PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC12810

Project Name	Nepal Health Sector Support: Towards UHC (P150801)
Region	SOUTH ASIA
Country	Nepal
Sector(s)	Health (50%), Non-compulsory health finance (10%), Compulsory health finance (10%), Public administration- Health (30%)
Theme(s)	Health system performance (50%), Public expenditure, financial management and procurement (25%), Managing for development results (25%)
Lending Instrument	Investment Project Financing
Project ID	P150801
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Health and Population
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	15-Apr-2015
Date PID Approved/ Disclosed	21-Apr-2015
Estimated Date of Appraisal Completion	29-Apr-2016
Estimated Date of Board Approval	15-Sep-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Despite a decade-long armed insurgency and protracted political transition, Nepal has made exemplary progress in poverty reduction and human development. Nepal is a land-locked country, with a population of 27.5 million and a per capita income of US$ 717. About 25 percent of the Nepali population lives on less than US$ 1.25 per day, and 82 percent live in rural areas. Poverty is worse in rural areas (27 percent) compared to urban areas (15 percent) and particularly severe in mountainous areas (42 percent). Nepal halved extreme poverty (the percentage of people living on less than $1.25 a day) in seven years from 53 percent in 2003/2004 to 25 percent in 2010/2011, and thus attained the first Millennium Development Goal ahead of time. Life expectancy has been steadily increasing in the country to almost 67 years in 2009, up from about 38 years in 1960. In addition, Nepal has achieved gender parity in education and sharp reductions in infant and maternal

mortality.

Nepal is passing through a complex and challenging political transition. While there has been significant progress on consolidating peace and transitioning to a political system since the end of the conflict in 2006, there have also been setbacks. Nepal's post-conflict political transition has involved two interrelated processes: (i) consolidation of the peace process and (ii) promulgation of a new constitution. It has made good progress on the peace process but the political transition is taking longer than expected. In March 2013, the main political parties agreed to form an interim government which was charged with holding new elections to form a new Constituent Assembly; these elections were successfully held in November 2013. Political parties in the new Constituent Assembly were committed to finalize the new constitution by January 2015 but missed this deadline. Agreement on the constitution requires negotiation on complex constitutional issues such as a federal structure of government, and electoral system.

Remarkably, Nepal's economy grew steadily even during the height of conflict. Yet, growth levels are considered too low to allow Nepal to continue its past progress. Economic growth was 5.5 % in FY 14, 3.7 percent in FY13, with an average of about 4.7 percent during 2008-12. This moderation in growth can be attributed to reduced public spending, particularly for infrastructure; low levels of private investment, due to power outages, labor issues, policy inconsistency, and political uncertainty.

The government has exercised macro fiscal prudence at the aggregate level. Nepal has well established Public Financial Management (PFM) rules and regulations, and institutions and processes in place, but enforcement is weak. PFM reforms to improve allocative efficiency and cost effective delivery of services are being undertaken and are expected to strengthen performance over time.

Sectoral and Institutional Context

Nepal's progress in meeting the health MDG's has been impressive. The maternal mortality ratio was reduced from 538 per 100,000 live births in 1996 to 380 in 2011; infant mortality was reduced from 110 deaths per 1,000 live births in 1990 to 46 in 2011; and full immunization coverage rose from 43 percent in 1996 to 87 percent in 2011. Although significant progress is evident, several challenges remain in the health sector, especially with regard to inequalities in access, high out-of-pocket expenditures (OOP), and malnutrition. Nepal still ranks low on the UN's Human Development Index, at 145 out of 187 countries in 2014, and much remains to be done to bring human development indicators to middle income country levels and to move to universal health coverage – both goals sought by the country.

Issues of access, social inclusion and equity in health service utilization remain challenges for the health sector. There is evidence of systemic exclusion of several population groups to access health services due to a variety of circumstances, including household income and education levels, location of residence, gender, social, ethnic and religious identity, and linguistic background. Access to health services remains unequal and of low quality and inequities remain in health outcomes and service utilization across location, income and ethnic groups.

