

**NIGERIA****PROGRAM-FOR-RESULTS TO SUPPORT THE SAVING ONE  
MILLION LIVES INITIATIVE****Fiduciary System ASSESSMENT REPORT**

March 31, 2015

## **A. Introduction**

1. The Integrated Fiduciary Systems Assessment (IFSA) has been carried out, as part of the preparation of the SOML PforR, consistent with OP/BP 9.0 and in accordance with the Guidance Notes provided by OPCS for this instrument. The objective of the Assessment was to examine whether Program systems provide reasonable assurance that the financing proceeds will be used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The financial management systems were assessed to gauge the extent to which the planning, budgeting, accounting, controls, funds flow, financial reporting and auditing systems and practices provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. Equally, the Program procurement systems have also been assessed to establish the extent to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance in support of achievement of the Program results. In addition, the assessment considered how Program governance systems manage the risks of fraud and corruption and how such risks will be mitigated.

2. The Bank's governance practice staff conducted the IFSA through a methodical review of systems and practices at the Federal level as well as a number of diagnostic work earlier carried out at the levels of the States. The analysis took cognizance of the diagnostics on service delivery and resource tracking in the health sector, PEFA/PEMFAR work carried out in 25 out of 36 States and on the Federal Government, and PIFANS carried in six States. In addition, work has been carried out on the political economy and institutional assessment of results-based health financing by Oxford Policy Management. The team reviewed the lessons learned in implementation of the four health projects under implementation, in particular the results based health project. The results of the assessment, including 'work-through' analysis and discussions held with the fiduciary stakeholders in Government, conclude that while there are remaining challenges which will be managed through methodical implementation of the Program Action Plan, the risks can be managed and that the SOML is a perfect candidate for financing under the Bank's PforR instrument.

### **A. Program Design and Expenditure Framework**

3. The design of the Program benefits from the already established policy framework and governing principles of the FMOH for SOML. The Program will support improvements in the focus areas of the health sector, linking delivery performance to health outcomes in Nigeria. The Program itself is fully aligned to the Nation's transformation agenda and the National Strategic Health Development Plan (NSHDP 2010-2015) and its successor Program.

4. As a Federal sponsored Program, the SOML expenditures of the FMOH, corresponding to the budget of the Ministry for the core PHC sub-function (NPHCDA) as well as targeted expenditures from the funds provided by the Bank as leveraged resources that will be used to provide 'transfers' to performing States and other PHC delivery entities as well as finance technical assistance needs in the form of meeting expenditures for PMU, Innovation Fund Manager, and PSU, will be the basis of analysis and presentation as part of the financial reports of the FMOH at the end of each fiscal year and presented in the annual financial Statements of the

Program. The fact that the FGON, and by extension, the NPHCDA and the FMOH uses a Government integrated financial management information system to execute its budget using a GFS-compliant chart of accounts and budget classification, the mapping of Program expenditures from the function and sub-functions classifications of Government (using COFOG<sup>1</sup>) together with the economic classifications of expenditures will facilitate the production of financial information for the core of SOML's six pillars supported under the Program. It is encouraging to note that all budget execution processes (in respect of the consolidated fund) at the Federal level for FMOH and its agencies responsible for delivering on the Program activities, are conducted through the Federal GIFMIS. All expenditures undergo a process of cash planning, budget releases, and direct payments through the Treasury Single Account (TSA) held centrally at the CBN. Except for a few MDAs that have yet to fully transition to the TSA (27.7percent), this is widely the case in as much as the Federal Government has yet to migrate to using the 'procure to pay' module of GIFMIS as a way of managing and controlling the expenditure commitment process. The status of budget execution (appropriation, budget releases, actual payments, payments in transit, total expenditures against appropriations and budget releases, and unexpended balance of appropriations), even for agencies under the FMOH, is known 'real time' – a factor that supports timely and efficient expenditure management.

5. Although SOML is a Federal Program, its impact on health outcomes transcends the Federal Government. All 36 States and FCT of the Federation benefit from the initiative and all indeed do make provisions for expending on public health interventions. The Federal SOML initiative therefore leverages States' own efforts in delivery health services. As the overall focus of the SOML is to improve service delivery up to facility level, which involves the States and LGAs, there will be coordinated relationships between Federal, States, and LGAs. For the purpose of this Program however, the scope of the expenditure Program is limited to the Federal SOML Program that this Bank operation supports. Comprehensive, detailed data on overall health spending (including the values of pharmaceuticals and other medical goods purchased) are not yet available and this Program will help fill that gap.

6. It may be reiterated that with fiscal federalism at play in Nigeria, States and local Governments enjoy significant fiscal autonomy. As health service delivery is on the concurrent list, primary and secondary cares are responsibilities of the Local and State governments respectively. Therefore, given the central role of the primary health care system in the frontline service provision, engagement with the States is a critical element for the practical implementation of Programs to achieve Program objectives.

7. The expenditure framework for the Program is described in Annex 1. The overall contribution of the Bank to the financing of the Federal Program is US\$500 million over 5 years, including a prior result year. On the estimated annual allocation of the Program expenditures over the five years, the Table below provides an overview, showing the expenditures consistent with the defined Program boundary. It may be noted that in reality, a number of entities have, in one form or the other, related expenditures that contribute to the SOML overall expenditures. Such entities or agencies include NACA, NOMO in Sokoto, National Aids Programs complementarily supported by donors including the Bank. These have been excluded from the specific targeted Program focus of the SOML for reasons of establishing a discrete boundary.

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<sup>1</sup> Classification of Functions of Government.

## Indicative Annualized Expenditure Program

CoA Code	Chart of Accounts (CoA) Description	Fiscal Year/Budget (in USD)					Total
		Year 0	Year 1	Year 2	Year 3	Year 4	
21	Compensation of Employees (personnel cost)	7,927,000	7,927,000	7,927,000	8,125,000	8,328,000	40,234,000
22	Goods and Services (Other Recurrent Costs)	2,785,000	2,785,000	2,785,000	2,855,000	2,926,000	14,136,000
23	Investments (Capital Expenditure)	97,251,000	97,251,000	99,683,000	102,175,000	104,729,000	501,089,000
TBD	IDA SOML Program	75,000,000	90,000,000	114,000,000	109,000,000	112,000,000	500,000,000
<b>Total Program Expenditure Boundary</b>		<b>107,963,982</b>	<b>107,963,982</b>	<b>110,395,268</b>	<b>113,155,150</b>	<b>115,984,029</b>	<b>1,055,459,000</b>

## B. Program Financial Management Systems

8. As a sub-sector wide and national-wide based Program that the Bank will be supporting, using a PforR financing instrument, the financial management arrangements for the Program will remain anchored on the use of the country financial management systems. The existing systems of budgetary planning, budget preparation, budget execution, accounting, internal controls, funds flow, financial reporting, external audit and legislative oversight will continue to be adopted for Program implementation.

### B1. Institutional and Legal Framework - Financial Management Arrangements

9. The key institution for public financial management in the Federal and States Governments is the Federal or States Ministries of Finance and its agencies, but there are other players. The other players include the National Planning Commission (NPC), the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), the National Assembly (NASS), the Central Bank of Nigeria (CBN<sup>2</sup>), the Economic Management Team (EMT), the National Economic Council (NEC), and the Office of the Auditor General for the Federation (OAuGF).

10. At the sector level, the Program financial management at the Federal level will be managed under the auspices of the FMOH within the Directorate of Finance and Administration, in association with the National Primary Health Care Development Agency (NPHCDA). At the States level, the financial management will be managed under the financial management directorates within the respective Ministries of Health in association with SPHCDA where they are established. In all cases, the Accountants-General of the Federation and the States as well as the Budget Directorates play a significant part in the overall management and control of public finances.

