

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: PIDC0073585

Program Name	Nepal Health Sector Management Reform Program
Region	South Asia
Country	Nepal
Sector	Health, Nutrition & Population
Lending Instrument	Program for Results (PforR)
Program ID	P160207
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Health
Date PID Prepared	June 17, 2016
Estimated Date of Appraisal Completion	September 20, 2016
Estimated Date of Board Approval	October 31, 2016
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

A. Country Context

1. Nepal has made significant progress in poverty reduction and human development. With annual per capita income of US\$730 (2014), about 25 percent of Nepal's population of 27.5 million lives on less than US\$1.25 per day and 82 percent live in rural areas. Life expectancy is 70 years (2014), up from 62 in 2000. Nepal has also achieved gender parity in education, and sharp reductions in child and maternal mortality. However, significant disparities persist and recent shocks, including the series of earthquakes since April 2015 are likely to affect recent progress in poverty reduction.

2. Nepal continues to pass through a complex and challenging political transition. A new constitution was promulgated in September 2015, with several amendments in January 2016, although implementation remains impeded by a lack of consensus over contentious issues such as provincial demarcation and the specifics of federalism.

3. Despite political uncertainty, macroeconomic policy and economic priorities have remained sound and supportive of stable growth until 2014-15. Between 2006 and 2014, economic growth averaged 4.4 percent per year, and the budget moved from a position of modest deficits to surpluses from fiscal year 2013 onward. However, during FY 2015-16, growth plunged to a 14 year low of 0.77 percent, owing to the twin shocks of the earthquakes and prolonged disruption in supplies on account of the border crisis. Nepal ranks 130 of 168 on Transparency International's Corruption Perception Index for 2015, and poor transparency and accountability in the public sector remain major concerns.

B. Sectoral and Institutional Context of the Program

4. Nepal has achieved significant improvements in health indicators but challenges remain. Between 1996 and 2013, the maternal mortality ratio decreased from 790 to 190 per 100,000 live births,¹ while under-five child mortality decreased from 141 per 1,000 in 1990 to 36 per 1,000 in 2014.² At the same time, although there have been improvements, the proportion of under-five children who are stunted due to chronic malnutrition remains high at 37.5 percent. Similarly, health service utilization indicators have improved but gaps remain. While 85 percent of children aged 12-23 months have been vaccinated against measles, only 67 percent have received all recommended immunizations. Only 55.2 percent of births are in a health facility, and this proportion is only 27.9 percent among the poorest quintile.³

5. Although out-of-pocket health spending is significant, government services are important providers of health care to the population. Total spending on health in Nepal is US\$40 per capita, of which 40 percent is public spending (2014), higher than the South Asian average of 30 percent. Public spending on health in Nepal is 11.3 percent of total government spending and represents 2.3 percent of gross domestic product (GDP), compared to the average in South Asia of 1.4 percent. Government health services are provided through a network of about 4,100 health facilities and 31,500 staff across the country. Health posts and primary health care centers offer basic services free-of-charge to the entire population, while higher-level facilities offer services free-of-charge to the poor. The population often relies on government services for primary health care; for example, 8 out of 10 births in health facilities take place in government facilities.⁴

6. However, weaknesses in management of the government health system undermine coverage and quality of services. These include:

(a) *Health services suffer from stock-outs and expiry of medicines resulting from an inefficient supply chain management and distribution system.* Drugs and medical supplies constitute about 20 percent of government health expenditures. The Office of the Auditor General (OAG) identified drug stock-outs and drug expiry as major performance issues. A 2012-13 OAG survey found that 72 percent of primary health centers, 69 percent of health posts, 87 percent of sub-health posts, and 50 percent of hospitals surveyed had experienced stock-outs of one or more essential drugs. The duration of stock-outs ranged from eight to nine weeks in health posts and sub-health posts, to four weeks in primary health centers and one week in hospitals.⁵ Drug supply problems are greatest among lower level and more remote health facilities.

(b) *Low public procurement capacity contributes to drug supply problems.* The Logistics Management Division (LMD) in the Ministry of Health (MoH), responsible for health sector procurement, has typically been staffed with doctors and administrative personnel with no specific knowledge or training in procurement and limited tenures. Inappropriate

¹ WHO *et al.* 2014. *Trends in Maternal Mortality: 1990 to 2013*. Geneva.

² UNICEF *et al.* 2015. *Levels and Trends in Child Mortality: Report 2015*. New York.