The interim constitution guarantees the right to basic health services for all free of charge at the point of service use. This is the primary mechanism for financial protection and expanding service utilization. However structural and institutional inefficiencies in the planning, management and last

mile delivery of the program results in the failure of timely availability of these free services and drugs to the population. This particularly impacts the poor and difficult to reach population groups.

The path towards Universal Health Coverage remains challenging. Achieving UHC would require (i) more concerted focus and efforts to ensure reach of health care to the entire population, especially to those hard to reach (access and equity), (ii) ensure that appropriate quality services based on the prevailing disease burden are available at all times (appropriateness of service mix) and (iii) ensuring illness will not result in impoverishment by providing health services at an affordable cost to all citizens (financial protection). In order to meet the guarantees enshrined in its interim constitution and move towards Universal Health Coverage, GoN has recently expanded the package of free basic health care services and has agreed a policy and regulatory mechanism to support health insurance as a key measure to reduce out of pocket expenditure and thereby improve financial protection. GoN plans to start a health insurance pilot in three districts by June 2015 and roll this out in a phased manner across 75 districts to reduce out of pocket expenditures on health and expand access to services.

Nepal has set itself some ambitious goals and the last ten years has seen significant change. However major institutional and governance issues including the lack of evidence based planning and budgeting, as well as public financial management and procurement weaknesses remain constraints to the achievement of these goals.

Bank’s Engagement in the Health Sector

The World Bank along with Development Partners (DPs) has provided support to the health sector through a Sector Wide Approach (SWAp) for the past decade. This support has been aligned to two phases of the government's Nepal Health Sector Program. These SWAps were aimed at aligning external support with GoN’s sector plans and ensuring harmonization among the DPs.

The World Bank along with DFID, KfW and GAVI pool their respective financing to provide on-budget support to the GoN. This support finances a proportion of total health sector expenditures (as agreed and determined by a pro-rata share) to the Ministry of Health and Population (MoHP). Within this broad funding arrangement, a focus on access, coverage and affordability of health care has been the objective of the Bank’s strategy in Nepal. An assessment done by the Bank of the fiscal space for health in Nepal in 2010, which was meant to feed into a planned Health Financing Strategy, concluded that improvement in health system efficiencies– i.e., getting more value for money – was by far the most plausible option for realizing additional fiscal space for health investments in Nepal. Although the Health Financing Strategy remains work in progress, the dialog around it, led by the Bank, has succeeded in framing and directing a discussion around financial protection, targeting inequities and reducing OOP expenditures. GoN and development partners are now focusing on health insurance as a means to deal with these challenges.

The second SWAp had a focus on addressing gender and social exclusion issues. Strategies and institutional frameworks have been established within the MoHP including the establishment of a Gender Equality and Social Inclusion (GESI) strategy. This will need to be further supported so that the focus on social inclusion is not lost and that data emerging from the systems established through this initiative are used as inputs into public policy planning and implementation.

The current NHSP 2 comes to an end in July 2015. MoHP, with its partners, is preparing the third five year sector program (NHSP 3). A detailed draft of both the strategy and the associated results

framework has been prepared and this will be further developed to become effective in July 2015. The strategy builds upon detailed consultations with a wide range of stakeholders and has incorporated lessons learned from the implementation of previous programs. The next phase of the program builds on four guiding principles - Rights Based Approach, Universal Health Coverage, Quality, and Health as a Development Agenda. NHSP's mission statement focuses on equity in health access and on the optimal utilization of available resources.

The NHSP 3 document recognizes that improved sector governance, budgeting and planning is critical to the achievement of the goal of UHC. A renewed need for focus on equity in access to quality care and reducing OOP emerges out of the experience of implementing the program over the last ten years. Going forward, if Nepal is to achieve its goals, it needs to focus on both removing supply side constraints in order to deliver health services for all and providing financial protection. It also needs to equally focus on citizen engagement strategies that can hold service providers and lead to changes in heath seeking behavior.

