**Lao People’s Democratic Republic: Health Sector Governance Program (Subprogram 2)**

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<th>Project Name</th>
<th>Health Sector Governance Program (Subprogram 2)</th>
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<td>Project Status</td>
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<td>concessional ordinary capital resources lending / Asian Development Fund</td>
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**Strategic Agendas**
- Inclusive economic growth

**Drivers of Change**
- Governance and capacity development

**Sector / Subsector**
- Health - Health sector development and reform

**Gender Equity and Mainstreaming**
- Gender equity

**Description**

Equitable and inclusive growth. The 8th Five-Year National Socio-Economic Development Plan (NSEDP) (2016-2020) aims for the Lao PDR to graduate from least-developed country status by 2020, and become an upper middle-income country by 2030. Forecasts for 2017 indicate that the country’s gross domestic product (GDP) grew 6.8%, resulting in GDP per capita of $2,579, and its poverty rate fell to 20.0%. Significant development challenges remain, however, including (i) a high fiscal deficit, (ii) accumulated public and publicly guaranteed debt, and (iii) an undiversified resource-based economy. The government recognizes that equitable and inclusive growth requires targeted policy interventions for vulnerable groups, and the NSEDP commits sustained investment to improve access to and the quality of basic social services such as health care, with a view to improving health outcomes, especially for the poor, women, and children. Better health of the workforce results in lower absenteeism, higher labor productivity, and increased wages, all of which contribute to economic growth. Such effects are particularly important in countries where many are engaged in unskilled labor.

Unfulfilled health targets. The Lao PDR has made good progress in achieving many health targets: (i) life expectancy in 2015 was 68 years, and (ii) the maternal mortality ratio decreased from 905 deaths per 100,000 live births in 1995 to 206 deaths in 2015 (the MDG target is 260). Compared with other Asian countries, however, the Lao PDR fares poorly on key health indicators, including those for maternal, newborn, and child health (MNCH), which impedes full achievement of the health-related SDGs. The country’s under-5 mortality rate remains the highest in Southeast Asia at 86 deaths per 1,000 live births 2015 (the MDG target is 70), and infant mortality rate in 2016 was 48.9 deaths per 1,000 infants, above the MDG target of 43. Child malnutrition, or underweight children under 5 years of age, dropped to 26.3% in 2011 (more recent data are not available), above the target of 20% (footnote 12). Communicable diseases such as HIV, malaria, and tuberculosis are prevalent. The incidence of non communicable diseases, accidents, and injuries remains significant as well: the World Health Organization (WHO) reported that non communicable diseases constituted 60% of the burden of disease in 2008, while accidents and injuries accounted for 10%.

Limited utilization of health care services. Poor health outcomes are closely linked to the limited use of health services. The overall use of public health services is reported to have increased fivefold during 2000-2013 to about 0.6 visits per person per year (footnote 12), but this is still low and gaps in coverage remain between the poor and rich, and rural and non-rural populations, especially for MNCH services, including immunization, antenatal care, skilled birth attendance, and surgery. Children in the poorest quintile are 3.6 times more likely to die before reaching age 5 compared with those in the wealthiest quintile, and children born in Phongsaly province are five times more likely to die before reaching age 5 than those born in Vientiane.
Project Rationale and Linkage to Country/Regional Strategy

The proposed policy-based grant which is contingent on the achievement of policy actions, including robust policies and strategies for health and finance can alleviate some of these macroeconomic and health burdens. The program targets four critical areas of reform: improving HSR processes; improving implementation of free health care for the poor, mothers, and children; strengthening human resource management capacity; and strengthening the health sector's financial management system.

