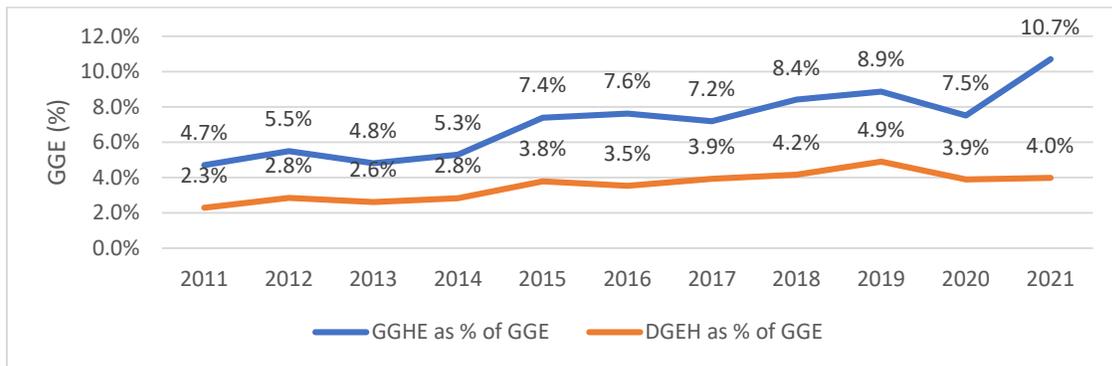


Background

Low prioritization of the health sector and pressure for donor transition

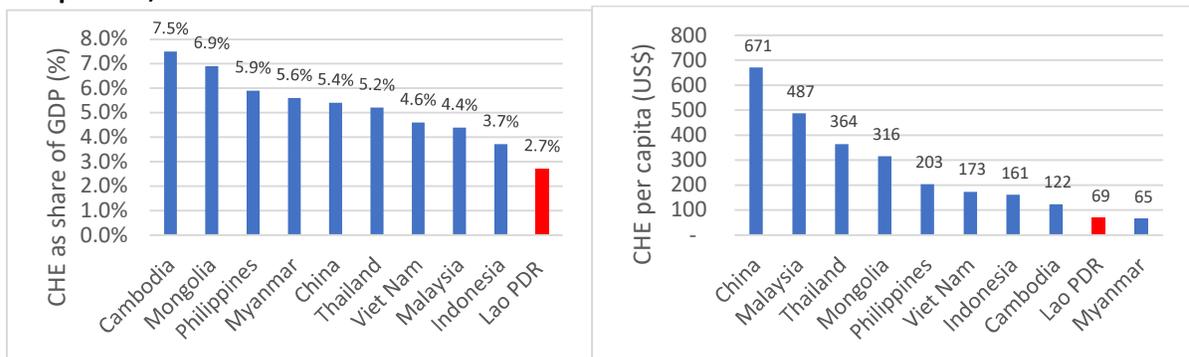
- Health financing in the Lao People’s Democratic Republic (PDR) is characterized by low levels of government health spending and a high reliance on external funding for health and out-of-pocket payment. Total general government health expenditure per capita decreased from US\$ 30 in 2021 to US\$ 17 in 2023. Domestic government expenditure on health as a share of general government expenditure increased gradually from 2.3% in 2011 to 4.9% in 2019 but decreased from 2020 (3.9%); however, overall, it has been stagnant (Figure 1). Compared to neighboring countries, Lao PDR had the smallest current health expenditure as a share of gross domestic product (GDP) (2.7%) and per capita (US\$ 69) (Figure 2). More importantly, domestic government expenditure on health as a share of current health expenditure in Lao PDR remains the lowest (26.2%) among low-middle-income and ASEAN (Association of Southeast Asian Nations) countries in 2021 (Figure 3).