Relationship to CAS

The proposed operation fits in well with the World Bank Group's Nepal Country Partnership Strategy 2014- 2018 (CPS), and is well aligned to the Bank's twin global goals—eliminating extreme poverty and boosting shared prosperity. The CPS's overarching objective is to support Nepal's aspirations for increasing economic growth through increased investments in key sectors, while providing support to make growth more inclusive and to help equalize opportunities across groups and communities. This operation would contribute to the second pillar of the strategy, which focuses on improved health and nutrition services, particularly for the poor and disadvantaged. Under this, the WBG support will combine finance with knowledge to improve the effectiveness, efficiency and quality of health services focusing on supporting expanding access to and quality of services for the poorest and most excluded. Cutting across these pillars, WBG activities will also help to improve the efficiency, effectiveness and accountability of public expenditure.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

Improve the efficiency, effectiveness and accountability of public sector management and public spending in the health sector to reduce inequality in access to health services and increase financial protection.

Key Results (From PCN)

1. Timely availability of basic health package of drugs at all public health facilities.
2. Robust budgetary planning and execution and comprehensive reporting.
3. Access to basic health services.
4. Improved financial risk protection
5. Reliable and robust citizen feedback mechanisms to ensure accountability in service delivery.

The following indicators are proposed to measure success in achieving the PDO:

- % of facilities reporting stock outs.
- % of revenue and expenditure captured by MoHP.
- coverage of skilled birth attendance among the poor and marginalized.
- population coverage with health insurance.

• locally appropriate multi-channel feedback mechanism to support better planning and resolution of institutional bottlenecks and measure out of pocket expenditures developed.

III. Preliminary Description

Concept Description

While Nepal has achieved some significant results in health outcomes, further movement towards universal health coverage could be slowed by persisting systemic weakness. Based on this analysis, the proposed Bank operation will focus on both supply and demand side issues of sector governance including sector management, systems improvement, and citizen engagement processes in order to address some of the structural and institutional constraints described above. Key initiatives that focus on reducing inequities and improving financial protection will be critical areas for support.

A lesson from NHSP 2 is that a new model of financing is required to create an enhanced focus and joint accountability for achieving results/reforms. The proposed project will focus on results – an approach which has been welcomed by GoN and the DPs who realize that mere input based financing is unlikely to lead to further gains. There are a number of justifications as to why linking financing to performance can help to improve efficiency. By demonstrating results, MoHP would have a stronger bargaining position vis-a-vis the Ministry of Finance (MoF) in budget negotiations. By its nature, linking payments to results promotes transparency and accountability in the system thereby reducing leakages. Finally, by conditioning payment to results, one can directly address the concerns about inequality in access to and utilization of health services. For example, payments could be directly linked to the number of proportion of poor/ marginalized/excluded groups serviced in the facility.

In order to best meet the defined project objective, the proposed project will be financed by an Investment Project Financing (IPF) credit of US$ 100 million to GoN, and will use a results based financing modality. Disbursement Linked Indicators (DLIs) will be used, which will serve to incentivize (i) critical policy and institutional reforms, (ii) the achievement of results of key initiatives focusing on reducing inequities to access and reducing OOP that will be implemented under NHSP 3, and (iii) citizen feedback mechanisms that can lead to greater empowerment and more accountable and equitable service coverage and management. While issues of sector governance have always been acknowledged as a challenge, this operation aims to focus attention specifically to identify and finance critical pathways towards policy and institutional reform, equitable delivery of service and financing. It is thereby likely to move MoHP to take a more proactive stand in addressing stewardship functions such as improved financial protection financing, equitable delivery, financial management, procurement and citizen engagement.

The nature and degree of citizen-centric engagement, accountability and inclusion can influence access to services along a number of pathways. Affordable access to government services encompasses two interlinked dimensions: (i) the supply of appropriate, affordable and quality services; and, (ii) user- or citizen-based demand for services. The design of the project will use results based financing for two important aspects of this equation: (a) strengthening demand via improved and targeted citizen engagement, accountability and inclusion; and, (b) strengthening the synergy between supply and demand side pressures for improved access in difficult to reach areas/ populations. This engagement will focus specifically on informing and receiving feedback on critical components that would support specific results under the project.