11. In Nigeria, the enabling institutional and legal framework for financial management are contained in the (1) Constitution (Sections 80-89) – accounts, audit, and investigations; (2) Finance (Control & Management), Act 1958 – the organic finance management law; (3) Fiscal Responsibility Act, (FRA) 2007, aiming to instil discipline into fiscal planning and management; (4) Federal Public Procurement Act, (PPA) 2007, and PPAs at States levels that mirror the Federal PPA - regulating public procurement for Federal and States' government funds; and (5) Freedom of Information Act (FoI), 2011 - aiming to improve the transparency and public accountability by

<sup>2</sup> See the Central Bank of Nigeria Act of 2007.

providing for public access to non-sensitive official data. *Along with the subsidiary legislations, regulations, and operation and financial directives, it is concluded that the legal framework is in place and acceptable to the Bank.*

## **B2. Planning and Budgeting**

12. The budgeting of the Program expenditure (for purposes of Program boundaries) will constitute part of the Government budgeting process and the funds for the Program will be appropriated from both recurrent and capital sides of the Federal budget. Existing budgetary planning and budget preparation system entails the determination of the budget years' service delivery framework through sector plans and preparing financial estimates therefore, based on the budget ceilings provided by the Ministries of Finance. While, in general, the draft MDA budgets are delivered from MDAs to the Budget Directorate (at Federal) or Ministries (in States) well before the commencement of the fiscal year, the Federal budget (not the States) approval by the legislature has been marred by delays, year on year. Invariably, also, the planned budgets submitted by MDAs are reduced at aggregation/collation stage at the Federal Ministry of Finance and Budget and Planning Ministries in the States. *In effect, approved budgets remain at variance with the regular submissions from MDAs, thus impairing the ability of the MDAs to comprehensively deliver on their Programs.* The risk for this phenomenon to the SOML Program, though, is limited as funding gaps are filled from extra-budgetary funds or in-kind supply of commodities provided by donor partners. However, there is the attendant risk that with the use of extra-budgetary funds and resources from other sources (GAVI, Global Fund, etc.), unless coordination and accountability processes are properly streamlined, there could be issues of 'double dipping', but the use of the performance-based approach for the IDA funds suggest that this would not likely be an issue, since one source would pay for inputs and the other would pay for using those inputs effectively.

13. The SOML Program commenced in 2013. The budgets for the Program expenditures constitute part of the overall Ministry of Health budget. From a review of the budget execution at the key PHC entity (NPHCDA) of the FMOH for the SOML related sub-functions, there is ample evidence of under-utilization/execution of the appropriated funds due largely to the low releases of the budget by the FMOF. For the fiscal year 2014, out of a total appropriation to the NPHCDA of 19.43 billion Naira, only 8.66 billion Naira was released through warrants and only 7.24 billion Naira (37.3 percent) was actually spent. As SOML also benefits from financing from non-Government budget sources (development partners and other NGOs), it would be noted that the Bank's contribution to the Program's financing (about 47.5<sup>3</sup>) will be included as part of the overall national health budget in as much as the funds will be held in a Special Fund Account at the CBN. In effect, the Bank's contribution to the SOML Program will be part of the FGON annual budgets.

14. The SOML Program acknowledges that, despite this reasonable performance within the Federal Government, there is a broader issue with the transparency of budgeting arrangements for primary health care at State, LGA and facility levels. The institutional fragmentation of the sector has led to a situation where no single entity has an overview of the budget allocated to and spent on primary health care for that purpose. This is an issue that this operation tackles directly by

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<sup>3</sup> Based on the defined Program boundaries.

incentivizing States to develop comprehensive budget execution reports for primary health care under DLI 5.

### **B3. Payments and Flow of Funds**

15. In general, the Federal government transacts its budgetary spending through a system of a Treasury Single Account (TSA) held with the Central Bank of Nigeria. At present, about 72.3 percent of budgetary resources are processed through the Government integrated financial management information system (IFMIS), and all FMOH agencies conduct their budgeted expenditure payment processing using the system. The Permanent Secretary of the FMOH is the accounting officer for health expenditures in as much as some health agencies (NPHCDA for example) have relative autonomy for their respective expenditure commitments. All Federal Medical Centers and Federal Teaching University Hospitals rendering health delivery services in the States are on budget and the flow of funds to them from the Ministry's budget are managed through a systems-based TSA. The funds flow is initiated through the relevant health agency preparing a cash plan based on the appropriated budget and submitting the plan to the Accountant General of the federation; when validated and approved by the Accountant General of the Federation (all through the IFMIS), the Budget Directorate provides a budget release to confirm the cash backing for the relevant agency to enter into commitments. The process assures the availability of cash to finance commitments through the TSA as and when obligations arise. The current practice enables the agencies to make expenditures direct through the TSA, electronically. This is a significant improvement from the erstwhile status quo when cash was being indiscriminately moved from the Consolidated Revenue Fund (CRF) held with the Central Bank of Nigeria to nominated commercial bank accounts of agencies, thus undermining the good principles of an effective and efficient cash management system. In general, the system of funds flow within the Federal Government, using Government systems, works appropriately as commitment expenditures are liquidated in a timely and efficient manner, through a Treasury Single Account, as soon as they translate into obligations.