Figure 1. Health expenditure as a share of general government expenditure (GGE), 2011–2021



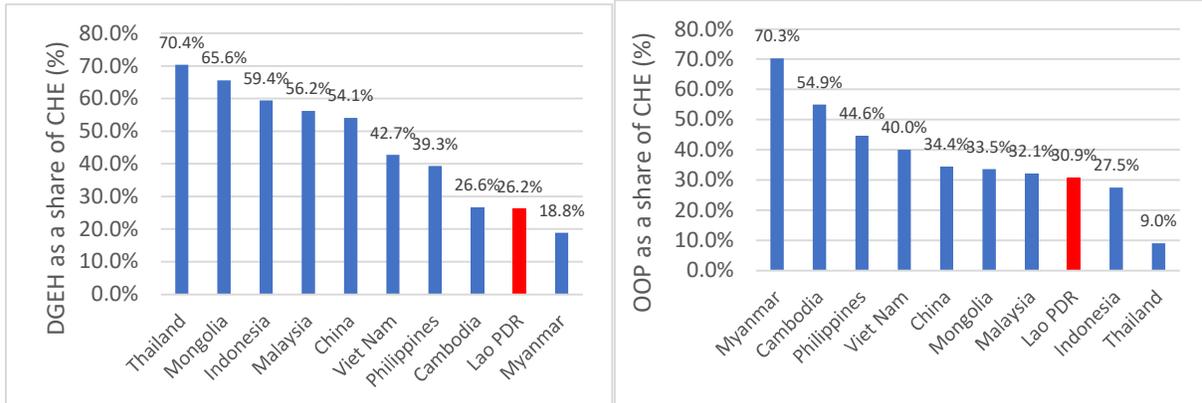
DGEH: domestic government expenditure on health; GGHE: general government health expenditure.
 Source: Lao National Health Accounts 2020 and 2021 report (2023).

Figure 2. Current health expenditure (CHE) as a share of GDP and per capita, cross-country comparison, 2021



GDP: gross domestic product.
 Source: WHO Global Health Expenditure Database (2024).

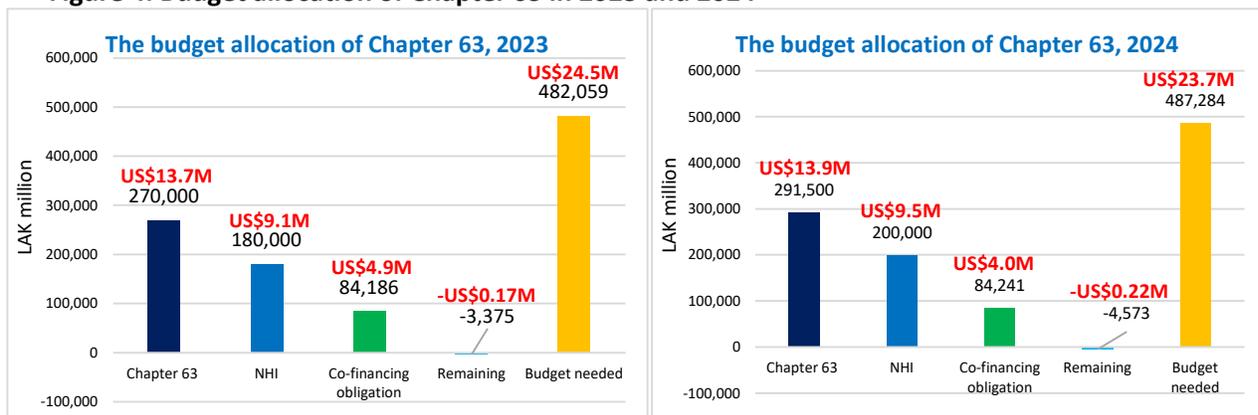
Figure 3. Domestic government expenditure on health (DGEH) and out-of-pocket payment (OOP) as a share of current health expenditure (CHE), cross-country comparison, 2021



Source: WHO Global Health Expenditure Database (2024).

- Lao PDR is facing an unprecedented economic crisis. Compared to the pre-COVID time average, real GDP growth was projected downward to 2.7% in 2022, 3.7% in 2023, and will be increased to only 4.1% in 2025.¹ The government has been suffering from limited fiscal space for health for many years with decreased government revenue, high government debt burden, and government budget deficits.
- The global geopolitical situation and associated inflation, driven by fuel prices and the steep depreciation of the Lao kip against United States dollars, are further negatively impacting economies already severely affected by the COVID-19 pandemic. Inflation rose from >2% in February 2021 to a peak of 41.3% in February 2023 and 26.1% in July 2024.
- Supply chain disruptions to energy, food, medicines and medical supplies are expected to severely hamper the delivery of essential health services and procurement of medicines and medical products.
- Unprecedented rapid currency depreciation has almost halved the de facto government health budget. Moreover, government health budget allocation for operational costs in 2024 will be completely utilized covering the National Health Insurance (NHI) scheme and co-financing requirements of a range of programs. This deficit poses a threat to sustaining essential health services.

