had to be reappropriated to the subnational governments through fiscal transfer process.

7. An analysis of the audited expenditures for the FY2016-17 to 2018-2019, unaudited expenditures for FY2019-20 and interim unaudited financial reports up till the second quadrimester of FY2020-2021 for the budget codes comprising the NHSMRP4R expenditure framework indicates expenditures of US$210 million in the five-year Program period. The Program Expenditure Framework will be revised to include the estimated budget of US$79 million for the one-year extended period for implementation of the Additional Financing. The revised cost of the Program including the year of the Additional Financing will be US$299 million (US$210 million actual expenditure until second quadrimester of fifth year + US$10 million projected expenditure of third quadrimester of fifth year + US$79 million estimated budget for the sixth year). (Table 5)

Table 5: P4R Expenditure Framework (Original Credit+ Additional Financing)

MOHP Budget Line Items	Total (US$)	%
Consumption expenses	137,540,000	46
Office operation and service expenses	47,840,000	16
Service and production expenses	113,620,000	38
Total	299,000,000	100

8. Since the scope of the Program boundary of the Additional Financing has not changed, budget codes included in the Expenditure Framework will continue to be maintained. The expenditures allocated to the Program are assessed to be appropriate. The Additional Financing of the Program will continue to finance these expenditures in the MoHP budget, which for the last 10 years have not had any significant audit observations.

9. With these changes, the World Bank's share to the Program Expenditure has increased compared to that in the original credit (Table 6). This will help the Government to manage the fiscal pressure brought by the COVID-19 pandemic while at the same time help them focus to continue achieving the results agreed under the Program.

Table 6: Program Financing

Source	Original Credit US$, million	Original Credit + AF, US$, million
Government	190 (55.9%)	99 (33%)
IDA Credit (P4R)	150 (44.1%)	200 (67%)
Total Program Financing	**340 (100%)**	**299 (100%)**

IV. Results chains/framework and DLIs

10. There are no changes to the NHSS proposed in the extension year, therefore, the structure, scope and outcomes of the government's program are maintained. The proposed Additional Financing will continue to support the five program outcomes through the eleven DLIs as they were under the parent Program. The program boundary for the P4R with the Additional Financing will not change. In view of the above, the theory of change proposed for the NHSMRP will continue to be maintained for the Additional Financing in the one-year extension period.

V. Performance of the verification arrangements

11. The National Health Research Council (NHRC) is designated as the IVA for the DLI results for the parent Program. The NHRC is a statutory and autonomous institution as promulgated by the Nepal Health Research Council Act No. 129 of 1991. A Memorandum of Understanding (MOU) outlining the specific responsibilities of the NHRC with respect to the verification of Program implementation was signed between the NHRC and the MOHP on September 25, 2016. NHRC will continue to be the independent verification agency for the Additional Financing. The performance of NHRC has been commendable thus far. Even during the times of COVID-19, it has smoothly transitioned from field-based verification of achievement of DLI results to virtual assessments and cross-validation of information through complementing data sources.

12. The verification arrangement and the steps will remain the same. After achievement of DLI results, MOHP will notify the NHRC. The NHRC will independently assess the achievement of results and submit a report to the MOHP. MOHP will communicate with the Bank with a request for disbursement against the verified results together with the verification report.

VI. Monitoring and evaluation arrangements

13. The parent Program has strengthened the MOHP's monitoring and information management systems. The capacity of the implementing agency to monitor and evaluate the Program results and outcomes is assessed to be adequate. The implementing agency with its departments and division will be continuously monitoring the result areas supported by the Program. The progress on result areas will be assessed periodically by visiting information websites/dashboards (procurement, logistics and supply, stock-out of drugs, Annual Workplan Budget expenditures, Transaction Accounting and Budget Update Control System) which are available real time and also triangulating information from the Financial Comptroller General's Office, Office of the Auditor General and MOHP's financial statements. The Bank team will regularly conduct supervision visits and jointly monitor and evaluate the progress of the Program.

VII. Donor Coordination

14. Despite the impact of COVID-19 on availability of donor financing and priorities for investment, the focus of key DPs on sustained technical and financial support to public management reforms in health sector is maintained in the AF phase. UK Aid confirms ongoing technical assistance through their Nepal Health Sector Support Program to the MOHP/DOHS particularly in public financial management and procurement reforms, with emphasis on the three provinces of Lumbini, Sudarpaschim and Province 2. Support to strengthening (a) the governance, leadership and stewardship role of all three tiers of the government, (b) data for decision making, and (c) standard-setting for improved quality of care, with emphasis on the afore-mentioned three provinces, will be intensified. Support will be maintained for strengthening social accountability for service delivery and health outcomes and integration of GESI strategy in health sector, particularly in the prioritized provinces. USAID confirms technical and financial support towards strengthening e-LMIS roll out in more than 900 sites, including its management and optimal utilization for heath sector programming and service delivery decisions in the AF phase. Gavi, WHO and UNICEF will continue to support with technical and financial assistance effective vaccine supply chain management, with WHO and UNICEF also supporting data for improved programming as well as the District Health Information System 2 (DHIS 2) platform.