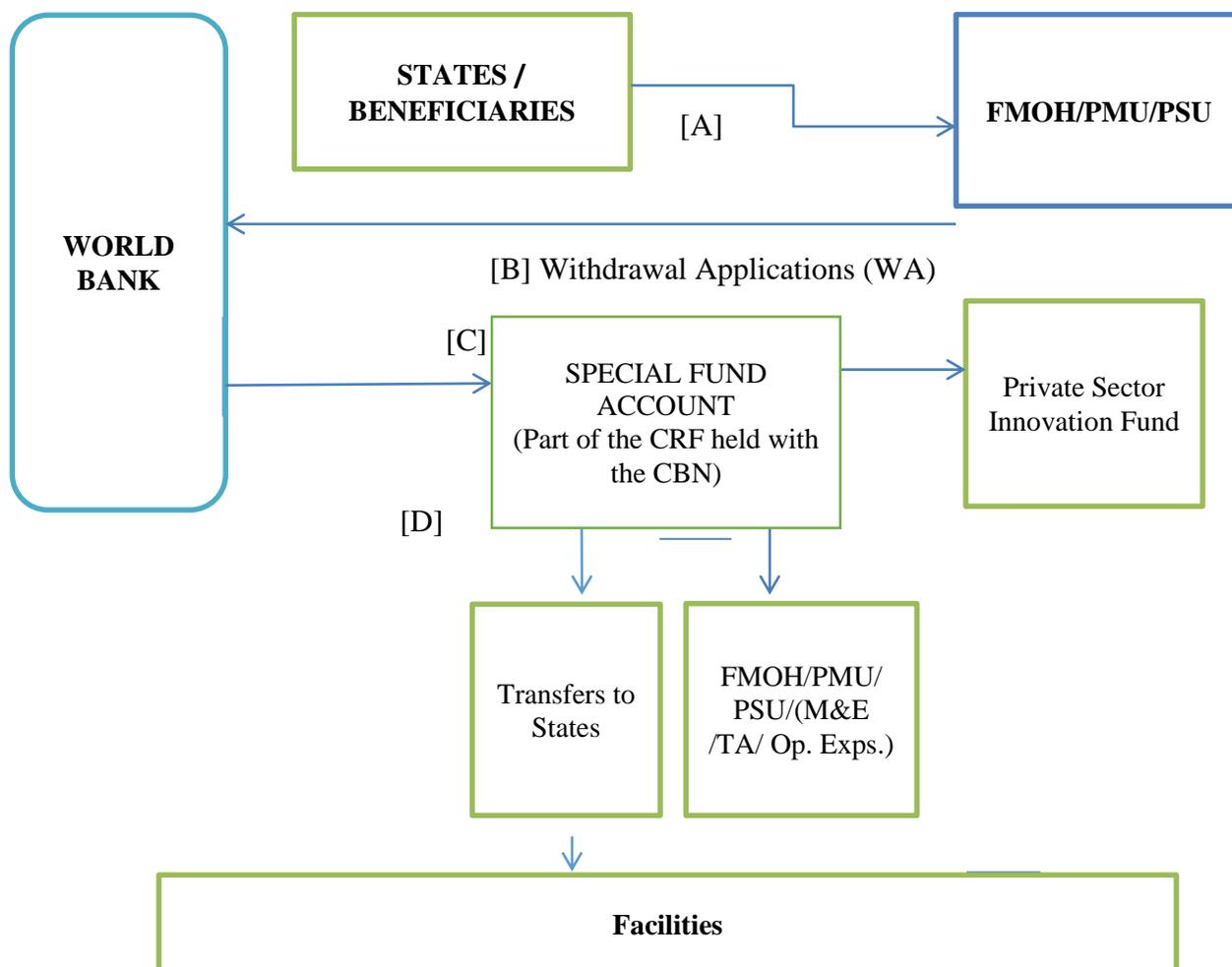
16. However, an issue that may affect the results of this Program is that the funds need to flow not just within the Federal Government, but also to States, LGAs and facilities. In respect of the States, the control in funds flow is exercised through the Ministries of Finance, and by extension, the Offices of the States Accountants-General, after the budget release to Agencies is made through the Budget Office. They do not maintain a Treasury Single Account system. However, they maintain a cash management system based on a strictly cash budgeting arrangement, and their CRFs are held across a number of selected commercial banks within their respected States and the daily status of cash balances in individual accounts is monitored. Expenditures undergo a process of validation at the MDA level as well as at the States' Accountant General Offices, and pre-payment audits are undertaken on every expenditure transaction before payment is authorized. Apart from a few States that operate a mixture of electronic cash transfers and check system (under a cashless economy policy), most of the States execute their payments by check or even cash. The latter constitutes areas of risk of fraud and corruption. As regards funds flow at the facility level, evidence indicates that, facilities receive variable but mostly limited financial resources from the Federal, State or LGAs (largely through the drugs revolving fund, NHIS capitation payments and user fees). Resources are transferred to them largely in kind or as part of the centralized payroll system – from midwives' schemes, P-Sure and MDG funds.

17. The lack of non-salary recurrent expenditures flowing to the facilities can impede the operational effectiveness of facilities. There is also sporadic evidence that salaries of health professionals have occasionally been affected by arrears, which can impact staff morale, motivation and performance. However, the extent of the issue is unknown at this stage, in view of the lack of available data on budget execution for primary health care, particularly at the facilities' level. This operation thus supports the regular production of consolidated budget execution reports, broken down by economic classification, in order to help the authorities identify spending levels and trends on compensation of employees, goods and services and capital investments for primary health care (DLI 5). This financial reporting information will be regularly reviewed jointly with results achieved in each State as part of the Program performance monitoring (DLI 2).

18. Disbursements from the World Bank, in respect of:

- *Federal Government's own expenditure reimbursements under the Program (including for technical verification and monitoring and evaluation activities)*, will be released to the Special Fund Account of the Federal Government (a sub-set of the Consolidated Revenue Fund) held with the Central Bank of Nigeria.
- the Consolidated Revenue Fund or such other Sector Fund account (a sub-consolidated fund account) held with the Central Bank of Nigeria and that forms part of the TSA.
- *Funds to be directed to special Program related activities like 'private sector innovation fund for 'private sector participation in Program implementation'*, these will be disbursed into a designated (segregated) account held with the CBN and paid out to beneficiaries through the FMOH budget implementation process.
- *Performance disbursements to the States* based on their performance against the set criteria, withdrawals will be initiated by the FMOH and direct payments made to the Consolidated Fund Account of the respective qualifying States.

**SCHEMATIC DIAGRAM - FUNDS FLOW ARRANGEMENTS UNDER THE PROGRAM**



[A]: States and other beneficiaries submit evidence of performance against criteria to FMOH/PMU/IVA for verification.

[B]: Upon verification and assessment against criteria, FMOH submits WA to WB for disbursement.

[C]: World Bank disburses to the FMOF’s Special Fund Account held with the CBN for subsequent payment to beneficiaries under the Program.

[D]: From the Special Fund Account, FMOF transfers to qualifying States and makes payments through Sector Wide Votes to FMOH, PMU, PSU, Innovation Fund Manager, and other NGOs. Transfers to States will be accomplished within 30 days of receipt of disbursements from the World Bank. All disbursements will be through IFMIS against the Program – compensation of employees, goods and services, capital investments, transfers. The States either directly or through their

SPHCDA or Local Governments, as the case may be, will be responsible for providing the required resources to their facilities.

#### **B4. Accounting and Financial Reporting**

19. The Federation has adopted the IPSAS cash basis of accounting and financial reporting as of fiscal year 2014 although a majority of States is still lagging behind in implementation. In addition, the Federation has adopted the new chart of account and budget classification system that is GFS 2001 compliant (although implementation remains uneven across States, with the Federal Government and only four other States having commenced implementation). In effect, Nigeria is moving progressively towards complying with international standards on accounting and financial reporting as well as on use of a classification methodology (for budgeting, budget execution, accounting, and reporting) that conforms to international best practice. Implementation challenges remain, but these are being monitored and managed under the auspices of the Federal Account Allocation Committee (FAAC).

20. With an IFMIS in place at the Federal and a number of States Governments, in-year and year-end accounting and reporting of expenditures is generally timely (real time), and budget execution Statements can be conveniently generated from the system to guide budget implementation decision making. Annual financial Statements are finalized within 3-5 months of the end of the fiscal year and submitted to audit, but this can be improved as soon as a few systems glitches and processing arrangements are attended to across the Federation.

21. For those States that have yet to transition to an IFMIS, a mixture of manual and IT-based processing of transactions in place. Notwithstanding the inherent weaknesses in using non-ICT based systems in the accounting of multiplicity of transactions – ranging from errors in postings and the absence of audit trails - the system of accounting and financial reporting at the States is generally performed at acceptable levels.

22. The focus of the Program for purposes of Program expenditure reporting, as already highlighted, will be on the SOML, initiated and coordinated at the Federal level under the auspices of the FMOH. Since each MDA, by law, prepares its own financial Statements for audit, the FMOH, NPHCDA, and the States' MOH do prepare their own financial Statements and render them for audit. The Program expenditures will constitute part of these Statements although the expenditures are not traditionally segregated as the MDAs have yet to transition to a form of Program-based budgeting and reporting. Nevertheless, as part of the actions to support the Program implementation, the core Program expenditures across implementation agencies, will be analyzed through mapping across functions and sub-functions to show what the actual expenditures of the Program were at each annual reporting period. Such analysis shall be included as a note in the entity financial Statements of the FMOH.

23. Already, accounting for and reporting on Program expenditures are conducted as part of the expenditure management process in place at the FMOH and its agencies (principally, the NPHCDA – a key agency constituting the expenditure Program boundary defined for this operation) as well as in the Ministries of Health at States level. The process is in compliance with the guiding principles, procedures, and practices as contained in the enabling regulations, financial

instructions and guidance notes provided as part of the subsidiary regulations to the organic public finance legislations across the Federation. All expenditures including those for the Challenge/Innovation Fund will need to be processed through the central IFMIS that has since been rolled-out to MDAs including FMOH and its agencies, including NPHCDA.