Improving health sector reform processes. Three critical issues impede smooth implementation of HSR. First, no governing body manages and plans HSR, in part because of a lack of leadership skills at all levels of district levels and across Ministry of Health (MOH) departments. This affects MOH's ability to advocate for HSR and its related plans at the broader policy level and to respond quickly to new policy challenges. Second, although health sector coordination across ministries, departments, and development partners has improved, fragmentation, duplication, and misalignment remain. This is in part because of a lack of direction or planning for key areas, such as health financing and human resources, which can result in limited resources being used inefficiently. Third, progress under the government's decentralization program has been incremental and inconsistent because of the absence of sector coordination and advocacy for needed reform resources. Capacity constraints, limited accountability, and monitoring deficiencies, especially at the provincial level, has further hampered the implementation of key reforms.

Improving implementation of free health care. Relatively low government spending on health is reflected in high private out-of-pocket (OOP) payments, making health care unaffordable for many. The government is seeking to reduce OOP payments from 45.1% of total health expenditure in FY2016 to 30% by 2025. The government has subsidized specific groups (including the poor, mothers, and children) through programs such as health equity funds (HEFs) and free maternal, newborn, and child health care (FMNCH). The Laos PDR shifted to a national, predominantly prepaid financing mechanism in 2015, however, and introduced National Health Insurance (NHI). NHI drastically increased population coverage, enlarged the risk pool, and reduced fragmentation between different schemes, beginning with the absorption of HEF and FMNCH. The government has also rapidly mobilized resources through an earmarked NHI fund administered by the National Health Insurance Bureau (NHIB). NHI has empowered people through simplified rules to access health benefits and increased predictability of health care financing. Once enrolled and upon payment of a fixed co-payment at a facility, patients are covered for a range of benefits, including all inpatient and outpatient services and medicines. Co-payments are waived for the poor, mothers, and children under 5 upon presentation of qualifying identification at the point of use. The government will continue to expand NHI and introduce implementation improvements, including quality interventions such as performance-based pay for health workers, as the scheme matures. This is expected to increase health service utilization, which will contribute significantly to health outcomes.

Strengthening human resource management capacity. Strengthening the Lao PDR has 3.1 health workers per 1,000 people, but this average obscures the poor situation in rural and remote areas and does not indicate what skills are available. Although most health centers have nurses, a medical assistant, and a midwife, specialty staff (e.g., laboratory technicians and pharmacists) are not always available. Health personnel databases for planning staff distribution and skills are still not fully functional. Many health workers have fewer than 3 years of professional training and receive no regular in-service training and supportive supervision. There are also concerns about the commitment of health personnel: many health facilities have difficulty in hiring and retaining good quality staff, and one survey found that 34% of health workers, in particular those from district health centers, had changed jobs within 2 years. These issues stem in part from inadequate and substandard medical education and training. The Lao PDR has not approved standards regarding accreditation of institutions and a national exam to assess qualification and skills. Instead, graduates from medical institutions are given a permit or license to practice, which they can hold indefinitely (there are no regulations for license renewal). The development of provincial workforce plans that reflect staff profiles and requirements and make recommendations on staff increases, in addition to the creation of a personnel database, will help address these challenges.

