Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 13-Feb-2023 | Report No: PIDA275488

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Program Name	Parent Project ID (if any)
Nepal	P177389	Nepal Quality Health Systems Program-for-Results	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	30-Jan-2023	07-Apr-2023	Health, Nutrition & Population
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program-for-Results Financing	Ministry of Finance	Ministry of Health and Population	

Proposed Program Development Objective(s)

To improve quality of healthcare, enhance health insurance coverage for poor, and strengthen health emergency preparedness in the Selected Provinces.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	7,424.00
Total Operation Cost	1,513.00
Total Program Cost	1,513.00
Total Financing	1,513.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	100.00
World Bank Lending	100.00
Total Government Contribution	1,409.16
Total Non-World Bank Group and Non-Client Government Financing	3.84

Trust Funds	3.84

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Over the past decade, Nepal's economy has demonstrated impressive growth and resilience when faced with a wide variety of economic shocks.** Movement restrictions and the almost complete shut-down of tourism during the COVID-19 pandemic resulted in Nepal's first economic contraction in almost 40 years in FY20 (-2.4 percent). A decisive vaccine roll-out and reopening of the borders have supported the economy's recovery, with growth inching up to 4.2 percent in FY21 and accelerating further to 5.8 percent in FY22.

2. **The growth momentum continued in FY22, with industries and services expanding by 10.2 and 5.9 percent, respectively.** The industrial sector benefited from higher investment rates, accompanied by a 52 percent growth in the number of new businesses registered and substantial credit expansion focused on investment. Services sub-sectors impacted by the pandemic, including transportation and accommodation services, started recovering as domestic and international air passenger numbers increased, and international tourists began to return. Higher demand and the availability of credit also drove a 42 percent increase in home sales, raising real estate services.

3. **Agricultural growth remained steady and did not benefit from the demand expansion**. Agricultural growth decelerated slightly from 2.8 percent in FY21 to 2.3 percent in FY22, reflecting a fall in main season rice paddy production following unseasonal rains in October 2021.

4. **An uneven and slow jobs recovery poses risks to poverty reduction and can exacerbate existing inequalities.** New analysis from the second round of the World Bank's SAR COVID-19 phone monitoring survey conducted at the end of 2021 suggests that the economic contraction induced by the pandemic had continued impacts on the labor market, with 22 percent of jobs lost during 2020 still not being recovered at the end of 2021.

5. **A rapid increase in domestic demand following the pandemic has fueled imports, which have recovered much faster than Nepal's traditional external financing sources.** The country relies predominantly on imports to meet domestic demand. The surge in imports peaked in late 2021 and has moderated since. In contrast to imports, remittances, Nepal's traditional source of foreign exchange earnings, only began accelerating in March 2022. Service export earnings are also growing more slowly as the country reopens for tourism, remaining below pre-pandemic levels as many Chinese tourists have yet to return.

6. **With imports outpacing foreign exchange earnings during FY22, Nepal drew down on foreign exchange reserves to finance trade.** At the beginning of the pandemic, Nepal accumulated a substantial buffer of foreign exchange reserves, due to both a slump in imports and new concessional loan disbursements. As imports outpaced foreign currency earnings during the recovery phase, Nepal used its reserves to finance imports, chipping away at the reserves stock until it returned to pre-pandemic levels.

7. **The current account deficit widened to 12.8 percent of GDP in FY22, the highest reading since record-keeping began in FY75.** In the absence of significant FDI inflows, the current account deficit was financed by trade credits, external concessional borrowing, and reserve drawdowns. Official gross foreign exchange reserves fell to US$9.5 billion in mid-July 2022 (6.9 months of imports coverage) from US$11.8 billion in mid-July 2021. This is above the optimal level of 5.5 months recommended by the IMF,[1] and close to the central bank policy floor of 7 months of import cover. Reserves have recovered since the end of FY22 and were equivalent to 8.7 months of imports by mid-December 2022.