24. While the expenditure of States and health facilities do not form part of the expenditure Program of this Federal Program, one of the objectives of the Program is to improve the financial management of facilities through DLIs and Program Action Plan through transparency of financial reporting on PHC spending by States themselves.

### **B5. Internal Controls and Internal Audit**

25. The internal control over expenditures is one of the key areas of risk for the Program. Evidence from other Programs indicates that internal controls over procurement processes, as well as operational expenses (travel, per diem and workshops) represent particular risk areas. As per the Program of expenditures, most of the spending will leverage government expenditures directed to finance the procurement of vaccines (largely handled by UNICEF) and pharmaceuticals, as well as the payment of health sector staff, which means that operational expenses will not be a central concern in this Program. It will be very important however to ensure that internal controls over the handling of commodities are strengthened through the Program. Resource tracking has been an important feature of and body of knowledge in understanding the implementation process of health Programs. This is a relevant diagnostic that has been exposing the bottlenecks to health service delivery activities across States to the facilities' level and has made recommendations on how to further improve the service delivery through elimination of 'stock-outs' of medicines, bottlenecks in elements of the supply-chain management, reductions in response time to crisis, etc. DLI 1 will measure stock-outs of essential drugs and vaccines and incentivize their reduction over time. In addition, the action plan under the Program entails the annual conduct of this exercise and ensuring the reports have impact through full discussion and actions at the level of the Program Steering Committee. In addition, the next section provides a detailed discussion of procurement risks and their mitigation.

26. The internal audit process, largely focused on pre-payment audits, entails the reviewing of expenditures for genuineness, accuracy of values and delivery elements, authority, and appropriateness, among others. It is, though, skewed on compliance and stewardship, while lacking in oversight as a support function to management. Although leakages remain in the expenditure management system due to minimal risk-based internal audit and control processes, and lack of focus on systemic issues. However, a key challenge would be how to divorce the internal audit function from involvement in the expenditure processing cycle and accord independence to the role the internal auditors play. This is an institutional issue cutting across the Federation but the FMOH, through the SOML Program, will address the shortcoming, on pilot basis, by ensuring that internal audit function operates independent of the expenditure processing cycle, as the current arrangement entails, while the internal control function, carried out also by the assigned staff from the Accountants General's department, can remain.

## **B6. Oversight – Program Audit**

27. The Auditor General of the Federation as well as the States’ Auditors-General conduct the independent audits of public finances in their respective jurisdictions.

28. In respect of the Federal Government, external audit (according to the PEFA 2013) covers at least 50 percent of total expenditures of central Government, including the health sector. The submission of the audit report (as well as the financial Statements upon receipt of the draft accounts from the Accountant General of the Federation) to the legislature has been achieved within four months of the end of the period covered. The quality of audit has begun to be improved, especially with the implementation of key reforms supported under the Bank-financed ERGP, and there is a progressive transition to INTOSAI standards of auditing. However, audit follow up has continued to remain weak.

29. The annual audited financial Statements of the Program (entailing the NPHCDA as an entity and the Special Fund Account to be held with the Central Bank of Nigeria), representing the Bank’s contribution to the overall Program expenditures, will be submitted to the Bank within twelve months of the end of each FGON fiscal year. For the purpose of this Program, these will constitute the focus boundaries of the annual financial Statements and will include, by way of detailed notes, the detailed sub-expenditure objects of the economic classification of expenditures of the Program, including transfers made to performing States. The Auditor General of the Federation will conduct the audit of the Program Financial Statements.

30. The States Auditors-General also conduct the audits of the financial Statements of their respective States and render them to the States’ Assemblies. PEFA reports of States indicate that, in general, the audit reports are submitted to the legislature within 12 and 15 months of end of each fiscal year although a few States do render these accounts within 6 months of fiscal year end. The quality of these audits remained, though, uneven across States. As part of the audit for this Program, the audit reports of the States will not be required due to the definition adopted on Program boundaries. Nevertheless, to incentivize States to improve their accountability for PHC resources deployed, the Program includes a reporting requirement as part of DLI 5.

## **B7. Disbursements from the World Bank**

31. The IDA credit proceeds will be disbursed to the Federal Government’s Special Fund Account which serves as a sub-account of the Federal Consolidated Revenue Fund (CRF) or such other Health Sector Fund account (that forms part of the CRF) held with the Central Bank of Nigeria, triggered by the achievement of the DLI related results for the Program. Upon achieving a DLI related result, a withdrawal application will be submitted to the Bank, using the Bank’s standard disbursement forms through the e-disbursement functionality in the Bank’s Client Connection system. The withdrawal application would be accompanied by certified and cleared evidence from the task team that the related results were achieved. As also highlighted under the ‘payments and funds flow’ section, the disbursements to performing States will be made directly from the Special Fund Account managed by the FMOF to the designated account of the respective States, managed by the States and held in the CBN, for further transfer to the States CRF. The withdrawal applications will be submitted under joint signature of the FMOF and FMOH.

32. Prior results emanating from meeting DLIs for a prior period (in this case for year 2014/2015) would form part of the Program operations. All disbursements for prior results will be made directly to the Special Fund Account under the CRF of the Federal Government in the name of SOML. In addition, the Program disbursement arrangements will allow disbursement of ‘advances’ to a tune of about 25 percent of DLI values for a succeeding year with a view to facilitate acceleration and drive to achieving the results for one or several DLIs designed for achievement in a future year. Any advances provided shall be recovered when the related DLIs remain unmet at a subsequent disbursement period.

33. A summary indicative quantification of DLI disbursement is annex 3. The principle for disbursements against DLIs that has been adopted for the Program implementation is as follows: For any DLI not met at the evaluation date in any single year, the price allocated to that DLI would remain undisbursed (or recovered from the next cycle of disbursements if a prior advance was made) until the DLI is met at a future date during the life of the Program.

### **B8. Program Financial Management Risk**

34. As highlighted earlier, the SOML is a Government-owned Program in support of focusing on health service delivery results with a view to achieving objectives. Critical to achieving these, the financial resources must be adequate to enable the effective and efficient delivery of the services both at volume and quality levels. In spite of the existence of a robust financial management information system at the Federal level to track spending for SOML related delivery activities, the Government budgeting is not carried out according to Programs to enable the identification, from the budgetary planning stage, the direct attributes of SOML spending. Equally, since the SOML extends beyond the Federal jurisdiction to the States, there is, overall, no clear and segmental budgeting of expenditures for direct attribution of spending to SOML related activities except for a few entities like the NPHCDA, NACA. The activities germane to the Program are cross-cutting in terms of their implementation across organization units within the health sector. Therefore, in the spirit of infusing increased transparency and accountability in the implementation of the Program from the perspectives of financial management results and outcomes, the implementation of the Program action plan will include the remapping of the annual health budget to enable ascribing expenditures of certain related organization and delivery units to the Program. Such an analysis will be carried out as part of the annual financial reporting and included in the annual financial reporting of the health sector (essentially the FMOH) by way of detailed notes to the accounts. At the level of the States, and as a DLI to cater to the risk of in-transparent financial information on PHC spending, the SPHCDA will be required to prepare and publish quarterly consolidated budget execution reports on all PHC activities across the entire State within six weeks of end of quarter.

