Resource Allocation for Health Care in Nepal

Introduction

The Government of Nepal, through its poverty reduction strategy, has made a commitment to the reduction of inter-regional disparities in health expenditure per capita through an appropriate resource allocation formula. However, this has not yet been operationalised and there has not yet been a significant reallocation of resources in favour of poor regions.

Most of the Department of Health Services budget in Nepal is spent on Essential Health Care Services, which include drug expenditures. The way in which this budget is planned, allocated and disbursed is critical to the effective operation of health services. The main resources in the system are staff, drugs and funds for other recurrent costs. Around 40 percent of overall recurrent expenditure is managed at the district level.

This study examines the current system of resource allocation, focussing on recurrent funds, essential drugs and district-level systems. It identifies the areas in which it could be improved, and outlines a possible new needs-based approach to allocating resources to districts and, within districts, to facilities.

Study Methodology

- A desk review was conducted at the central level, March-September 2009, including of budget and actual expenditure for 2007/2008 and the budget for 2008/2009.
- Semi-structured interviews were held with officials at the Ministry of Health and Population and Department of Health Services at national level; at Surkhet regional medical store and the regional health directorate; and at the District Health Office, the District Public Health Office and the District Development Committee Offices of Dhading, Banke, and Jumla. These districts were chosen to represent the three ecological zones of Nepal, and to include districts with and without devolved systems.
- One district hospital, primary health care centre, health post and sub-health post was visited per district, over March-April 2009. Information on average expenditure on drugs and commodities per out-patient visit was collected.

gtz

COOPERATION NEPAL GERMANY

Health Sector Support Programme (HSSP)
Ministry of Health and Population (MoHP) – Nepal
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

- A literature review was undertaken. This included WHO's composite health index, which has been used as the basis for developing a possible resource allocation system.

Key Findings of the Study

Adequacy of funding for drugs

Financing for drugs has increased, but not to a sufficient extent to cope with the increased utilization that is likely to result from the Free Health Care Policy. The budget for drugs needs to increase or, alternatively, some form of targeting will need to be re-introduced.

District-level planning

The District Health Offices must produce their Annual Strategic Investment Plan, in consultation with district partners including the District Development Committee and donors, by the end of March. As there is no standard format for such a presentation, few districts provide information on goals, objectives, activities, budgets and action plans. The majority either provide no, or otherwise very limited, information.

District Health Offices do not receive a budget ceiling but generally prepare their plan by adding about 10 percent to the previous year's budget. There is no difference between devolved and non-devolved districts with regard to planning and budgeting, except that in devolved districts, the District Health Offices obtain the allocated budget through the District Development Committee.

Disbursements to the districts

Financial disbursements are lumpy, being delayed at the start of the fiscal year, and then bunched into the end of the year, causing inefficient spending patterns. The study found in our 3 districts that it takes about five months for the approved programme budget and the accompanying letter of authorization to come from the centre to the district.

There is no difference regarding authorization to spend, except that in devolved districts, the Department of Health Services sends the programme and authorisation of expenditure to the District Health Office through the Ministry of Local Development and the District Development Committee, thus increasing the number of administrative steps and introducing additional delays.

Background Information

Budgeting at the national level

The regular budget (prepared by the Ministry of Finance and covering some 25% of the overall budget) and the Development Budget (prepared by the National Planning Commission, and covering the remaining 75% of the budget) are not well integrated and tend to be over-optimistic about resources availability. There are often substantial gaps of 15-25% between budgets and available funding.

Allocating drugs and drug funds to districts

There are four systems for allocating drugs and drug funds:

1. The Management Division allocates funds for drugs to districts on the basis of past utilization. Districts have a number of different procurement systems but generally lack procurement and quality control skills (see Policy Paper on Essential Drug Procurement and Management in Nepal, 2009).
2. The Logistics Management Division supplies drugs for free health care via the regional medical stores. These allocate the same volume of drugs to every health facility of a given type, irrespective of the level of demand.
3. Finance also sends a small volume of funds to allow District Health Offices to have a limited supply of funds at the beginning of the financial year when the budget has not yet become available; these funds are allocated on the basis of standards to the districts.
4. There is a separate system for preventive drugs, the bulk of which are funded by external development partners.

Recommendations

1. It is important that problems related to the **release of funds** be resolved, since such problems cause bottlenecks that constrain the timely flow of funds. Their resolution is likely to require frequent meetings between the National Planning Commissions, the Ministry of Finance and the Financial Comptroller General's Office.
2. This might also require the **planning and budgeting processes to be started earlier** so that they end before the beginning of the fiscal year, allowing the budget to be released on time.
3. **Timely preparation of the Financial Management Report** and Statement could be supported by allocating resources to strengthen the Ministry and Department of Health Service's capability. This would require additional resources, including accountants, computer operators, and IT systems, including a network between the Financial Comptroller General's Office, the District Treasurer Comptroller Offices, the Department of Health Services and the District Health Offices in order to accelerate the compilation and reconciliation of financial reports.
4. It is suggested that for **Free Health Services drugs,** a decision should be made whether to increase the budget line for this item or to apply the policy more selectively (either by focussing on the poor or by targeting poorer districts).
5. It is recommended that the **budget be allocated** from the centre to districts on the basis of a formula reflecting health needs (Box 1). In order to ensure that districts which gain greater resources can put them to good use, some of the investment should be used initially to strengthen their financial and management capabilities.