8. **Average consumer inflation accelerated in FY22, buoyed by non-food and services inflation.** Average consumer prices rose 6.3 percent in FY22, compared with 3.6 percent in FY2021, and remained close to the central bank's ceiling of 6.5 percent. Food price inflation edged up slightly by 0.6 percentage points to 5.6 percent in FY22, reflecting the war in Ukraine. At the same time, high global fuel prices were passed on to consumers and pushed up transportation prices. During FY22, transportation sector prices grew by 16.1 percent, the highest in more than a decade. As a result of these factors, non-food inflation accelerated to 6.7 percent, the highest rate since FY16. As of mid-December 2022, inflation registered 7.4 percent growth year-on-year.

9. **Nepal's fiscal deficit narrowed in FY22,** registering 3.5 percent of GDP and continuing a two-year declining trend after peaking at 5.4 percent of GDP in FY20. The reduction in the fiscal deficit was driven by reduced expenditure, which narrowed from 27.7 percent of GDP in FY21 to 26.9 percent of GDP in FY22, whereas revenues and grants declined marginally by 0.3 percentage points of GDP over the same period. This consolidation slowed the growth of Nepal's public debt stock, which increased by 0.9 percentage points of GDP between FY21 and FY22, after almost doubling between FY17 and FY21. Public debt at the end of FY22 stood at 41.5 percent of GDP and is split equally between domestic and external sources, with all external public debt owed to multilateral or bilateral development partners on predominantly concessional terms. The risk of debt distress is currently assessed as low as per the Joint Bank-Fund Debt Sustainability Analysis of December 2021.

10. **Under the baseline scenario, growth is expected to decelerate over the medium term as pandemic-era stimulus continues to unwind**. The baseline scenario assumes that monetary policy continues to normalize, that COVID-19 related monetary and fiscal stimuli are unwound, and that global headwinds persist. These factors are expected to contribute to a gradual deceleration of growth to 5.1 percent in FY23, and to 4.9 percent in FY24. The growth outlook is bolstered by the assumption that international tourist arrivals will reach pre-pandemic levels by FY24, supporting the services sector. A continued expansion of hydroelectricity production capacity is expected to drive industrial sector growth over the medium-term. Agricultural growth is expected to decelerate modestly in FY23 despite a good monsoon season, owing to a continued shortage of chemical fertilizers.

[1] https://www.imf.org/-/media/Files/Publications/CR/2022/English/1NPLEA2022001.ashx

11. **A new federal government took office on December 25, 2022.** The coalition government, supported by a seven-party alliance, took office on December 25, 2022, following the successful completion of federal and provincial elections on November 20, 2022. Local level elections were held on May 13, 2022. This puts in place the governments for the next five-year term at the federal, provincial, and local levels. The new federal government has highlighted amongst its priorities the need for reforms in service delivery and development spending. At the sub-national level, funds, functions, and staff continue to be managed by the seven provinces and 753 local governments for which legislation, institutions, and administrative procedures are being formalized as constitutionally prescribed.

Sectoral and Institutional Context

12. **Although significant progress in healthcare services is evident, challenges remain.** Some indicators have stagnated or only slightly improved or even declined in the recent past. Neonatal mortality stands at 21 per 1000 live birth from 2016 to 2022. Exclusive breastfeeding of under six months has declined from 66 percent to 56 percent between 2016 to 2022. Prevalence of anemia in children 6-59 months is still high at 43 percent in 2022. Moreover, there are variations in healthcare access and outcomes by provinces, wealth quintiles, rural-urban status and educational status of mothers. Overall, health indicators are poorer in lowest wealth quintiles, women with no education and in Madhesh Province.