35. Another critical activity that would need to feature in the action plan is the reinforcement of internal controls through the introduction of a methodical internal audit function within the health sector (essentially the FMOH and NPHCDA). Currently, the role of internal audits at both the Federal and States levels is limited to conducting ‘pre-payment audits’ – just like how a control function operates in incurring expenditures. This functioning mandate comes from the local laws and does imply that internal auditors who should be independent, consistent with the International

Institute of Internal Auditors' standards, are directly involved the expenditure processing cycle. This undermines the independence and integrity of internal auditors. As part of the action plan, the Accountant General of the Federation would lead the States in assigning separate internal auditors to do ex-post audits that will focus on systemic issues and risk and thus mitigate the effects of possible collusion between the pre-payment audit teams and those with spending authority under the Program. Reports of the ex-post internal auditors should be submitted to the Permanent Secretaries of the Ministries of Health, the Accountant General, the Auditor General, and shared with the Bank on quarterly basis.

36. Again, as part of regular in-year fiscal reporting, the Office of the Accountant General of the Federation, in association with the FMOH's PMU, will provide to the Bank quarterly budget execution reports at the economic (object) classification level for each of the sub-functions of the health sector within 30 days of the end of each fiscal quarter for overall Program monitoring purposes. The sub-functions of health that contribute most directly to the pursuit of SOML objectives will be the key focus of monitoring.

37. The draft financial Statements of the Program will need to be prepared within three months of the end of the fiscal year and submitted to the Auditor General of the Federation. The financial Statements, as highlighted above, would need to provide detailed notes on the Program in terms of actual expenditures derived from the mapping of Program expenditures from the implementing units' budget execution reports (NPHCDA and the IDA supported component of the SOML Program). Equally, in addition to meeting the DLIs, one of the criteria to be established is for ensuring that the overall Federal Program expenditures (actual) at Program closure is more than or equal to the Program withdrawals (disbursements) from IDA. Any shortfalls will need to be recovered from/refunded by the Federal Government. This will ensure that the results achieved have a relationship with financial resources deployed.

38. Finally, the external audit of the Program expenditures, as part of the audit of the entity financial Statements of the FMOH, will be critical to providing the requisite assurance that the Program resources were appropriately used with the requisite economy, efficiency and effectiveness towards achieving the Program goals. To this end, and with a view to managing the risks to Program outcomes in a timely manner, the Auditor General of the Federation will carry out: (a) the financial audit of the SOML as defined by the Program boundary and (b) deliver the audit report to the legislature as well as submit to the Bank within 12 months of end of the fiscal year.

39. Overall, notwithstanding the established deficiencies in the financial management at the sector level (drilled down from the conclusions of the PEFAs/PEMFARs), there is reasonable assurance that the established systems will be adequate especially when the mitigating factors as highlighted in the Program action plan are adopted and implemented.

## **C. Program Procurement Systems**

### **C1. Assessment of Procurement Framework**

40. Nigeria's procurement environment is largely premised on the progress achieved in implementing a procurement reform Program based on the recommendations of the 2000 Country Procurement Assessment Review (CPAR). With the enactment of a Public Procurement Act in June 2007, the enabling legal framework aimed at establishing transparent, fair, and cost-effective use of public funds has been in place. The provisions in the Act are consistent with the principles of the UNCITRAL model law, and are applicable to all procurement categories (suppliers, contractors, consultants).

41. Following the enactment of the procurement act, a regulatory agency - the Bureau of Public Procurement (BPP) - was established. The Government has also prepared relevant implementation tools, including Regulations, Standard Bidding Documents (SBD) and Manuals. In addition, a procurement professional cadre has been created at the Federal level and in some States. A complaints and appeals mechanism has been established in accordance with the provisions of the Act to enhance transparency and accountability. The gains of the procurement reform at the Federal level have extended to the 36 States of the Federation of Nigeria. Presently, 24 States have passed their respective procurement laws while other States have draft procurement bills under consideration.

42. Notwithstanding the above successes, there are still inherent weaknesses in the public procurement system in Nigeria. In 2012/2013, the Bank conducted a Procurement Value Chain Analysis (VCA) which identified the following weaknesses at the Federal level: delay in budget approval; late release of budgeted funds; lack of budget-linked procurement planning; failure of full compliance with the use of standard bidding documents; poor bid evaluation reports; delays in contract award approvals; weak procurement and performance monitoring; poor record keeping, fraud and corruption and lack of effective enforcement of sanctions as provided for the law.

43. At the States' level, procurement law has been enacted in 24 States while the remaining States have draft bills at various stages of consideration; procurement regulatory agencies have been established in 18 States. The Programmatic Integrated Fiduciary Assessments of Nigerian States (PIFANS) for Lagos, Ondo, Edo, Delta, Rivers and Bayelsa also identified the procurement weaknesses at the Federal level in the States. In addition, PIFANS highlighted the: (a) need for the States to develop and deploy necessary tools, including regulations, manuals and standard bidding documents; (b) the need to professionalize the procurement function; (c) need for publication of contract award to enhance transparency and demand for accountability; and (d) need for the establishment of complaints and appeals mechanism.

44. In 2014, the GAVI audit report equally highlighted significant vulnerabilities in the procurement management and control processes in the health sector in respect of their cash support component. These include: lack of segregation of duties in the tendering and expenditure management processes; applying the 'shopping' method for higher value procurements inconsistent with the applicable rules and the methods defined in the procurement plans; splitting procurement packages to circumvent procurement thresholds; payment to suppliers who have not

delivered the goods or have delivered sub-standard goods; several different suppliers sharing the same address – an apparent sign of collusion and attempt to show that there was competition; inflated costs (sometimes twice) on procurement of goods; etc.

### **Overview of Procurement Performance in the Federal Ministry of Health:**

45. *Scope of the Review:* This assessment covers the enabling legal framework, the organizational aspects, procurement processes, record keeping and document management system, staffing capacity, quality and procurement planning, development of the procurement documents, bids/proposals submission, evaluation of the proposals and contract award, and application and appropriateness of the laws, rules and regulations applicable to FMOH in the implementation of the SOML PforR operation.

46. *Institutional Arrangements:* Pharmaceuticals and medical goods procurement are domesticated in different places within the FGN ministries, departments and agencies. For instance, the FMOH along with UNFPA procure family planning commodities for the whole country. FMOH with NPHCDA through UNICEF centrally procure the vaccines and consumables for administration of the vaccines. Many MDA are involved in the procurement of maternal, newborn and child health commodities. These include the FGN through the FMOH, SURE-P MCH, NPHCDA, Ministry of Women Affairs and Social Development and Development Partners through various bilateral and multilateral donations. State Governments, too, procure pharmaceutical and medical goods in accordance with their State needs. In respect of family planning commodities alone, the FMOH and partners spent about US\$49 million last year.

47. The national health policy allows each MDA to procure pharmaceuticals and medical goods but there is no coordination mechanism among the above institutions to ensure that there is no duplication of roles in product selection, forecasting, procurement, inventory management, distribution and ensuring rational use of drugs. There is therefore the need to establish a coordination mechanism to address this weakness.

48. *Procurement Management:* There are a number of problems associated with procurement management at the FMOH. These include: (i) lack of understanding of supplier market which has led to adoption of inappropriate procurement methods; (ii) use of wrong prequalification and post-qualification criteria; (iii) inappropriate packaging and delivery schedules; (iv) potential increase in chances of collusion and other improper practices, particularly where the number of prequalified local manufacturers is very limited; (v) high bid costs in comparison with estimates/budgets, thus reducing the chances of achieving best value for money in the procurement of critical health sector goods, (vi) limited capacity of suppliers of some critical items such as Long Lasting Insecticide Treated Nets, Rapid Test Kits, etc., and (vii) poor data or non-availability of data for procurement forecasting.