Figure 4. Budget allocation of Chapter 63 in 2023 and 2024



LAK: Lao kip; M: million; NHI: National Health Insurance; USD: United States dollar.

¹ World Bank. 2024. *Lao People's Democratic Republic Economic Monitor: April 2024*. Washington, DC: World Bank.

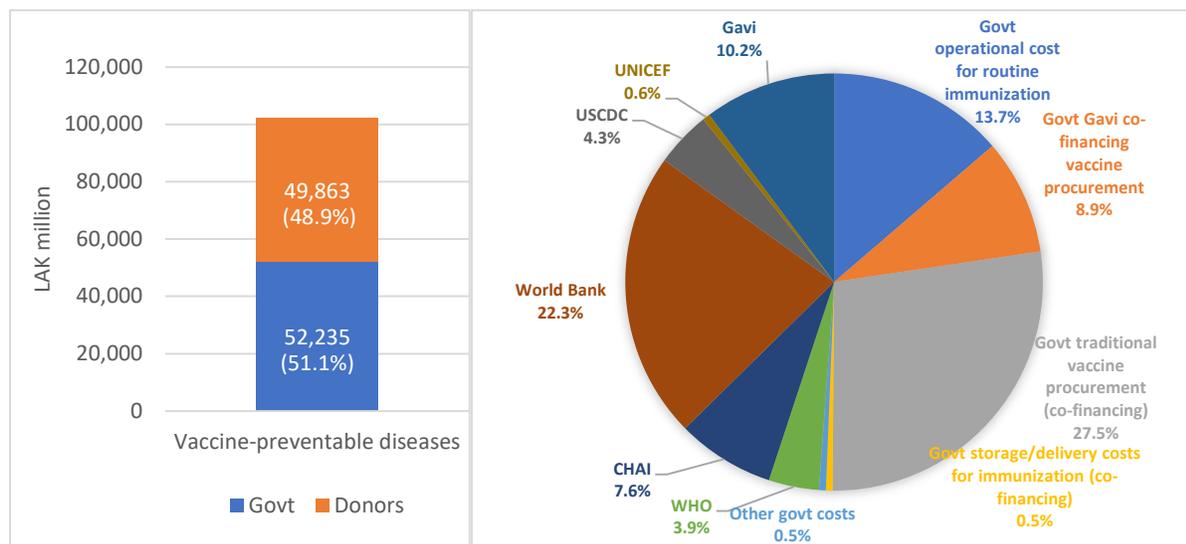
Source: Chapter 63 data for 2023 and 2024 from the Department of Planning and Finance, Ministry of Health; presentation from the Department of Planning and Finance, Ministry of Health at Health Financing Technical Working Group meeting on 14 February and 12 October 2023.

- Sustaining contributions to fulfil co-financing requirements in United States dollars is challenging. Existing 2023 budget allocations – in Lao kip – for vaccines, medicines and test kits have continued to depreciate against United States dollars. The cost in Lao kip has increased 30%.

Challenges in donor transition

- The country currently faces more challenges in the context of donor transition (for example, Gavi from 2026 and Global Fund without transition timelines identified), requiring a much higher level of domestic funding for health and strategic engagement with donors, especially co-financing requirements. To meet the global and national health targets in the future, the government requires continuous financial support from Gavi, the Global Fund, and other development partners in the coming years to ensure the continuity of essential health services including immunization and HIV, tuberculosis (TB), and malaria services.
- The government’s co-financing capacity remains under question. The Ministry of Health (MOH) needs to increase the amount of co-financing for the Global Fund HIV/TB grant from US\$ 3.1 million in 2021–2023 to US\$ 6.2 million (US\$ 3.1 million for TB and US\$ 3.1 million for HIV) in 2024–2026.
- In addition, there’s an increase in co-financing of essential TB and HIV diagnostic tests and medicines. As part of the next three-year Global Fund HIV/TB grant (2024–2026), the government is currently being asked to pay for 70% of all HIV and TB drugs for 2025 and 2026. However, the ability of the government to meet these commitments is becoming harder, and failure to do so will put people’s lives at risk.
- Based on the Lao National Health Accounts annual report for the year 2022, Figure 5 shows a health expenditure analysis for vaccine-preventable diseases. The total amount was 102,098 million Lao kip, the largest health expenditure among disease programs. The share of the government source is 51.2%; all government expenditure on vaccine-preventable diseases was for co-financing requirements for Gavi.