Box 1. Indicators used to construct a composite health needs index

1. Proportion of malnourished children
2. Routine measles immunization coverage
3. Skilled birth attendance
4. Contraceptive prevalence rate
5. Antenatal care coverage
6. Poverty incidence
7. Access to improved water source
8. Access to improved sanitation
9. Literacy rate
10. Post natal care coverage (1st visit)

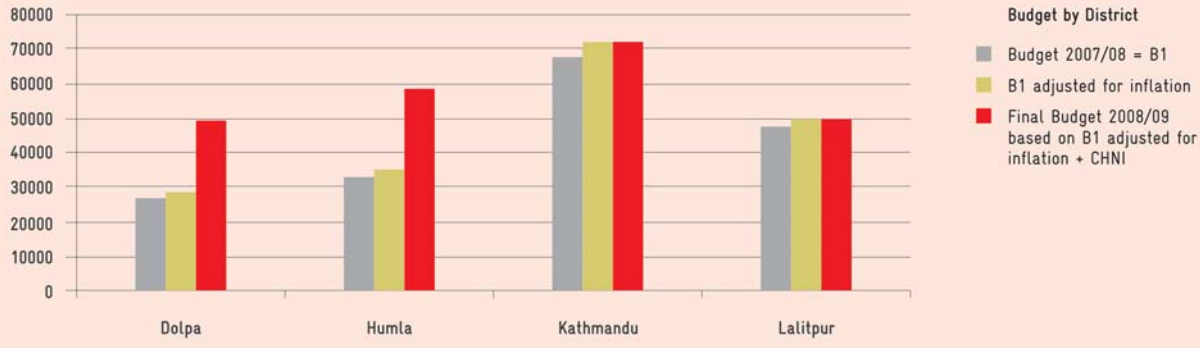
Developing a needs-based approach

A need-based resource allocation formula is recommended, using WHO's Composite Health Needs Index (Box 1). This has been produced for each district in the country, based on 10 indicators related to the achievements of the Millennium Development Goals. Each is given equal value at present, though this can be varied by policy-makers.

If resources are reallocated according to need, while allowing all districts to maintain a minimum of their historical allocation plus inflation, then no district will lose out in real terms, and the overall allocation becomes more closely correlated to needs.

Figure 1 illustrates the redistribution that would occur in a sample of four districts if the formula were used. Nationally, the mid-western and far-western regions would be the most advantaged in

Figure 1. Health budgets for selected districts– illustrative scenario under needs-based approach



this allocation process, as they are those with lowest composite health index.

6. In addition, the **allocation of drugs and drug funds should be based on need,** each district and facility receiving a percentage of drug funds/drug supplies based on the percentage of total out- and (where relevant) in-patients that it services within Nepal or within the district.

7. Implementing **"needs-based planning"** would encourage districts to develop their own plans. To facilitate this, the Department of Health Services would need to send timely information on expected total budgets. Reliable and sustained financial support from external development partners could help to strengthen this system.

8. As very little difference was observed in devolved versus non-devolved districts, there should be some reflection on how to **strengthen the horizontal linkages at district level** so that devolved planning and management can become more meaningful.

9. It is recommended that **all figures on budget and expenditure** be made available to one Division or Unit of the Department of Health Services, so that knowledge of resources to be spent in a given district be available to planners, external development partners and monitoring authorities.

10. Likewise, each district could be provided with information on the **size of the total budget for drugs** and on amounts allocated for procurements at the start of the fiscal year, including future amounts/ quantities to be provided to them by the Logistics Management Division. This would allow districts to plan activities and purchases.

11. Specific **training** should be provided to managerial personnel at the different levels in order to support them in managing the new. More staff are also needed, who are capable of planning and managing requirements for drugs at the district level and below.

12. It is suggested that the Management Division and Logistics Management Division **monitor and follow-up on procurements** made by the districts, in order to check whether or not districts are following the guidelines properly.

13. It is recommended that **purchases of drugs that are not on the Free Health Services list be delayed** until the fourth quarter. At that time, it should be clear whether the budget is sufficient to cover all needs for free care drugs and medical supplies.

14. It is recommended that the **Free Health Services drugs and medical supplies list be updated** in order to ensure that it contains the most cost-effective treatments for the common diseases. The unit cost of treatment by disease could then be estimated using the updated drugs and consumables list.

For further details, see: Hachette F and Sharma SK (2009). Allocation of Funds and Drugs to Districts and Health Facilities, GTZ/GFA Consulting Group GmbH, Health Sector Support Programme, Department of Health Services, Kathmandu, Nepal.

Deutsche Gesellschaft für
Technische Zusammenarbeit (GTZ) GmbH

- German Technical Cooperation -

Health Sector Support Programme
Department of Health Services
Teku, Kathmandu, Nepal
T +977 1 4261404
F +977 1 4261079
E hssp@gtz.org.np
I www.gtz.de/nepal

GFA Consulting Group GmbH

GFA Consulting Group

Editor: Sophie Witter
Photos: GTZ Archive
Design: Kiirtistudio
Print: Hillside Press

Kathmandu, November 2009