49. The procedures for the bidding process are generally being complied with as provided by the law. However, there are two key areas of weaknesses: the approval of award recommendations, and the documentation and record keeping. For instance, approval of award recommendation for RBF contract valued US\$8,946,530 under NSHIP was delayed for four months, in spite of the fact

that the Bank's No Objection had been given. In addition, the Team was informed that there were management and political interference in the procurement process.

50. *Funding:* Although budgetary allocations are made annually, budget releases fall short of contract commitments. Consequently, in many occasions goods that have been received are not fully paid due to insufficient funds. This has created serious lack of confidence of suppliers on the FMOH. The Assessment Team was informed that in some of those cases that the goods have not been fully paid, management does not distribute the drugs which sometimes lead to expiration and wastage of the drugs. The Assessment Team could not understand why the unpaid drugs are not distributed since these are unlikely to be returned to the suppliers.

51. *Logistics:* The main problem with availability of pharmaceuticals and medical goods is logistics. Starting from receipt of goods at the ports, the Assessment Team was informed that there are serious delays with customs clearance of commodities. These delays are caused by lack of funds for customs clearance, issuance of duty waiver and NAFDAC inspection. The next bottleneck is storage. There is inadequate warehouse capacity, particularly for drugs which are stored in Central Medical Store, Oshodi. Other logistics issues are: (i) distribution to the last mile remains ad hoc arrangement and not planned along with procurement; (ii) lack of capacity to ensure good recording keeping both at the warehouses (Federal and States) as well as at facility level on actual consumption data, pilferage therefore cannot be totally ruled out; and (iii) States not funding distribution to the last mile ( Health Facilities) even when the Federal has distributed to the State stores from the Federal central warehouse. There are internal control mechanisms to guide against expiration of drugs through the use of "First expire first out" while in the central stores and the use of reputable security outfits to monitor the central stores. Also, care is exercised in off-loading and stocking into the stores; appropriate temperatures are maintained for optima storage, including cold chain in the case of vaccines

52. *Stock Control:* The poll system is used to ensure control and optimal supply of commodities. In order to ensure that commodities do not go beyond the reorder level, the reorder policy for commodities at the central store is 16 months, 9 months at State level, 6 months at the LGA and 4 months at the health facility level. Reorder of family planning commodities is guided by Review and Resupply meeting which is held four times in a year. However there is provision for emergency supply if this is necessary and justifiable

53. *Staffing:* The FMOH Procurement Unit is headed by a Director and supported by 13 BPP-certified procurement staff. The Assessment Team was informed by the Head of the Unit that there was not enough capacity to undertake all the procurement work. In order for the current staff to perform optimally, they need much more training, which will be address through the TA component of the Program.

54. *Record Keeping:* For each contract, there is a specific file for procurement and contract management that ensure an audit trail and lend themselves to easy auditing. Each file individually describes the entire history of the procurement process - from invitation for bids up to the contract award. The Procurement Unit implements a manual filing system and all procurement files are kept in metallic locked cabinets in the offices of the procurement staff. The procurement information can be located and this is protected from unauthorized access. More sensitive

documents such as the financial proposals and original bids that are being evaluated, etc. are kept in a secured safe, accessible only to the procurement staff. This practice fulfills the legal requirements of the Public Procurement Act.

55. *Procurement processes:* Major high value procurements of pharmaceutical and medical goods will be carried out through UNICEF and UNFPA. A Memorandum of Understanding will be signed with the two UN Agencies by FGON for these purchases. With regards to other procurements, the national systems will be used. Invariably, however, a significant amount of procurement for health products (immunization, drugs etc.) are acquired from extra-budgetary resources provided by donor partners through direct procurements from UNICEF and related agencies.

#### **D. Assessment of Fraud & Corruption Risks and Mitigation**

56. Consistent with OP/BP 9.0, and as part of the Integrated Fiduciary Systems Assessment (IFSA), an assessment was carried out on the existing institutional and oversight systems and practices in Nigeria pertaining to ‘Governance and Anticorruption’ (GAC) and their applicability to the proposed SOML Program. The assessment examined the proposed design and implementation of the Program using the Governance framework principles of transparency, accountability and participation and whether the existing institutions and processes were able to meet requirements of the “*Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing (February 1, 2012)*”. As part of the assessment, the institutions participating in the implementation of the Program and their inter-linkages were examined to draw conclusions on the impact of their governance structure and practices on the objectives of the Program, and how they may well interfere with the effective and efficient service delivery activities foreseen under the Program across different layers of Government in Nigeria. Specifically, the assessment examined the extent to which fraud and corruption can surface during implementation and how these can be mitigated under viable action plans and other mitigating factors. It appears that the Program is exposed to three main risks of fraud and corruption: 1) fraudulent or corrupt procurement transactions; 2) diversion of funds; and; 3) extortion by medical staff from patients in need of medical attention. A recent audit report by the Global Vaccine Alliance (GAVI) of its funding to NPHCDA highlights “*significant weaknesses in the accounting processes*” and internal controls on the use of funds as well as pervasive violation of procurement procedures resulting to questions on whether value for money was indeed obtained. In response, the FMOH and NPHCDA have agreed to strengthen their fiduciary systems. A recent survey also highlights that up to two-fifths of patients’ claim that they have had to pay a bribe to medical staff to get needed medical attention.<sup>4</sup>

57. The assessment methodology applied benefitted from dialogue carried out with responsible stakeholder institutions and agencies including the ICPC, EFCC, and the sector-specific anti-corruption units that are all central to the determination of policy, regulatory and/or operational ‘fraud and anti-corruption’ aspects in Government (namely the Anti-Corruption and Transparency Unit of the Federal Ministry of Health). Specific reference to the laws and regulations governing fraud and corruption was made to identify the adequacy of these enabling legislations to, at least

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<sup>4</sup> Action Aid, Report of Research into the Relationship between Poverty and Corruption in Nigeria., November 2014, unpublished).

in principle, serve as instruments of deterrents against governance malpractices. This assessment resulted in the identification of measures and actions in the Program Action Plan that could together support the mitigation framework for improved outcomes during Program implementation.

58. For lack of an objective indicator of corruption, one usually refers to perception of corruption. In this regard, Nigeria fares poorly despite recent progress. Under Transparency International Corruption Perception Index, Nigeria was deemed the most corrupt country in 1997 and ranked 144<sup>th</sup> in 2013 along with Cameroon and Ukraine among 177 countries, after having reached its best ranking in 2008 (121<sup>st</sup> out of 180 countries). Although such indicator reflects a general perception of pervasive and unremitting corruption in the country, it does not say much about the effectiveness of the country's anti-corruption institutions and systems. Unfortunately, anti-corruption agencies (including the ICPC and EFCC) do not report publicly on their activity, and statistics on investigations and prosecutions are not available, so that we miss objective data to make such an assessment.

59. According to a recent peer review of the implementation of the UN Convention against Corruption (UNCAC) in Nigeria, that its legal and institutional anti-corruption framework is robust enough<sup>5</sup> while in demand of strengthening on several critical dimensions such as data collection, criminal immunities, protection of witnesses, the independence of anti-corruption agencies from the executive.

60. **The anti-corruption legal framework in Nigeria.** The anti-corruption legal framework rests essentially on the criminal justice system and more specifically on the Corrupt Practices and other related offences Act, 2000, the Economic and Financial Crimes Commission (Establishment) Act, 2004, as well as on the UNCAC, ratified in 2004. Additional pieces of legislation address conflict of interest, promote transparency (asset disclosure and freedom of information) and strengthen the governance of extractive industries (Nigeria Extractive Industries Transparency Initiative Act). Legal provisions relevant to the health sector defined in Corrupt Practices Act as criminally punishable corrupt practices include:

*“Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate of the public officer or any other public officer shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine.”* This provision extends to sheer solicitation by a public officer of any undue advantage for providing assistance of using one's influence, as well as to an attempted (but not actual) corrupt practices as well as to corrupt practices on behalf of third parties.