Project Components

The proposed project aims to assist Nepal to move to UHC by improving the efficiency, effectiveness and accountability of public sector management and public spending in the health sector to reduce inequality in access to health services and increase financial protection through the following components:

Component I. Results based financing to support the move towards UHC by:
(A) Improved efficiency, effectiveness and accountability of public sector management and public spending in the health sector; and
(B) Supporting the achievement of results of key initiatives implemented under NHSP 3 focusing on reducing inequity and improving financial protection; and

Component II. Advisory services and analytic activities.

Under Component I, results based financing will provide incentives for undertaking critical public management reforms in the health sector and achieving results of key interventions to reduce inequality and improve financial protection. Results–based financing will be disbursed to GoN against the execution of an agreed to Eligible Expenditures Program (EEP) and the achievement of key results as measured by Disbursement Linked Indicators. The indicators and verification protocols measuring the results will be defined and agreed during the preparation of the project.

A. Improved efficiencies in public sector management and public spending will be achieved by focusing on the following:

(i) Improved Public Financial Management: The project will support improved public financial management for better systems performance focusing on the key challenges identified. The project will focus activities in the following key result areas:

- Development of a medium term health financing plan, with the goal of improved equity, access to quality and affordable health services thereby ensuring adequate financial protection.
- Strengthen capacity to prepare comprehensive sector budgets
- Enable comprehensive and timely reporting of sector expenditure
- Improve compliance with applicable internal controls and regulations

(ii) Improved Public Procurement: The project will support reforms along the value chain of procurement as articulated by MoHP in a Procurement Action Plan. The project will focus on activities in the following key result areas

- Strengthen the capacity of LMD with the right mix of professionals;
- Establish the use of standard specifications for the basic package of drugs;
- Institute the use of e–procurement for the entire procurement process through the Public Procurement Monitoring Office (PPMO) portal;
- Establish a functional logistics and supply chain management system;
- Strengthen quality assurance system for drugs

B. Supporting the achievement of results of key initiatives focusing on inequity of access and financial protection. In order for Nepal to demonstrate its movement towards UHC, the project will

focus on supporting

(i) Achievement of results for the following activities that will be implemented/scaled up under NHSP 3:

- Piloting and scale up of the national health insurance scheme
- Nation-wide implementation of the gender equity and social inclusion strategy
- Expanding performance based grants to hospitals

(ii) Enhanced citizen engagement

While the above result areas focus on supply side aspects of sector governance there are a number of demand side barriers that need to be addressed if Nepal is to meet its goal of equity. Based on the GESI strategy, strengthened citizen engagement can improve access by: (i) providing citizens with the information and capabilities they need to access a given service; and, (ii) capturing information from citizens, via voice and feedback, to improve state responsiveness in addressing access constraints. Improved accountability can help ensure that service providers 'supply' the service as agreed, thus ensuring that affordable access is provided and maintained. This component will focus on informational asymmetries and develop appropriate citizen feedback mechanisms which combine various social accountability tools. The project will focus activities in the following key result areas:

a. Developing a focused IEC strategy to fill specific information gaps in order to achieve the PDO.
b. Developing a locally appropriate multi-channel feedback mechanism to support better planning and resolution of institutional bottlenecks and measure out of pocket expenditures.
c. Strengthening social accountability tools to hold local providers more accountable for service deliver. This could include social audits and strengthening existing channels for redress.

Under component II, specific advisory services and analytic activities would focus on:

(i) Supporting the achievement of the key results under DLIs.
(ii) Activities related to measuring and monitoring of key initiatives to be implemented/scaled up during NHSP 3.
(iii) Additional specific activities identified during project preparation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	×		
Natural Habitats OP/BP 4.04		×	
Forests OP/BP 4.36		×	
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10	×		
Involuntary Resettlement OP/BP 4.12		×	

Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Financing (in USD Million)

Total Project Cost:	1850.00	Total Bank Financing:	100.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	1330.00
International Development Association (IDA)	100.00
UK British Department for International Development (DFID)	80.00
Bilateral Agencies (unidentified)	340.00
Total	1850.00

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