Figure 5. Health expenditure analysis for vaccine-preventable diseases, 2022



CHAI: Clinton Health Access Initiative; Govt: government; LAK: Lao kip; UNICEF: United Nations Children’s Fund; USCDC: United States Centers for Disease Control and Prevention; WHO: World Health Organization.
Source: Lao National Health Accounts Report 2022 (2024, forthcoming).

Key issues from HIV, TB and malaria programs

- HIV, TB, and malaria affect specific key populations, each with distinct “hard to reach” characteristics requiring tailored service delivery. For these disease programs, the government funds core human resources (HR), as well as annual co-financing commitments which increase incrementally.
- Donor funding (Global Fund) is essential for commodities (tests and life-saving medicines), service delivery, training, technical support and outreach services. Donor funding and advocacy raises the priority of these diseases among both the government and community. Funding support from donors has enabled the government to achieve major impact in the fight against HIV and TB, and malaria is on track to reach its elimination target by 2030.
- For donor transition, it is anticipated that the government will absorb the financing requirements via its existing system for service delivery, HR, and NHI; however, the feasibility will be challenging. Donor transition will result in HIV, TB and malaria competing for scarce resources and other government priorities, which may result in reduced services.
- Reduced services will result in a resurgence of these life-threatening endemic diseases. The recent delays in donor funding and co-financing for TB and HIV in January–June 2024 demonstrated the impact of just six months of reduced services:
 - An estimated 1,000 missed TB cases with increased morbidity, mortality, and ongoing transmission of the disease resulting in more people contracting TB.
 - Less than half of the key populations in target provinces received HIV testing (24% out of the 93% target for female sex workers and only 4% out of the 57% target for men who have sex with men).
- Donor transition must be carefully planned and implemented. Building resilient health systems, health financing and HR with coordination and collaboration to increase efficiency for integration are essential and take time.
- **TB program:**
 - 1. Dependency on external funding for testing and treatment:** Transition affects program management and implementation. Currently, the TB diagnostic and treatment costs – specifically TB testing and TB drugs – are not included in the NHI as these costs are funded by the vertical program. With weak Lao kip and high consumer price inflation, TB patients need to spend out of pocket to seek appropriate healthcare, which will lead TB patients to face a burden of catastrophic costs related to seeking TB services including non-health costs. In 2024, a half-year delay in the release of program funding for field-based key operational interventions for case finding under the Health and Nutrition Services Access (HANSA) project, treatment and prevention control resulted in a worrying fall in TB notification by the middle of the year, which almost certainly resulted in increased morbidity, mortality and transmission of the disease in the community.
- **HIV program:**
 - 1. Dependency on external funding for testing and treatment:** The procurement of HIV test kits and medication is heavily reliant on funding from the Global Fund through the HANSA project. Currently, the NHI scheme does not cover HIV services as these costs are funded by the vertical program, making the program vulnerable to fluctuations in external funding. The costs for diagnostics and treatment for HIV are very high, and if the government is to take over and maintain procurement of these commodities the financial burden will be very high. It is not just outreach that is expensive to maintain.

2. Outreach services for key populations: Outreach activities are crucial for identifying HIV cases among key populations. These activities, supported by the Global Fund through the HANSA project and United States President’s Emergency Plan for AID Relief (PEPFAR), involve both the public sector and civil society organizations. A decline in external funding would significantly challenge the program’s capacity to reach key populations, provide testing, and ensure linkage to care, potentially leading to increased morbidity and mortality.

- **Malaria program:**

1. Heavy reliance on external funding: Malaria is targeted for elimination by 2030. Currently, the program relies heavily on external funding from the Global Fund. Malaria funding is managed through the Global Fund Regional Artemisinin-resistance Initiative grant, with dedicated funds and well-established disbursement mechanisms. In contrast, other communicable diseases often face limited, inefficient, and inconsistent outbreak response funding.