61. The Nigerian criminal law also sanctions *“any person who, being employed in the public service, takes, or accepts from any person, for the performance of his duty as such officer, any reward beyond his proper pay and emoluments, or any promise of such reward”*. The law punishes both active and passive corruption, i.e. both public officials and the private parties to the transaction – with the definition of public officers under the Corrupt Practices Act extending to all

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<sup>5</sup> UNODC, UNCAC Implementation Review Group, June 11, 2014.

elected and non-elected officials, at Federal, State and local levels, in public administrations or State-owned enterprises.

62. With regard to public procurement, the Corrupt Practices Act specifies that:

*“Any public servant who, without lawful authority or reasonable excuse, solicits or accepts any advantage as an inducement to or reward for or otherwise on account of his giving assistance or using influence in, having assistance or used influence in the promotion, execution, or procuring of*

- (i) *Any contract with a public body for the performance of any work, the providing of any service, the doing of anything or the supplying of any article, material or substance; or*
- (ii) *any sub-contract to perform any work, provide any article, materials or substance required to be performed provided, done or supplied under any contract with a public body; or*
- (iii) *The payment of the price, consideration or other moneys stipulated or otherwise provided for in any such contract or sub- contract as aforesaid; shall be guilty of an offence.”*<sup>6</sup>

63. The Corrupt Practices Act also sanctions conflict of interests of public officers in charge of financial transactions: *“Any person who, being employed in the public service, knowingly acquires or holds, directly or indirectly, otherwise than as a member of a registered joint stock company consisting of more than twenty (20) persons, a private interest in any contract, agreement or investment emanating from or connected with the department or office in which he is employed or which is made on account of the public service, is guilty of an offence, and shall on conviction be liable to imprisonment for seven (7) years.”*

64. Public officers are also criminally liable for not reporting any unduly offered, promised or granted gratification. Private individuals who have been solicited to pay a bribe to a public officer are also criminally liable for not reporting it to the ICPC or the police.

65. **Asset Disclosure.** all public officers are legally mandated to declare to the Code of Conduct Bureau their assets and liabilities on assumption and term of office, and every four years for permanent employees. Failure of declaration of assets may entail removal from office, disqualification from holding any public office and forfeiture to the State of any property acquired through abuse of office or dishonestly.

66. **The Anti-Corruption Institutional Framework.** The Nigerian anti-corruption institutional framework comprises multiple agencies at the Federal level, loosely coordinated by the President’s office (within the Inter-agency task team on anti-corruption<sup>7</sup>). But the weakest

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<sup>6</sup> Under the Corrupt Practices Act, also qualify as criminal offences 1) the award or signing of contracts without budget provision, approval and cash backing and 2) the transfer and payment of any sum allocated to a particular project or service to another one.

<sup>7</sup> The IATT comprises of representatives of the Office of the Attorney General of the Federation and Ministry of Justice, the Ministry of Foreign Affairs, the Federal Ministry of Finance, the Economic and Financial Crimes

level rests at the departmental level, with the line ministries' Anti-Corruption and Transparency Units (ACTU) which are the most relevant for the purpose of assessment under the Program. The anti-corruption nodal agency in Nigeria is the Independent Corrupt Practices and Other Related Offences Commission (ICPC) but in practice its jurisdiction overlaps with that of the Economic and Financial Crimes Commission (EFCC).

67. **The Independent Corrupt Practices Commission (ICPC).** Established in 2000 by the corrupt Practices Act, the ICPC has both a repressive and preventive role. It has a membership of 12 seasoned professionals (two from each of the six geopolitical regions of Nigeria) and a chairman (who has to be a magistrate) - all nominated by the President and confirmed by the Senate. Legal provisions ensure the independence and probity of the Commission. For the past three years, the ICPC has refocused on the prevention of corruption in three areas of service delivery: health, education and water supply. In the health sector, it is presently working with the National Primary Health Care Development Agency (NPHCA) on a corruption risk assessment at the level of primary health centers. Its recommendations will be applicable to the implementation of this Program. Allegations of corruption can be conveyed to it by email or by phone and are also conveyed to it indirectly through websites such as [BribeNigeria](#) or [Egunje](#) (which publishes statistics on the geographical and sectoral distribution of gathered allegations) run by NGOs. Unfortunately, it has not disclosed its activity report since 2009 but it is reputed to reach only few convictions.

68. **The Economic and Financial Crimes Commission (EFCC).** The EFCC (created in 2004) is the nodal agency for anti-money laundering, financing terrorism and other economic and financial crimes. In practice, it also investigates petty corruption. Its role is complementary to that of ICPC and it may be concurrently mobilized for the purpose of this Program. The MoU signed between INT and the EFCC should facilitate the exchange of information for the purpose of investigation.

69. Other agencies also contributing to anti-corruption include: The Public Complaints Commission (established in 1975); [Code of Conduct Bureau](#) (created in 1990) essentially ensuring compliance by public officers of their legal obligations in the performance of their functions, including asset disclosure.

70. **Anti-Corruption and Transparency Units (ACTU) within Federal Ministries.** ACTUs are the nodal anti-corruption agency at the departmental level. Their creation has been decided by the Head of Services on recommendation from the ICPC. They are responsible for the prevention of corruption and preliminary investigations. They are partly independent from the chief executive officer of department (Permanent Secretary): their chairman is appointed by the Head of Services and cleared by the ICPC; they report on their investigations to the ICPC (with copy for information to the Permanent Secretary). But their budget is still allocated by the

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Commission, the Nigerian Financial Intelligence Unit, the Independent Corrupt Practices and Other Related Offences Commission, the Code of Conduct Bureau, the Public Complaints Commission, the Nigerian Extractive Industry Transparency Initiative, the Technical Unit on Governance and Anti-Corruption Reforms, the Nigerian Police Force, the Federal Inland Revenue Service, the Office of the Auditor General, the Corporate Affairs Commission, the Central Bank of Nigeria, the National Drug Law Enforcement Agency, the Bureau of Public Service Reforms, the Budget Office of the Federation.

ministerial department they belong to, thus impairing their financial independence. The ICPC is reviewing the budget issue of ACTUs while arguing that they should not be conducting full scale investigations by themselves but only collecting intelligence to be conveyed to the ICPC, sole agency in charge of criminal investigations. The role of ACTUs is to serve as the main link between Ministries and Government Agencies on the one hand and the Commission on the other. For the repression of corruption, ACTUs *“receive oral and/or written reports of conspiracy to commit/attempt to commit an offence of corruption and submit both their initial report and their comments to the Secretary of the Commission with copies to the Permanent Secretary/Chief Executive within thirty (30) working days”*. At the Federal Ministry of Health, allegations of corruption are mostly conveyed to the ACTU through *“suggestion boxes”* dispatched in the Ministry buildings. This hardly qualifies as a complaints handling system mechanism. As regards prevention, ACTUs *“examine the practices, systems and procedures in the Ministries, Agencies, etc., and where in the opinion of the Unit, such practices, systems or procedures aid or facilitate fraud or corruption, they submit a detailed report with recommendations to the Secretary of the Commission for appropriate action with copies to the Permanent Secretary/Chief Executive.”* Their role extends to training and sensitization of department staff and counterparts (e.g. visitors) on corruption. For the purpose of the Bank Program supporting the SOML, the main structural limitation of the ACTU of the Federal Ministry of Health is that it does not have jurisdiction beyond Federal hospitals, i.e. on primary health care. By their own admission, anti-corruption units in Federal hospital are anyway ineffective for lack of independence from the hospital management.