³ 2014 Multiple Indicator Cluster Survey.

⁴ 2014 Multiple Indicator Cluster Survey.

⁵ 2012-13 Service Tracking Survey.

delegation for decision-making and contractor payment authorization also leads to significant delays and complaints. These problems are further compounded by systemic weaknesses in supply chain management.

- (c) *Weaknesses in public financial management undermine effective resource allocation.* Poor resource allocation to sector priorities undermines equity and access to essential services. Sector budget formulation processes remain *ad hoc*, largely uninformed by information from decentralized units where service delivery occurs. At the same time, weak expenditure management and unreliable financial reporting have resulted in poor expenditure tracking and weak accountability. Poor accounting systems have led to delays in the preparation of financial reports which in turn delays the release of funds for program implementation and results in poor execution of annual budgets.
- (d) *Fiduciary integrity remains a major challenge.* Over the last five years, there has been an increasing trend in the number of audit irregularities as well as ineffective follow up of audit findings.⁶ The system of internal controls needs to be substantially strengthened to reduce the risk of resources not being used for their intended purposes, misappropriation of assets, and poor value for money in the procurement of essential commodities and equipment.
- (e) *There is a deficit of qualified health workers, particularly in remote areas, due to difficult living and working conditions and inefficiencies in human resource management.* The proportions of sanctioned posts that are filled by doctors and nurses at various levels of health facilities range from 23 to 55 percent.⁷ Effective strategies are needed to encourage an appropriate skill-mix and equitable distribution and retention of professional and support staff, especially in remote areas. Support on these issues is being provided by development partners (DPs) such as the World Health Organization (WHO) and the United Kingdom Department for International Development (DfID).
- (f) *There is poor accountability for results at all levels.* This is evidenced by weak planning and monitoring for evidence-based decision making. As a result, there does not seem to be evidence based resource allocation.
- (g) *Citizen engagement mechanisms need to be implemented in order to contribute to improved accountability of policy makers and service providers.* The MoH's Gender Equality and Social Inclusion (GESI) strategy includes measures to strengthen citizen engagement. The strategy aims to provide citizens with the information they need to access services, as well as mechanisms for receiving their feedback. However, implementation of the strategy has been limited.

7. The Government's current five year program, the Nepal Health Sector Strategy (NHSS) 2015-2020, includes institutional and management reforms necessary to improve coverage, equity and quality of health service delivery. The program builds upon detailed consultations with development partners, academia, and civil society, and has incorporated lessons learned from the implementation of the previous two five-year programs. The NHSS

⁶ The OAG's annual reports of the health sector. (2010-14)

⁷ Service Tracking Survey 2013.

aims to achieve progress towards Universal Health Coverage (UHC). Many of the goals of the NHSS relate to improved public sector governance, including in the areas of procurement and supply chain management, health system financing, decentralized planning, and evidence-based decision making. Other goals relate to improved equity of coverage and quality of care, improved healthy lifestyles and environment, and strengthening of public health emergency response. There is a strong focus on improving institutional arrangements that affect service delivery – including human resource management, procurement and contract management, and budget planning, execution and reporting. The program also aims to expand citizen engagement to contribute to better transparency and accountability.

C. Relationship to CAS/CPF

8. **The proposed Program-for-Results is well aligned with the World Bank Group’s Nepal Country Partnership Strategy (CPS) 2014–2018.**⁸ The CPS’s objective is to support Nepal’s aspirations for increasing economic growth and competitiveness (Pillar 1), while providing support to make growth more inclusive and help equalize opportunities across groups and communities (Pillar 2). A cross-cutting theme of the CPS is the need to address systemic constraints to public sector governance and improve the efficiency, effectiveness, and accountability of public expenditure. This project will contribute to that theme as well as the second pillar of the strategy, which includes a focus on improved health and nutrition services.

D. Rationale for Bank Engagement and Choice of Financing Instrument

9. **Over the past decade, coordinated international support has focused on expansion of health service coverage.** During the last five years, about 30 percent of public health spending in Nepal was from international sources. Over the past decade, the Bank has joined with other development partners in a Sector Wide Approach (SWAp) to support development of the health sector. In contributing to the SWAp, IDA supported increased access to essential health care services and their utilization by the underserved and the poor, with results including greater coverage of delivery care by skilled providers, improved uptake of iron and folic acid supplementation by pregnant mothers, and higher child immunization rates. The outcomes of the IDA support to the first SWAp – Nepal Health Sector Program (NHSP 1) – were rated as Satisfactory by the Independent Evaluation Group (IEG) of the Bank; while the outcome rating for IDA support to the second Nepal Health Sector Program is pending completion of the Implementation Completion and Results Report and IEG validation.