13. **Despite increased availability of services in the past few decades, the management of delivering quality healthcare remains poor.** Nepal Health Facility Survey (NHFS) in 2015 and 2021 showed that adherence to tracer standards for delivering quality care didn't improve, with less than 1 percent facilities having each of the nine tracer items[2] in both years. MOHP introduced the Minimum Service Standards (MSS) in 2015 as a framework for continuous improvement of quality at the point of delivery and rolled it out to cover all existing public hospitals at different levels. However, it has not been rigorously or effectively rolled out and the quality ratings have still not improved.

14. **Nepal's overall health emergency preparedness capacities are low.** The COVID-19 pandemic exposed weaknesses in Nepal's health system, particularly in its readiness to mitigate the impact of the unprecedented health crisis. The institutions, structures, policies, and plans related to health emergency preparedness and response remain quite limited, and the priority and resources accorded are quite low, at the sub-national levels.

15. **National Health Insurance Scheme aims to improve access to healthcare services as well as financial protection in health, but its implementation is slow and marred with challenges.** These include only low coverage particularly of ultra-poor and vulnerable (only 23 percent of the total population), sub-optimal renewal rates (ranging from 50-85 percent amongst provinces), in-congruent benefits package, limited empanelment of public and private health facilities for provision of covered services, poorly capacitated Health Insurance Board to implement the scheme robustly, and inadequate leveraging of technology to run the insurance scheme efficiently.

[2] Those nice items were related to soap and water, waste disposal, trained staff, QA guidelines, clinical protocols, basic amenities, waiting room and tracer medicines.

16. **MOHP has developed the fourth medium-term strategy: Nepal Health Sector Strategic Plan (NHS-SP; 2022-2030), in consultation with development partners.** It recognizes the shortcomings in the system, and based on lessons from the pandemic, among others, strives to a more resilient health system. MOHP has also developed National Health Financing Strategy (NHFS; 2021-2031) with two-pronged aim to ensure financial resources for healthcare services and reduce financial risks of the citizen's while seeking healthcare, aligned with the NHS-SP. The NHS-SP constitutes the program that forms the basis of the proposed Nepal Quality Health Systems Program for Results.

PforR Program Scope

17. **The Nepal Quality Health Systems Program for Results (NQHS PforR) aims to support implementation of three strategic objectives of the Nepal Health Sector Strategic Plan (NHS-SP; 2022-2030), estimated to cost US$1.51 billion**, with over 80 percent financing from domestic resources.

18. **The NQHS PforR, with its US$100 million IDA Credit and US$3.84 million Health Emergency Preparedness Grant will finance three results areas** with five Disbursement Linked indicators (DLI) and associated 13 Disbursement Linked Results (DLRs) across the five years of Program implementation. While the Program will support development of policy guidelines, process, plans and tools for achievement of DLRs that could be implemented nationally in support of the NHS-SP, it will support deployment of health systems interventions in support of the results areas in two provinces, namely Province 1 and Gandaki.

Results Area 1: Improving readiness of healthcare delivery system and quality of care (estimated US$47 million)
Results Area 2: Improving health insurance coverage and effectiveness (estimated US$ 33 million)
Results Area 3: Enhancing health emergency preparedness and response capacity at sub-national levels (estimated US$23.84 million)

C. Proposed Program Development Objective(s)

Program Development Objective(s)

To improve quality of healthcare, enhance health insurance coverage for poor, and strengthen health emergency preparedness in the selected provinces. Following are the PDO level indicators:

i. Average reduced gap between 1 ANC visit and 4 ANC visits for pregnant women in select provinces
ii. Average percentage of children 0-2 months of age suspected with severe bacterial infection treated with complete doses of gentamicin injection
iii. In-patients in Program supported health facilities with Electronic Medical Records
iv. Enrolled poor and vulnerable households in health insurance program
v. Province and Local Levels with functional Rapid Response Teams