71. **Anti-Corruption Institutional Framework at the State Level.** The Corrupt Practices Act applies to any State level or local level Government employee and grants the ICPC jurisdiction over all of them. So does the ECPC (Establishment) Act. For the purpose of this Program, an important initiative of the ICPC is its engagement with the National Primary Health Care Development Agency (NPHCDA) to assess and address corruption risks at the level of primary health facilities. Another significant development would be the replication at the States level of **ServiCom** (an acronym for service compact) rolled out at the Federal level since 2004 and which aims at improving service delivery to customers by: monitoring and ensuring performance against a set of service standards, and overseeing adequate handling of citizens’ complaints. Under the purview of its director for Reforms Coordination & Service Improvement, the Federal Ministry of Health conducts regular inspections of Federal hospitals to monitor their compliance with ServiCom service standards, including by capturing patients feedback. Despite important limitations (including the lack of a proper management system of health care performance standards), ServiCom can help mitigate the risk of corruption (including through the mandatory displaying in Federal hospitals of medical fees) and handle patients complaints against medical staff corrupt practices (e.g. through the grievance redress mechanism introduced in each Federal hospital). The National Health Council is considering the replication of this initiative at the State level (i.e., across primary health centers). Such a decision would serve well the purpose of the Bank Program to strengthen anti-corruption mechanisms and more generally improve the effectiveness and quality of health services.

72. **Operationalization of the Anti-Corruption Systems in the Bank Program.** Based on this findings of this assessment, it seems that to best mitigate the risks of fraud and corruption under the Program, (1) the legal and institutional country frameworks need be fully operationalized

within the scope of the SOML Program; and (2) the anti-corruption framework along the whole chain of health service delivery, i.e. down to primary health centers, would need to be strengthened. In this regard, (1) the Anti-Corruption and Transparency Unit of the Federal Ministry of Health would need to be operationalized to fully exercise its preventive and repressive mandates; (2) that effective fraud and corruption complaints handling systems need to be further developed, institutionalized and mainstreamed down to the level of the frontline service providers (namely primary health centers) following a defined protocol (ensuring easy access, tracking of treatment of complaints, and reporting on final outcome) to be detailed in the Program action plan; and (3) the existing agreement between INT and the EPCC to be implemented to ensure adequate exchange of information for investigation purpose.

73. Specific requirements for operationalizing effective fraud and anti-corruption functions at each of the defined layers in the health delivery function would be as follows:

- *At the ACTU of the Federal Ministry of Health:* Adequacy in staffing and associated funding - duly empowered as per ICPC guidelines, compliant with instructions from the Head of Services Office (Circular No. OHCSF/MSO/192/94 of 02/10/01) both on its preventive and repressive responsibilities. Its annual report of activities and annual action plan to be submitted to the ICPC would also need to be shared with the Bank to help identify areas for further improvements. In addition, it is noted that the ACTU is also conducting a corruption risk assessment at the level of Federal health facilities (funded by UNDP) which should help it figure how to address risks identified and strengthen the anti-corruption system within the Ministry.
- *At the primary health centers:* The ICPC is conducting a corruption risk assessment with the NPHCDA. Implementation of the recommendations will be incorporated as an action item in the Program action plan.
- *Strengthening, mainstreaming and institutionalizing grievance redress,* either 1) as a stand along fraud and corruption complaints handling system (to be designed and operated under the responsibility of the ACTU of the Federal Ministry of Health) or 2) as part of the proposed deployment of ServiCom (performance monitoring of the quality of service provided by frontline service providers) at the States level offers a unique opportunity to roll out an effective grievance redress mechanism in primary health centers. It would also strengthen the SOML M&E framework and ensure the required capture of citizens' feedback across Bank funded projects. To that effect, the National Health Council, which is considering such development, and the PMU which oversees the implementation of SOML Program at the Federal Ministry of Health, would need to be engaged to mainstream the deployment.
- *Consultation, exchange of information and cooperation between INT and EFCC* as per their MoU to facilitate investigation and help strengthen preventive and risk mitigating measures for the implementation of SOML. This will be formalized in the anti-corruption provisions of the legal documents.

74. Client Commitment: The FMOH is committed to implementing and overseeing the implementation of the Program in accordance with the objectives of the Anti-Corruption Guidelines applicable to PforR operations (ACGs) and has subscribed to the following implementation modalities:

- The FMOH, through the IVA, will provide semi-annual and annual reports to the Bank on all credible allegations of fraud and corruption under the Program, as well as related investigations and actions taken. The Bank will also share information on any allegations or concerns of fraud and corruption with the EFCC and other anti-corruption agencies.
- The FMOH will ensure that any person or entity debarred or suspended by the Bank is not awarded a contract under or otherwise allowed to participate in the Program during the period of such debarment or suspension.
- Bidding documents will serve as one of the key sources of information to bidders and contractors regarding the applicability of the ACGs to the Program. Compliance will be verified and assured through the annual audit of the Program.
- The FMOH will, under the national laws, submit for investigations under the Program, including investigations requested by the Bank, and will keep the Bank abreast of progress and findings of the investigations and ensure that the conclusion of investigations are made public.

#### **E. Program Integrated Fiduciary Risk Assessment**

75. The integrated assessment concludes that the SOML Program Integrated Fiduciary Systems have the capabilities to provide reasonable assurance that the financing proceeds under the Program will be used, generally, for intended purposes. The assessment noted the existence of significant gaps and weaknesses in these systems which will need to be addressed in the Program Action plan as part of Program implementation. Key lessons learned in the implementation of the GAVI Program as well as the ‘Global Fund to Fight Aids, Tuberculosis and Malaria’ – pertaining to the identified major fiduciary issues - have been considered and factored in the design of the Action Plan. There are opportunities to be harnessed, based on prevailing legal framework on anti-corruption that the Program can take advantage of. The existing gaps, though, do have a high potential of elevating the overall risks of the Program to ‘high’, thus impacting the expected results against the Program objectives. Based on the findings of the assessment, a Program Action Plan has been developed, and whose implementation would support the mitigation of the risks to a residual level of ‘substantial’. Monitoring the implementation of the Action Plan and refining the operational modalities as and when required would be critical to managing the risks during Program life.

#### **F. Program Action Plan**

76. The Program Action Plan (see Annex 8) covers the entire spectrum of the integrated fiduciary areas requiring management, monitoring and control under the Program during the period 2015-2019. At quarterly intervals, a monitoring report on the status of implementation of the

actions will need to be provided by the FMOH and discussed at each of the meetings of the Steering and Technical Committees, and strategic and technical directions and guidance provided.

## **G. Implementation Support**

77. The Nigeria Country office has a team of fiduciary staff – Procurement, Financial Management, and Governance – that will, as part of the Program task team, monitor the implementation of the Program’s fiduciary aspects, and in particular, the status of implementation of the ‘action plan’. This will be carried out not only half-yearly during implementation missions but quarterly, at least for the first year of Program implementation. The team will provide hands-on support to the FMOH teams dealing with procurement, financial management, and to the ACTU at FMOH as well as to other organs (like ServiCom) supporting the mitigation of fraud and corruption at facility levels.

In carrying out its implementation support, the Bank team will review the Program’s financial reports and their conformance with applicable standards and, at the same time, serve as a first layer reviewer of the planned disbursements against DLIs met at each verification cycle. As regards independent procurement and technical audits, the fiduciary team will review upon their availability and provide the requisite professional and technical guidance in support of actions needed to drive the Program towards achieving its objectives