Strengthening the health sector financial management system. In 2013, the government committed to increase health spending to 9% of general government expenditure (GGE), including external aid and technical revenue. Although health sector spending on health has doubled during 2009–2013, health expenditure as a share of GGE averages just 5.9%, and the situation is worsened by declining external aid. Health budget allocations vary significantly by province, and formulas to balance these allocations have not yet been introduced. Financial management is not rigorous, with�public bookkeeping and multiple payments for the same expen disenitating the out of pocket expenses. Moreover, program and finance budget preparation are not in alignment: finance budgets are typically based on preceding allocations and follow the chart of accounts, while program budgets use their own accounting structure often with inaccurate costing, making it difficult to link and sequence resources and track financial progress by program. The Ministry of Finance (MOF) has introduced a double entry accounting system for the health sector to align program and financial budgets, but the situation has been complicated by channeling of non-salary NHI operational expenditures through the NHIB, accompanied by an unclear division of labor between MOH and NHIB. MOH support. Asian Development Bank (ADB) engagement with the Lao PDR health sector is long-standing and wide-ranging (Figure). ADB began supporting hospitals and health centers in 1995, starting in two northern provinces and eventually scaling up to eight provinces. Since 2001, ADB has been closely involved in communicable disease control and regional health security. The Health Sector Development Program was ADB's first sector development program for the Lao PDR health sector, and emphasized health systems strengthening for planning and financing, access to care, and human resource quality. Prior to subprogram 1, ADB supported HSR through policy advisory technical assistance (TA) that established a foundation for governance reforms, and draft plans for human resource development and financial management. In addition to a policy-based loan, subprogram 1 provided a TA loan for equipment and training that was implemented in subprogram 2 (footnote 4). An additional grant supports government expenditure (GGE), including external aid and technical revenue. Although health sector spending on health has doubled during 2009–2013, health expenditure as a share of GGE averages just 5.9%, and the situation is worsened by declining external aid. Health budget allocations vary significantly by province, and formulas to balance these allocations have not yet been introduced. Financial management is not rigorous, with multiple payments for the same expenditure, detracting from the out of pocket expenses. Moreover, program and finance budget preparation are not in alignment: finance budgets are typically based on preceding allocations and follow the chart of accounts, while program budgets use their own accounting structure often with inaccurate costing, making it difficult to link and sequence resources and track financial progress by program. The Ministry of Finance (MOF) has introduced a double entry accounting system for the health sector to align program and financial budgets, but the situation has been complicated by channeling of non-salary NHI operational expenditures through the NHIB, accompanied by an unclear division of labor between MOH and NHIB.

Impact

Universal health coverage by 2025
Achieve Sustainable Development Goals by 2030

Project Outcome

Description of Outcome

Coverage of health services particularly for the poor, mothers, and children improved

Progress Toward Outcome

Health service coverage has significantly increased for targeted populations.
Policy actions achieved (see output sections)

Implementation Progress

Description of Project Outputs

HSR process
Implementation of free health care for the poor, mothers, and children
Health human resource management capacity
Health sector financial management capacity

Status of Implementation Progress (Outputs, Activities, and Issues)

Output 1: National Commission approved 2018 HSR implementation plan. Roadmaps for reforms in health human resources and health system financial management approved.
Output 2: Government increased financial resources to 183B kip to deliver free health services to the poor, mothers and children under 5. NH sector issued 5 new guidelines to improve NHG governance arrangements and strengthen collaboration between MOH and provincial health offices.
MOH assessed financial management, monitoring and health provider payment mechanisms and approved recommendations to improve relevant implementation guidelines.
Output 3: At least 12 provincial health offices have approved their workplace plan. MOH increased deployment of midwives to ensure that 75% of health centers are staffed with at least 1 community midwife. MOH modified certification standards, accreditation, licensing, and registration system to help health professionals to enhance their skills and professional qualifications.
Output 4: For FY 2017, government increased health budget allocation to 135% of national budget allocation. To enhance monitoring of public finances for health, MOH applied the Accounting Handbook for State Agencies and implemented MOF’s “double entry” system to account for sources and uses of funds in health facilities. To improve budget planning and execution, MOH published approved fixed figures in the Central Budget Units Annual Report, Central Budget Units report, and Provincial Health Office Annual Reports.

Geographical Location

Nation-wide

Safeguard Categories

Environment C
Involuntary Resettlement C
Indigenous Peoples B
Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer: Azusa Sato

Responsible ADB Department: Southeast Asia Department

Responsible ADB Division: Human and Social Development Division, SERD

Executing Agencies: Ministry of Health Simuang Road Vientiane LAO PDR

Timetable

Concept Clearance: 17 Jun 2015

Fact Finding: 02 Nov 2017 to 10 Nov 2017

MRM: 27 Feb 2018

Approval: 20 Apr 2018

Last Review Mission: -

Last PDS Update: 25 Sep 2018

Grant 0572-LAO

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Financing Plan

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