D. Environmental and Social Effects

19. **The Environment and Social Systems Assessment (ESSA) conducted for the Program concluded that the Program has moderate environmental and social risks.** The Program will finance activities that

focus on selected components of health systems, not only to provide impetus to ongoing but slow-moving reforms from the current sector program, but also to introduce critical new reforms for stronger and more resilient healthcare system. The scope of the Program will be to support all federally funded and executed activities to be implemented directly by federal spending units and federally funded health conditional grants to provincial and local governments in two of the seven provinces of Nepal (Province 1 and Gandaki). The selected provinces – Province 1 and Gandaki – are among the better performing provinces (above national average) in terms of healthcare delivery and health systems performance. The associated environmental risks identified may relate to impacts like waste management, noise and dust pollution from minor civil works required for bio-medical equipment and support to hospitals with repair and maintenance. Management of e-waste from medical equipment and digital system may be another area which will require attention. On health insurance, the ESSA noted the need to extend the existing health insurance coverage to ultra-poor households, digitize system management to ensure disaggregated data are captured to ensure poor and excluded are adequately covered. The previous program had supported the development and implementation of social audit guideline of the MOHP but the coverage was limited to only 3 Local Governments of 4 Provinces. ESSA recommends that these are rolled out all Provincial Local Governments under this program for enhanced citizen and stakeholder engagement.

20. **The ESSA suggests that these challenges can be addressed through the following activities.** (a) establish/develop mechanism for coordination among MOHP/DOHS, selected municipalities and HCFs to manage and dispose health care waste; b) prepare and endorse Sector wide Environment and Social Framework or (guideline) for all the activities including civil works executed by MOHP; c) outreach and enrolment of ultra-poor households in the health insurance scheme; d) health emergency preparedness and response plans to include community participation and roll-out health care waste management in the Provinces and Local Levels; e) enhance the existing GRM mechanism to make it more systemic and digitized.

21. **Grievance redress:** All Program supported health facilities in Province 1 and Gandaki will have operational mechanisms for grievance redressal and complaint handling. The functionality of these systems will be assessed annually through social audits and MSS assessments and strengthened based on the findings. Additionally, call centers 1133 and 1115 will continue to operate at the national level to address grievances related to the health sector, including ongoing assessment of satisfaction of callers with services provided. Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org .

E. Financing

22. **The NQHS PforR will finance approximately 1.4 percent of the cost of implementing the first five years of the overall NHS-SP.** In terms of the identified Program, NQHS PforR will finance approximately 6.86 percent of the costs associated with implementation of the three strategic objectives it contributes to.

Program Financing

Sources	Amount (US$ million)	% of Total
Counterpart Funding		
Borrower/Recipient	1,409.16	93.14
International Development Association (IDA)		
IDA short Maturity Loan	80.00	5.3
IDA Credit	20.00	1.3
Trust Funds		
Health Emergency Preparedness and Response MDTF	3.84	0.25
Total Program Financing	**1,513.00**	**100%**

23. **Besides the aforementioned major components, the Table below provides estimates of the expenditure for other cost categories based on the NHS-SP costing adjusting for the Program support areas**. Physical infrastructure, mainly the construction costs, is excluded from the PEF. Since the NHS-SP cost scenario was projected in constant price, no additional adjustment has been made for inflation. The estimated cost amount was converted into US Dollar using the exchange rate of July 16th, 2022 (US$1 = NPR128.1) which is presented by results areas and economic classifications below. The five year's total cost within the scope of the Program framework is 1,513 million US$ which is 20.4% of the estimated total costs for the implementation of NHS-SP.

Composition of Program expenditure by economic classification *(Amount in million US$)*

Economic classification	2024	2025	2026	2027	2028	Total	
						Amount	Percent
Wages and salaries	82	93	110	123	146	554	36.6
Capacity building	5	6	7	8	10	36	2.4
Medicines and supplies	20	22	24	26	29	121	8.0
Capital goods and maintenance	8	9	11	13	14	55	3.6
Grants and social security	62	81	81	88	98	410	27.1
Program activities	52	60	68	76	83	337	22.3
Total	**229**	**271**	**301**	**333**	**379**	**1,513**	**100.0**

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