VIII. Economic analysis of the Program

15. The Additional Financing will continue to improve the efficiency and sustain the high achievements made in public resource management systems of the health sector in Nepal**.** It will contribute to this effort by improving the procurement and financial management systems in the sector as well as institute accountability and transparency in public spending in the sector. Efficiency gains from reducing wastages, improving drug stocks, evidence-based policy decisions and accountable financial management systems are important for public sector for maximizing the impact of public sector resources. The poor are highly dependent on the public sector for services especially in rural areas where choices are limited. However, inefficiencies in public management results in lower quality of care and outreach. The IDA financing thus strongly justifies for public sector intervention on

the grounds of further improving equity.

16. ***Benefits***: More efficient procurement of drugs and equipment, reduced drug stock outs, better planning, monitoring and reporting and citizen oversight will result in greater value for money. The economic and financial benefits have been updated for Year 6, considering 113.90 NPR per USD, 12 percent discount rate, inflation of 6.5 percent and 10 percent contingency for unexpected delays. The expected net impact realized through improving the public resource management systems of the health sector for the additional year is valued at US$155 million. The assumptions for the cost under these result areas are the same as was considered for the parent program.

Table 7: Summary of Economic and Financial Analysis

		2022
Result area 1: Improved Public Procurement	costs	116,145,742
	benefits	305,311,733
Result area 2: Improved Public Financial Management	costs	114,135
	benefits	18,880,285
Result area 3: Improved Reporting and Information Sharing for Enhanced Accountability and Transparency	costs	19,464,442
	benefits	18,918,538
Costs Subtotal		135,724,320
Benefits Subtotal		343,110,556
Contingency (10%)		20,738,624
Inflation (6.5%)		13,480,105
NET BENEFITS		**173,167,507**
Net Present Value (NPV) at 12%		**154,613,846**

Results Area 1: Improved Public Procurement

Costs (in USD)	**2022**
Health sector staff time	116,145,742
Costs Subtotal	**116,145,742**
Benefits	**2021**
Cost savings from reduced drug stock-outs	
Volume of drug stock-outs as a % of total public health spending	6,944,400
Out of pocket spending on drugs per capita	47,260,000
Opportunity cost of time spent from beneficiaries on finding needed drugs	59,677,333
Increased efficiency in the procurement of drugs	
Difference between budgeted and contracted amount for drugs	638,100,000
Improvement by year	30%
Value of procurement savings	191,430,000
Benefits Subtotal	**305,311,733**
Net Benefits	189,165,991
Contingency (10%)	18,916,599
Inflation (6.5%)	12,295,789
Net Benefits	**157,953,603**
Net Present Value (NPV) at 12%	**141,030,003**

Results Area 2: Improved Public Financial Management

Costs (in USD)	**2022**
Staff time spent on training and capacity building	114,135
Costs Subtotal	**114,135**
Benefits	**2021**
Productivity gains in regional and district offices	
Total wages of health staff	62,934,282
Total hours saved by staff for transactions, reconciliation and reporting	30%
Value of staff time savings	18,880,285
Benefits Subtotal	**18,880,285**
Net Benefits	18,766,149
Contingency (10%)	1,876,615
Inflation (6.5%)	1,219,800
Net Benefits	**15,669,735**
Net Present Value (NPV) at 12%	**13,990,835**

Results Area 3: Improved Reporting and Information Sharing for Enhanced Accountability and Transparency

Costs (in USD)	**2022**
Staff time spent on training and capacity building	19,464,442
Costs Subtotal	**19,464,442**
Benefits	**2021**
Productivity gains in regional and district offices	
Total wages of health staff	62,934,282
Total hours saved by staff for transactions, reconciliation and reporting	30%
Value of staff time savings	18,880,285
Travel allowances	127,511
Reductions in travel allowances	30%
Value of travel allowance savings	38,253
Benefits Subtotal	**18,918,538**
Net Benefits	-545,905
Contingency (10%)	-54,590
Inflation (6.5%)	-35,484
Net Benefits	**-455,830**
Net Present Value (NPV) at 12%	**-406,991**