2. Transition to general communicable disease funding: The government plans to transition malaria funding to the general communicable disease funding pool. This means malaria will need to compete with other priority diseases for limited resources, which may impact the program’s effectiveness.

3. Inclusion in NHI: Continuity of malaria diagnostics and treatment services is anticipated by MOH to be facilitated through their inclusion in the NHI scheme by 2027–2033. Achieving this will require coordination and advocacy with various stakeholders to agree on the NHI’s role in financing malaria diagnostics and treatment and the government’s investment to improve the sustainability of the NHI scheme itself.

Key issues from the immunization program

- Gavi has been supporting Lao PDR since 2001 and the country is due to transition from Gavi support in 2026. The final phase of Gavi support is known as the *accelerated transition phase*, which Lao PDR entered in 2017. The government must therefore provide an increasing proportion of the procurement costs each year (“co-financing”) until transition and pay all funding for the immunization program from 2026 – at least US\$ 3 million per year for procurement of essential vaccines. Under the current Gavi policy, after 2025, Gavi will only procure inactivated polio vaccine, and will only provide health systems strengthening/technical assistance funding for new vaccine introductions or very targeted interventions with more rigorous evaluation of funding requests.
- Like other countries, the current economic crisis in Lao PDR, contraction of health budgets, and impending donor transition present a serious threat to sustaining essential health services. In this context, donor transition plans proposed by donors will not work since they are based on the assumption that the country will grow wealthier and increase funding for the health sector.
- This situation suggests that gross national income (GNI) per capita is insufficient to evaluate a country’s readiness and capacity in the health system. Additional indicators other than GNI per capita should be used to reflect a country’s readiness and capacity of the health system to transition from external donor support. Discussion on changing the transition threshold level of GNI per capita and consideration of health system capacity is ongoing to review the transition criteria for the new Gavi policy.
- Underinvesting in childhood immunization is likely to impact the short- and long-term economic outlook in countries like Lao PDR, due to higher treatment costs for vaccine-preventable diseases and productivity losses due to illness, as well as increased risks of outbreaks.

Policy recommendations

- In this context of limited fiscal space for health and donor transition, it is critical to strengthen sustainability to maintain essential health services and increase efficiency to maximize value of the limited budget available.
- Key priorities will be 1) strengthening primary health care and 2) increasing government budget for health. Strengthening strategic engagement with partners will also be critical.
- **Strengthening primary health care** is imperative, and is aligned with MOH's priorities. As part of this effort, data-informed micro-planning at subnational level through GIS (Geographic Information Systems) mapping has been discussed. At the program level and across programs, for increasing efficiencies in the health system, system-level action is needed with support from development partners by reducing fragmentation through pooling and strategic allocation of funds, and service integration. Strengthening the NHI scheme is essential, particularly in exploring the role of the NHI in covering some vertical program services in the context of donor transition.
- **Increasing government budget for health** through securing co-financing requirements is critical to maintain essential health services. Timely and active engagement with donors and relevant ministries is vital, particularly the Ministry of Planning and Investment, Ministry of Finance, and National Assembly. It is important to increase shared responsibilities for increasing budget for health, particularly co-financing requirements across the Ministry of Planning and Investment, Ministry of Finance, and MOH, through:
 - Organizing regular inter-ministerial discussions on a range of co-financing requirements as part of the government's donor transitional plans (particularly, Gavi transition from 2026).
 - Improving funding flow to ensure no interruption in providing essential medicines and services.
- Mobilizing domestic resources is key. Health taxes could be a feasible option to generate much-needed revenue to invest in national development priorities and health benefits. In particular, ending tobacco tax exemptions under the 25-year government/tobacco industry Investment License Agreement by the end of 2026 is crucial for the enforcement of health tax increases according to the tax laws. The government is also planning to expand its efforts to strengthen other health taxes (e.g., alcohol taxes and sugar-sweetened beverages taxes) in the coming years. This issue is important in the donor transition context since it will demonstrate the government's strong commitment to increasing domestic resources.
- In terms of donor transition criteria, we want to highlight the importance of donors' careful approach to assessing countries' readiness and capacity to transition (for instance, ongoing discussion within the Gavi Board to revise the transition threshold and indicators) and to design the donor transition roadmap with the government.