10. It is widely acknowledged that support to a common policy and financing platform has significantly improved policy dialogue and coordination. Domestic and international public resources have been jointly applied to achieve common objectives for improved health service delivery. In this context, Bank financing has supported the sector, while providing fiduciary due diligence to the benefit of all development partners.

11. **Limitations in public sector management of the health system have persisted and require more focused attention,** including capacity and system development as well as reforms in policies and practices. To date, technical assistance in these areas has often tended to

⁸ Report #88866, discussed by the Executive Directors on May 29, 2014.

substitute for government systems, confronting challenges in building government ownership and capacity for needed public sector management reforms. The proposed Program-for-Results (PforR) will support the required institutional reforms and capacity development, including by establishing a coherent platform and a Results Framework for sustainable impact of technical assistance in these areas provided by development partners.

12. The Program-for-Results instrument will focus government attention on completing critical policy and institutional reforms. In contrast to an emphasis on inputs that would be supported by an investment operation, the Program-for-Results instrument will focus attention on required reforms as outlined in the NHSS that can only be achieved through government ownership and action. Disbursement Linked Indicators (DLI) will focus on actions and results that will address key public sector management constraints that have persisted over the past decade of the SWAp. Overall, achievement of the DLIs will contribute to improving the government program's effectiveness, efficiency, accountability and sustainability. In addition, by disbursing against the national budget on the basis of key milestones achieved, the Program-for-Results will aim to foster a broader discussion between the Ministry of Finance and the line department, the Ministry of Health, on results and increasing effectiveness of public spending.

13. The Program-for-Results will support improvements in the health system and service delivery through strengthening of national systems. The Ministry of Health has recognized that achieving better outcomes will require improvements to institutional capacity and core business processes. The sustainability and impact of the Bank's support will be enhanced through flexible support to achieving common objectives. The Program-for-Results instrument will foster government ownership of the needed reforms while avoiding risks of poor sustainability that could accompany the use of an investment instrument supporting inputs and technical assistance.

14. The Program-for-Results also provides a framework and common objectives for other development partners to align their support. Some development partners contributing to Nepal's health budget, like DfID and Germany's *KfW Entwicklungsbank* (KfW), will adopt the DLI principle using their own indicators, while GAVI is also likely to disburse against one of the Bank's DLIs. In addition, the Program-for-Results will provide a platform for more effective coordination and impact of technical assistance provided by development partners aimed at addressing public sector management constraints. By fostering government ownership and attention towards common system development and reform results, this will help avoid some of the pitfalls of poor sustainability of technical assistance that have been observed in the past.

II. Program Development Objective

A. Program Development Objective

15. The Program Development Objective (PDO) is to improve management of the public health system in Nepal.

B. Key Program Results

16. Progress toward meeting the PDO will be assessed using the following indicators:

- a) Percentage reduction of stock-outs of tracer drugs;
- b) Percentage of the Ministry of Health's annual spending captured by the Transaction Accounting and Budget Control System (TABUCS); and
- c) Percentage of facilities reporting annual disaggregated data using the District Health Information System 2 (DHIS 2).

III. Program Description

17. The proposed Program-for-Results will support the third phase of the government's sector program (NHSS 2015-20), jointly prepared by the government and development partners. The objectives and expected outcomes of the NHSS are based on four strategic directions: equitable access to health services; quality health services; health systems reform; and multi-sectoral approach. NHSS increases the focus on partnerships, system reforms, inclusion, financial protection and increased accountability and transparency in the use of country systems. In addition to the continued focus on service delivery and equity, the thematic areas of focus are strengthened health systems including financial management and procurement, strengthened quality of care, monitoring and evidence-based decision making, decentralized planning and responding to emerging diseases and emergencies. These are further defined in terms of the following nine outcomes: (1) rebuilt and strengthened health systems: human resources, infrastructure, procurement and supply chain management; (2) improved quality of care at point-of-delivery; (3) equitable utilization of health care services; (4) strengthened decentralized planning and budgeting; (5) improved sector management and governance; (6) improved sustainability of health sector financing; (7) improved healthy lifestyles and environment; (8) strengthened management of public health emergencies; and (9) improved availability and use of evidence in decision-making processes.

18. The proposed Program-for-Results will focus on supporting three themes: procurement, public financial management and evidence-based decision making, which are encompassed within five of the nine outcomes described above (1, 4, 5, 6, and 9).

19. The total cost of this five-year government program (2015-2020) is estimated at US\$2,480 million, of which an US\$1,475 represents the expenditure program to be supported by this proposed Program-for-Results. The expenditure framework for the NHSS, costed with technical support from WHO, is based on the nine outcomes and detailed activities as described in the results framework of the NHSS document.

20. Development partners will contribute to the government budget for the NHSS, including the Bank, DfID, GAVI, the German Agency for International Development (GIZ), KfW, and the U.S. Agency for International Development (USAID). In addition, technical assistance and other off-budget support to NHSS will be provided by other development partners including WHO, UNICEF, UNFPA and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

21. Improved procurement and supply chain management (part of outcome 1) will be supported through strengthening MoH's systems and institutional capacity for managing procurement. Effective planning, budgeting and execution of procurement, as well as quality assurance, will improve availability of the basic package of drugs. DLIs will focus on (i)

enhanced systems and institutional capacity for managing procurement; and (ii) development of the supply chain management system.

22. A focus on public financial management will support outcomes 4, 5 and 6 of NHSS. The Program will support improvements to the MoH's systems for planning, budgeting, expenditure execution, monitoring and reporting. Improved public financial management (PFM) in the health sector will address inefficiencies in public expenditure planning and spending, and thereby facilitate more evidence-based resource allocation. This, in turn, would contribute to improving the coverage and equity of health services provided to the population. DLIs will focus on (i) enhanced systems for annual planning and budgeting; (ii) enhanced systems for expenditure reporting; and (iii) timely response to audit reports.

23. Improving feedback and monitoring for better oversight and accountability is critical for improving sector governance including the ability of the sector to better target resources and base investment decisions on reliable data. Currently, there is no evidence based resource allocation to populations and geographic areas with the poorest health outcomes. Robust disaggregated data (based on income, ethnicity, gender, and geographical location) are not available on a regular basis, and are not presented to, or used by, policy-makers for decision making. At the same time, there is no system/mechanism in place to provide reliable and timely information to citizens that would enable them to hold the health system accountable for accessibility, affordability, and quality of service delivery. Outcome nine of NHSS would be supported by the proposed Program which will focus on strengthening the MoH's systems for collecting and making use of information to improve health system performance. The proposed Program will support design and strengthening of data reporting and monitoring, development of mechanisms for public access to information, and development and piloting of citizen engagement mechanisms. DLIs would focus on (i) improved monitoring mechanisms for service delivery; and (ii) enhanced citizen engagement.

IV. Environmental and Social Safeguard

24. The proposed Program is not expected to present any significant adverse environmental or social risks or impacts, (i.e. risks or impacts that are sensitive, large-scale, or unprecedented on either the environment or affected people). The MoH has implemented projects supported by the Bank and thus has experience with the safeguard requirements of the Bank, including in the preparation and implementation of safeguards management plans.

25. In accordance with the Bank policies, an Environmental and Social Systems Assessment (ESSA) will be undertaken during preparation, which will: (i) examine Nepal's existing legal, regulatory, and institutional framework for environment and social management systems; (ii) determine any areas related to the proposed Program where measures need to be adopted to offset any environmental and social impacts; (iii) evaluate the MoH's capacity to implement social and environmental issues related to the Program; and (iv) define measures to strengthen the system, and integrate those measures into the Program. The ESSA will also review the proposed Program activities to evaluate its effects on the environment and potentially affected people and identify opportunities to improve systemic implementation of environmental practices and positive inclusion of disadvantaged populations.

26. The Program will support gender and social inclusiveness by taking forward the government's Gender Equality and Social Inclusion strategy by ensuring that data disaggregated by gender, geography, and ethnicity are made available and appropriately analyzed by the MoH to enable evidence-based targeting and resource allocation. Citizen engagement will also be an intrinsic part of the Program. This will include a broad framework describing mechanisms for consultation with disadvantaged populations, including indigenous people and other vulnerable communities.

27. The ESSA document will be prepared by the Bank task team with the environmental and social specialists taking the lead. The Bank will consult with Program stakeholders prior to appraisal and disclose the results and recommendations of its assessment.

V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	1,899
IDA	150
Others	431
Total	2,480

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